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THE ACCOUNTING THEORY OF SHAREHOLDERS' EQUITY IN THE ACCOUNTING STATEMENTS AND THEIR EFFECTS ON GOVERNMENT DECISION-MAKING

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ABSTRACT

The aim of this article is to verify how the choice of accounting theory applied to equity and its accounting statements produces consequences that can affect the understanding of government officials, causing effects that were not intended as objectives. The Owner, Entity and Fund theories and public accounting, as the main source of government information, are used to provide the evidence that led to this article.

The global growth of the economy has expanded business and created a new need among countries: to reduce the asymmetry of accounting information between those who provide it and its users. The convergence of several countries to *international accounting* standards is an *international cooperation* for this purpose: to harmonize accounting information in order to understand and compare the information of governments and their entities in various countries. In Brazil, it began in 2008 (Ordinance MF No. 184), and Brazil has made several adjustments. The Federal Government's Balance Sheet (BPU) is a "snapshot" of the Federal Government's net worth as seen by governments, institutions and investors in Brazil and other countries. In Brazil, the conceptual framework for net worth stems from the owner theory, which defines it as the difference between assets and liabilities. The BPU showed positive values for the years 2011 to 2014 and negative values for the years 2015 to 2021. In the 2021 BPU, the negative net worth is R$5.166 trillion. The 2015 BPU shows a negative net worth of R$1.424 trillion and an indication of R$344 billion in liabilities not accounted for in previous years. The Union has no owner or partners. Calculating assets and calling them "net assets" can lead to biases in interpretations, including the perception that users, when looking at the "photographs" from 2011 to 2021, may misunderstand that they are dealing with a private entity. This similarity is associated with the accounting theory used and not the common characteristics between the entities.

Keywords: accounting theories, balance sheet, government information, management and governance

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1. INTRODUCTION

Government officials are required to offer solutions and respond to society's demands, so they are expected to be able to make decisions accurately and correctly. Public accounting is the main source of government information, which currently only covers financial aspects, leaving management issues out of step with the former. There is therefore a gap in information for decision-making.

There are important actions in the daily lives of those in power, such as social promotion and inclusion. Especially in developing countries and recent democracies (SOUZA, 2006). In this relationship, the field of public policy received important contributions from its founders: H. Lasswell (1936), H. Simon (1957), C. Lindblom (1959) and D. Eastone (1965) - known as the "fathers" of public policy. Eastone (1965) defines public policy as a system in which there is a relationship between formulation, results and the environment, which receive *inputs* from parties, the media and interest groups, which will influence the results and effects (SOUZA, 2006).

Implementing strategic actions, programs and public policies depends on budgetary resources, which are finite. Qualifying decisions can lead to better results. Results cannot be obtained through laws, regulations or decrees. Once decisions have been made, internal and external controls can ratify the actions of those in power, thus justifying the collection of taxes and public spending (SLOMSKI, 2003).

Budgeting and public accounting are directly related. It consolidates the budgets and balance sheets of the public sector, makes it possible to control public assets and shows variations and results: social, budgetary, financial and patrimonial.

It is important that the financial information generated by public accounting be improved from a management accounting perspective. The basis for generating this financial information needs to be consistent, reliable, understandable and comparable. Its absence can compromise understanding by government officials.

Thus, the choice of accounting theory, the correctness of records and the preparation of accounting statements must be appropriate to the reality of the public entity and precede the generation of government information.

The Union is a public entity and has no owners or partners. It uses its assets to ensure operational capacity to carry out its activities. Generating revenue and remunerating its "financial resource providers" are not the purposes of its assets. Consequently, and under these conditions, calculating equity and calling it "net equity" can lead to biases in the presentation

of the calculated result and affect the analysis of the entity. The 2015 BPU calculation resulted in a negative net worth of R$1.424 trillion, in the guise of an "overdraft liability". The way it is presented seems inadequate. If it isn't inadequate, then it would be signaling an "*insolvency*" for the public entity, which doesn't seem reasonable to admit.

Part of this negative amount is clarified by the National Treasury Secretariat (STN) when it says that it refers to "unaccounted for obligations" in previous years, which total R$344 billion. However, the remaining amount of R$1.080 trillion is not in this situation. The negative net worth persisted in the following years, from 2016 to 2021. Therefore, admitting that the public entity is "*insolvent*" appears to be inappropriate.

If the same situation were to occur in a private entity, steps would usually be taken to cover up the negative figure, either with the entity's own financial resources or with expensive ones.

Thus, the calculation of "net worth" for a public entity can create biases and perceptions that affect users interested in its performance. It would be a problem to assess the public entity's performance using measures such as Return on Assets and Return on Equity. Perceptions and evaluations can also influence the adoption of accounting procedures (CARVALHO et al.,2013).

For Hendriksen and Van Breda (1999), perceptions such as these can cause adverse reactions in the decisions of governments, institutions and investors and affect business and the relationships between the parties involved.

The accounting theories of property rights from the perspective of net worth (Owner, Entity and Fund theories) and public accounting, as the main source of government information, are present. These theories and public accounting are appropriate for elucidating the most appropriate and transparent way for the public entity to demonstrate its activities, the movement of resources and the results of the equity situation.

Figures 01 and 02 below show, respectively, the 2015 BPU and the evolution of "net equity" from 2011 to 2015.

The Union's BPU had positive net worth from 2011 to 2014. It has been negative since 2015. The calculations for 2018 and 2021 had the following "negative" results:

• 2018: R$2.416 trillion (negative equity);

Available at: https://sites.tcu.gov.br/contas-do-governo-2018/auditoria-do-balanco.html, accessed on: 12.06.2022;

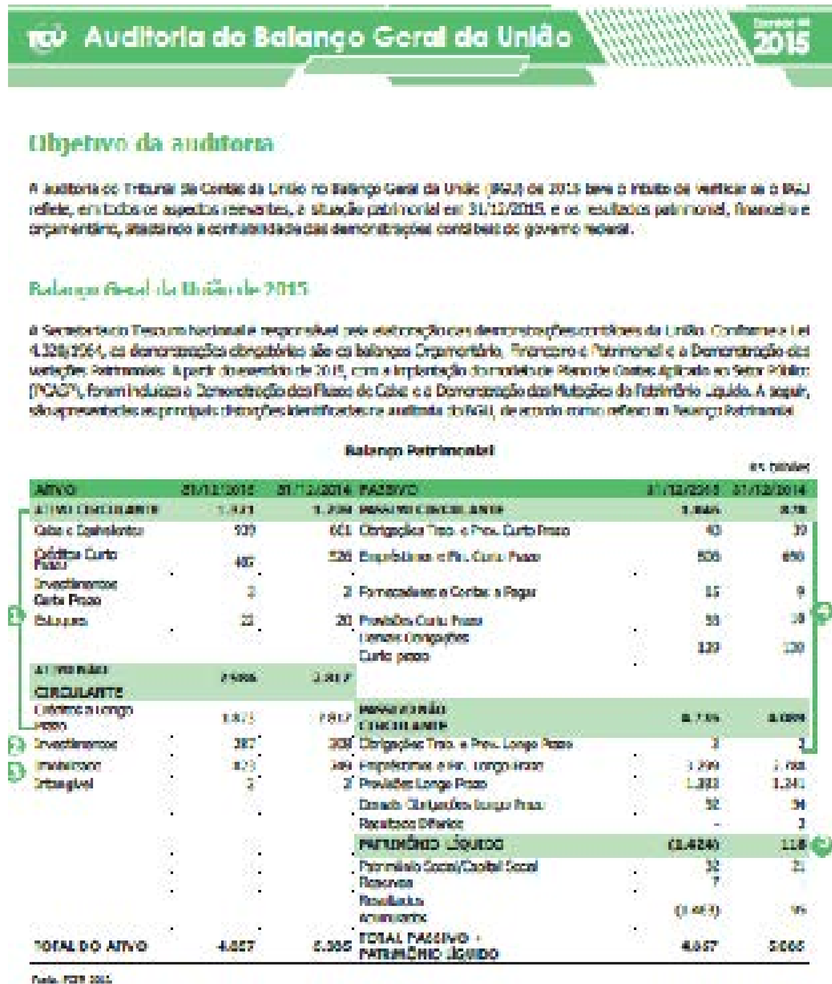
• 2021: R$5.166 trillion (negative equity);

Available at: https://sisweb.tesouro.gov.br/apex/f?p=2501:9::::9:P9_ID_PUBLICACAO:43204

accessed on: 12.06.2022 (published by STN on 18.03.2022, page 26)

Note: In the last three (3) years (2019, 2020 and 2021), the sum of the net worth values resulted in a negative variation of R$2.750 trillion.

Figure 1 - Federal Balance Sheet (BPU) - 12/31/2015 and 12/31/2014



TCU Auditoria do Balanço Geral da União 2015

Objetivo da auditoria

A auditoria do Tribunal de Contas da União no Balanço Geral da União (BGU) de 2015 teve o intuito de verificar se o BGU reflete, em todos os aspectos relevantes, a situação patrimonial em 31/12/2015 e os resultados patrimonial, financeiro e orçamentário, atestando a confiabilidade das demonstrações contábeis do governo federal.

Balanço Geral da União de 2015

A Secretaria do Tesouro Nacional é responsável pela elaboração das demonstrações contábeis da União. Conforme a Lei 4.320/1964, as demonstrações obrigatórias são os balanços Orçamentário, Financeiro e Patrimonial e a Demonstração das Variações Patrimoniais. A partir do exercício de 2015, com a implantação do modelo do Plano de Contas Aplicado ao Setor Público (PCASP), foram incluídas a Demonstração dos Fluxos de Caixa e a Demonstração das Mutações do Patrimônio Líquido. A seguir, são apresentadas as principais distorções identificadas na auditoria do BGU, de acordo como refletem no Balanço Patrimonial.

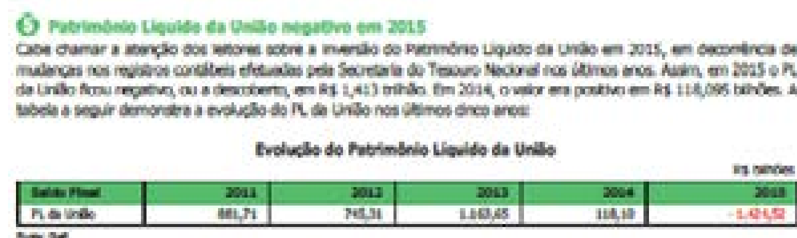
Balanço Patrimonial

R$ bilhões

ATIVO	31/12/2015	31/12/2014	PASSIVO	31/12/2015	31/12/2014
ATIVO CIRCULANTE	[illegible]	[illegible]	PASSIVO CIRCULANTE	[illegible]	[illegible]
Caixa e Equivalentes	939	661	Obrigações Trab. e Prev. Curto Prazo	43	39
Créditos Curto Prazo	407	526	Empréstimos e Fin. Curto Prazo	506	650
Investimentos Curto Prazo	2	2	Fornecedores e Contas a Pagar	15	9
Estoques	22	20	Provisões Curto Prazo	55	18
			Demais Obrigações Curto prazo	129	120
ATIVO NÃO CIRCULANTE	[illegible]	[illegible]			
Créditos a Longo Prazo	[illegible]	[illegible]	PASSIVO NÃO CIRCULANTE	[illegible]	[illegible]
Investimentos	287	308	Obrigações Trab. e Prev. Longo Prazo	3	3
Imobilizado	[illegible]	[illegible]	Empréstimos e Fin. Longo Prazo	[illegible]	[illegible]
Intangível	2	2	Provisões Longo Prazo	1.383	1.241
			Demais Obrigações Longo Prazo	52	34
			Resultado Diferido	-	3
			PATRIMÔNIO LÍQUIDO	(1.424)	118
			Patrimônio Social/Capital Social	32	21
			Reservas	7	
			Resultados Acumulados	[illegible]	[illegible]
TOTAL DO ATIVO	4.057	5.065	TOTAL PASSIVO + PATRIMÔNIO LÍQUIDO	4.057	5.065

Fonte: BGU 2015

Figure 2 - Evolution of the Federal Government’s Net Assets - from 2011 to 2015



Patrimônio Líquido da União negativo em 2015

Cabe chamar a atenção dos leitores sobre a inversão do Patrimônio Líquido da União em 2015, em decorrência de mudanças nos registros contábeis efetuadas pela Secretaria do Tesouro Nacional nos últimos anos. Assim, em 2015 o PL da União ficou negativo, ou a descoberto, em R$ 1,413 trilhão. Em 2014, o valor era positivo em R$ 118,095 bilhões. A tabela a seguir demonstra a evolução do PL da União nos últimos cinco anos:

Evolução do Patrimônio Líquido da União

R$ bilhões

Saldo Final	2011	2012	2013	2014	2015
PL da União	881,71	745,31	1.103,45	118,10	-1.424,52

Fonte: Siafi

Source: Portal TCU.gov.br - Available at: <https://portal.tcu.gov.br/lumis/portal/file/fileDownload.jsp?fileId=8A8182A15BB1BFC1015BD502032E0A47>, accessed on: 17.05.2022

2. BRAZIL'S CONVERGENCE TO INTERNATIONAL ACCOUNTING STANDARDS

The internationalization of markets and advances in information technology have brought users of accounting information from different countries closer together. Transactions involving goods, services, shares and resources now require a more harmonized accounting language between countries and their entities. Convergence aimed to achieve this harmony.

Accounting users also consider convergence to be important for the functioning of the capital market (MEEK; THOMAS, 2004). Accounting plays an important role in society - it provides information about entities and their transactions, facilitating decision-making (CHOI and MEEK, 2005).

It is important for governments to be concerned about the preparation and disclosure of accounting information. Users expect clarity, consistency and reliability. In this sense, good disclosure is important because it enriches evaluations and results and helps government officials make decisions. According to Aquino and Santana (1992), disclosure is not synonymous with disclosure, as it needs to be carried out clearly so that it is understood and has objectivity, consistency and substance over form.

Past events justify it. Turbulence in the economy caused by large corporations and financial institutions, such as the New York Stock Exchange crash in 1929, Enron's accounting manipulations and fraud in 2001, and the exposure of the *subprime* mortgage system in 2008, are concrete facts. There is no certainty that new events will not happen.

Investors and resource providers are looking for safe and reliable environments. Convergence makes it possible to measure the convenience and opportunity of doing business, as well as choosing the most suitable and promising country and entity (NIYAMA, 2005; SZUSTER; SZUSTER, 2008). For the interested party, harmonizing the accounting information of other countries with the standards of the entity's headquarters helps with this objective (SCHROEDER; CLARK; CATHEY, 2005), as it is possible to compare and evaluate the information. Its absence hampers decision-making, making it difficult to evaluate and compare performance and economic efficiency. Companies, which are subject to a variety of accounting standards, are examples of this situation (LEMES; CARVALHO, 2004; ROCHA, 2006; BEUREN; KLANN, 2008; SANTOS et al., 2010).

Various international bodies that deal with accounting standards worldwide have worked to create conditions for convergence between the accounting procedures adopted in different

countries and those accepted and practiced internationally. Harmonization may not be complete, but at first comparability of methods and results should be more certain (BRADSHA and MILLE, 2008).

In the public sector, it began with a predominance of budgetary control. However, a new perspective has brought in the asset approach, which is the object of accounting science that causes significant changes in the accounting records and statements of public entities. The public and private sectors converge in the understanding that accounting should be a business language, that it should be understood, comparable and used in this way.

The low cost of information is one of the advantages of convergence. Whether in the acquisition of foreign investment, or as a greater result of the understanding of investors, market analysts, banks, and other users of accounting information, or even by increasing the participation of accounting professionals, which is essential in aiding the decision-making process.

In Brazil, the process of convergence to international accounting standards is a reality and has been consolidated in the private sector and is moving in the same direction in the public sector.

3. THEORETICAL FRAMEWORK

3.1 Owner Theory

For Kam (1986), this theory sees the entity as an instrument of the owners and not as an entity with its own life separate from the owners (KAM, 1986) and the profit belongs to the owner. This theory states that net profits, after deducting expenses from the income generated, belong to the owners. Assets are the owners' rights and liabilities their obligations. The owner is the main user of accounting information and accounting is prepared for them.

This theory "seeks to explain the content and measurement principles underlying financial statements by starting from the owner of the company" (MOST, 1982, p. 50). Practices already adopted in the past gave rise to the ownership theory (LITTLETON, 1961, p. 66).

The owner then needed to measure the result of his achievements, as well as the assets and investments he had to make. Accounting was then used as a way of rendering accounts, through the analysis of results and the inventory of assets and liabilities of his business (ABE, 2007, p.58). As was the case in the relationship between suzerain and vassal in the economic activity of England in the 16th century, in which the vassal rendered accounts of his activities, de-

monstrating the situation of the estate to the suzerain and the result of his activities. The vassal used the property of a third party and presented the benefits obtained from it (ABE, 2007, p.58).

Littleton (1933, p. 26-27) broadens the concept and its scope, stating that the figure of the owner is the foundation of the double entry method created by Luca Pacioli, who is considered the father of modern accounting. It is as if accounting was created from the point of view of the owner. The assets belonged to the owner, the liabilities were his obligations and the purpose of accounting was simply to "determine the net worth of the business owner" (KAM, 1986, p. 303).

Since the accounts were used to enable the owner to study and analyze the capital allocated, there was little interest in analyzing the ownership of the nomenclature from an accounting perspective. This need would then be compatible with verifying the state of ownership, both in positive terms (assets) and in negative terms (liabilities). It would then verify how much would be left over if creditors were fully satisfied. This results in the traditional equation in which assets minus liabilities equals shareholders' equity (ABE, 2007, p . 52).

Thus, the basic equation was summarized as follows: "What I have plus what I consider to be mine equals what I owe plus what I am worth." (ABE, 2007, p.52). Along the same lines, the German author Hohann Friedrich Schar also used a mathematical point of view, establishing typical transactions through equations, rather than using the double-entry method. His explanation begins with the equation that A - P = K, i.e. [A (assets) - p (liabilities) = K (equity)], and the final result, regardless of intermediate transactions, was always A1 - P1 = K. Even if there are changes in the values involved, there will always be a representation of equality (ABE, 2007, p. 53).

This line of thinking is supported by Chow (1942, p.157) who identifies the owner as the person or group of people who carry out business through a form of organization that suits them, with the true owner of the business being the one who has the right to the residue of the assets after all the obligations have been paid. Thus, he would be the actual owner of the assets and the actual debtor of the liabilities contracted by the company - the excess of the assets over the liabilities is his net interest or equity (ABE, 2007, p. 53).

The owner decides on the revenue to be recognized and the expense to be incurred. Therefore, all third parties are outsiders to the company and payments made to them are considered expenses or costs of the activity. The increase in assets that the owner has in the period is the company's net profit.

Hendriksen (2015, p. 466) states that the role played by "revenues are increases in owner-

ship and expenses represent decreases". Thus, net profit, i.e. the difference between the total value of revenues and the total value of expenses, goes exclusively to the owners, representing an increase in their wealth. The essence of this theory lies in the equation: *Assets - Liabilities = Net Worth* (KAM, 1986).

For Hendriksen and Van Breda (2007), the owner is in the leading position. The equation that ratifies this understanding is the one that defines Shareholders' Equity as equal to the total value of Assets minus the total value of Liabilities. Furthermore, this theory provides a rationale for double-entry bookkeeping.

In this theory, net profits belong to the owner, assets are rights and liabilities are obligations. Dividends are a distribution of profits and not expenses of the entity. This understanding underpins most accounting practices (KAM, 1986).

The owner retains the profits of the entity. This situation, in addition to that observed for dividends, is present in the equity method, which is applied in valuations of investments made in other companies - the results must be valued and owned by the investing partner. Changes in the companies in which the investments are made must be recognized in the equity of the investing entity (ABE, 2007).

Despite the development of these aspects, for Kam (1986) this theory is flawed. He argues that this theory may show possible taxation on corporate profits and also on the receipt of profits, constituting double taxation, both legal and economic. Both are used as a basis for calculating income tax. This theory would be better applied to simpler organizations, such as individual firms, for example, since there is a possibility that this double taxation will not occur (IUDÍCIBUS et al, 2010). Admitting that the owner assumes all the debts of large entities and large corporations, such as limited liability companies, seems to be an unreasonable understanding. There is evidence that this theory predates what many accounting theorists consider to be the work of Paton and his Accounting Theory (ABE, 2007, p. 58).

3.2 Entity Theory

In this theory, the legal person (company) is separated from the natural person of the owner. It is understood that the natural persons are distinct from the existence of the company, each with its own identity - this is the basis for the entity theory. In this conception, the law on joint stock companies provided legal and institutional support. According to Hendriksen and Van Breda (2007), this relationship is found in other forms of company organization and not

just in joint stock companies.

The equation to define this theory is defined as Assets = Rights (Liabilities plus Shareholders' Equity). Liabilities and shareholders' equity are different. While the rights of creditors can be identified and assessed separately, as they have priority in the calculation of the financial year, profits will only be calculated and passed on to shareholders after legal obligations to creditors have been met (HENDRIKSEN and VAN BREDA, 2007). According to Iudícibus et al. (2010) there will be personal profit for shareholders if the value is recognized and incorporated into the market value of the share.

According to Littleton (1961, p. 67), it would be linked to the very idea of an agent's accounting, similar to that of a vassal. The company is distinct from the formers of its capital, "it seems like an agent with the property of another, without the real right of ownership and owing this owner the duty to manage and report" (ABE, 2007, p. 59).

This situation is more appropriate in limited liability companies. This entity theory is an extension of the owner theory (ABE, 2007, p. 59).

The theory, in the view of Paton apud Kam (1986, p. 305), must respect the fact that the company has an existence distinct from its partners, with its own identity, going beyond the convention of the entity, in relation to the separation between business and personal affairs (ABE, 2007, p. 59)

The company, according to this theory, is an entity with its own personality, where "the founders and owners are not necessarily identified with the existence of the company" (HENDRIKSEN, 2015, p. 467).

In this sense, there is a factor that causes a paradigm shift, which is the abandonment of the idea of equity as the residue of the difference between Assets and Liabilities, as advocated by the owner theory, since the basic equation should be understood as being "Assets = Equity", insofar as the assets belong to the company and the liabilities, both shareholders and third parties, are obligations of the company and not of the owners (KAM, 1986, p.307). The equation would be "Assets (belonging to the company) = Equity (company's obligations to third parties + company's obligations to shareholders). "

The financial condition of the company, in the view of Paton *apud* Kam, is a more logical expression. And, given this, there would be no need to measure equity in isolation (ABE, 2007, p. 60).

In this sense, assets are deferred costs. They represent services acquired by the entity and not yet delivered to its clients, and which may be converted into new assets in the future. Assets

originate from various resources delivered to the entity under some form of contract, allowing the entity to be required to provide a future counterpart by creditors (ABE, 2007, p.60).

In this case, the resources come from financiers, lenders, shareholders and partners, i.e. investors, who expect to be remunerated with a financial return for the resources made available to the entity.

Thus, the claims of investors and creditors are different and related to the interests of each. Investors, by virtue of a different type of contract, not signed with the company, have a residual claim on the assets in the event of the company's dissolution, while creditors have a specific claim. In this case, liabilities represent the origin of the assets used in the company's activities, i.e. to whom and how much the company has an obligation to pay, having received funds to carry out its activities. (ABE, 2007, p.60).

For Kam (1986), there are two different views on this theory:

> i - "(...) sees the firm's business as an operation for the benefit of shareholders, who provide funds to the entity" (KAM, 1986, p.36);
> ii - the entity develops "(...) a business for itself and is interested in its own survival" (KAM, 1986, p. 306).

Traditionally, shareholders are thought of as "associates". Recently, on the other hand, they have been treated as outsiders. This shows the differences between these two theories. In relation to the owner theory, the entity theory is generally applied to large corporations, such as publicly traded companies. The figure of the owner loses strength when there are thousands of owners with small portions of capital, such as a personal representation.

While in the owner theory ownership is concentrated, in the entity theory ownership begins to be pulverized and increases as the number of owners increases. Thus, the figure of the owner is increasingly diluted as the number of owners increases. The purpose of the entity is to maximize its survival and not the wealth of its owners. Thus, large corporations and large groups generally have a huge number of owners, partners and shareholders, which means that each owner's share becomes increasingly diluted in relation to the property they own in the corporation/group.

This shift in focus also brings changes in conception regarding the constituent elements of a balance sheet to the entity theory, in which "liabilities [...] are the company's specific obligations and assets represent the company's rights to receive goods and services and other specific benefits (HENDRIKSEN, 2015, P. 467).

In this sense, “revenue is defined as the inflow of assets due to transactions carried out by the firm in relation to its products [...] [and] expense is related to the cost of assets and other services consumed by the firm to create revenue for the period” (KAM, 1986, p. 308).

In short, for this theory, the profit obtained is like an increase in the entity’s equity. The equation that reflects the essence of this theory is that the total value of Assets is equal to the sum of the total values of Liabilities plus the total values of Equity (equation: Assets = Liabilities + Equity) (KAM, 1986).

With regard to Assets, while the objective for *private entities* is to use and have assets to generate revenue, make a profit and remunerate their resource providers, for *public entities* they are used to guarantee their operational capacity, carry out their activities and fulfill their missions and objectives vis-à-vis society.

Thus, the entity, in the conception of this theory, aims to maximize its survival and not the wealth of the owners.

The compatibility of the entity theory with the public entity lies on a very fine line, although it does not correspond exactly to those thought at the time the entity theory was defined by the accounting literature. The further we delve into the characteristics of the public entity in relation to the other characteristics of the theory, this line becomes increasingly distant.

3.3 Fund Theory

The Fund Theory has emerged as a new theoretical concept on property rights and is a counterpoint to the entity and owner theories. The concepts that underpin them are appropriate to make the counterpoint.

This theory treats the entity as an operational unit for carrying out its activities. Conceived in 1947 (W. J. VATTER) as an extension of the Entity Theory, it is based on a group of assets and a set of activities or functions for which these assets are used (ABE, 2007). Therefore, there is an area of interest called the “fund”, which includes a group of assets and obligations, with corresponding restrictions, representing specific economic functions or activities (HENDRIKSEN and VAN BREDA, 2007).

According to Iudícibus (2010, p. 170), “invested capital represents a financial or legal restriction on the use of assets, i.e. invested capital needs to be kept intact (...) liabilities (in the strict sense) represent restrictions against specific or general fund assets”.

Iudícibus (2010) explains that the fund theory does not consider profit to be the central

point of accounting. He adds that the description of the fund's operations is carried out in great detail and clarity, as the statement that should appear is the statement of changes in the fund, with a description of the funds provided by the operations. This statement differs greatly from the income statement, as it aims to show the development of the entity's resources.

According to Hendriksen and Van Breda (2007), the equation that represents the fund theory can be "*Assets = Restrictions on assets*". For these authors, *the fund theory has found its greatest utility in government institutions* (entities in the first sector of the economy). According to Santana et al (2008), it is also appropriate for non-governmental and non-profit organizations (entities in the third sector of the economy).

Among other areas, the fund theory can be used in specific areas of interest in joint stock companies, such as amortization funds in financial accounting, accounting for subsidiaries or divisions and accounting for estates or funds managed by fiduciary agents (HENDRIKSEN and VAN BREDA, 2007).

The opposition between the owner and entity theories is long-standing.

In one of them, William Vatter records that "[...] he believes that personal perspective leads to specific interpretations and methods of evaluation" (KAM, 1986, p. 310). According to Vatter (1947, p. 7):

> "The weakness in these personalized bases for accounting is that the content of the report will tend to be affected by personal analogies, and issues will be decided not by considering the nature of the problems, but [by relying] on some extension of personality."

Kam (1996), explaining the fund theory, states that "a fund is:

> [1] an operations unit,
> [2] a center of interest,
> [3] with a specific purpose or set of activities,
> [4] consisting of assets and shares. [...]
> [5] It is free from attitudes about valuations or the form and content of financial statements that creep into a theory based on personalizations. " (KAM, 1986, p. 310).

Fund theory has two fundamental characteristics. The first is that there is a specific purpose (KAM, 1986). The second defines the elements of the balance sheet: Assets, Liabilities and Invested Capital (HENDRIKSEN, 2015), namely:

> "Assets represent possible services to the fund or operating unit. Liabilities represent restrictions on specific or general fund assets. Invested capital represents legal or financial restrictions on the use of assets; [...] appropriations of retained earnings represent restrictions imposed by management, creditors, or legal requirements. [...] thus, all rights represent restrictions imposed by legal, contractual, managerial, financial or justice considerations." (HENDRIKSEN, 2015, p. 470)

To this statement by Hendriksen (2015), there is the complement made by Kam (1986, p. 311) in which revenues "represent an increase in assets within the fund that are completely free of capital restrictions, other than the final restriction imposed by the residual capital" and expenses "represent the release of services for designated purposes specified in the fund's objective". It can be seen that the second fundamental characteristic of the fund is the restrictions on the use of the assets.

These restrictions, among others, can be of various kinds, such as contractual, managerial and financial, for example. That's why the essential equation of this theory is *Assets = Restrictions on the use of Assets.*

Kam (1986, p. 311-312) presents some peculiarities for the Fund Theory. He explains that Vatter did not trust the concept of profit, as he believed that accountants placed too much emphasis on this account, which could not even satisfy all the demands placed on it.

The balance sheet, in the view of Kam (1986), was considered to be an "inventory statement" of assets and the restrictions placed on them. He advocated the creation of a statement that would replace income statements, where the information provided allows any user to calculate the results and profits of the entity according to their own interests.

Preliminarily, these presentations of the Owner, Entity and Fund theories suggest that the latter is converging more towards the public sector and that the evolution of accounting theories is a reality. And, if applied, the existing problem with the personalization of the government with the theories of the owner and the entity is resolved and the characteristic of using and expanding its assets to maintain operational capacity and carry out the services under its responsibility is matched by the Fund Theory.

In addition, the entity's equity, which in this theory is referred to as "Social Equity", appears to be better represented as a restriction on the use of assets rather than just a residual value in accordance with the Conceptual Framework. This theory also allows for better disclosure of the equity of non-governmental and non-profit entities (SANTANA et al., 2008).

According to Hamilton (2007), the first sector (government institutions and their powers)

and the third sector (non-governmental and non-profit organizations) converge and consolidate with defined functions. Particularly in the construction of life in society, in which their assets aim to ensure operational capacity in their activities.

In view of this, and considering the development of this text, it is worth noting that Hendriksen and Van Breda (2007), in convergence with this description, provide an equation to represent government institutions and also non-profit institutions which indicates that "Assets = Restrictions on assets".

Thus, these institutions, public entities and non-governmental and non-profit organizations, allow for greater proximity between them.

Non-profit organizations are mainly focused on education, research and health activities, and are "organizations prohibited from distributing their surpluses in financial form to those who "control" them". They generally raise funds through the solidarity of third parties (HANSMANN, 1980). Resources need to be controlled to enable a surplus at the end of the period, because, among other things, one of the main objectives is to maximize the benefits generated. Under Brazilian law, these organizations follow the same principles as for-profit organizations (VARANDAS, 2012).

Usually, most of the funds raised by public entities come from taxes, levies and legal obligations which, in essence, are compulsory and not optional, converging with the understanding presented by Santana et al. (2008). Most of these funds raised cannot be used indiscriminately as the public entity wishes, because most of the funds have a specific destination, i.e. their use is restricted.

Unlike large corporations, public entities receive a significant amount of funds from taxes and contributions paid by society. These payments and contributions are not comparable to creditors and shareholders. According to the first characteristic pointed out by the *financial accounting standards board*, as already described in the owner theory, these taxpayers cannot expect to receive any reimbursement or economic return proportional to the amounts resulting from the payments made, which are compulsory.

4. FINAL CONSIDERATIONS

Empirical evidence shows that there is a structural contradiction between the decision-making model used by government officials and the quality of the source of government information on which they base their decisions, which is usually the foundation for good decision-

-making.

Public accounting, therefore, is one of the main sources of government information and so the accounting statements need to be consistent and reliable. The absence of these attributes has an impact on the type and quality of the information generated, leading to misunderstandings and decisions. Failure to account for assets reduces the real value of the entity's assets and rights and failure to account for liabilities reduces the value of its obligations. These accounting inconsistencies distort the real situation of the entity, causing dubious understandings and little validity for accurate decision making, as the evidence found in the 2015 BPU exemplifies. It is important that accounting standards are fully complied with, thus mitigating possible inconsistencies.

The failure to account for R$344 billion in obligations (liabilities) prior to the 2015 BPU, identified in an audit by the TCU, is a concrete fact. It causes an impact by not accounting for the value of the obligations at the appropriate times, in previous years, and also causes a new impact in the year in which it is adjusted. Notwithstanding the adjustment, it increases the amounts of the obligations in the 2015 BPU and does not reverse the impacts caused in previous years by the non-accounting, nor in relation to the government information that may have been generated from these sources. From the occurrence of the events to their identification by the TCU, after more than a year for the relevant adjustments, there appears to be a time lag and, likewise, in the return of financial information and accountability. It's as if the public entity didn't have an adequate internal instrument to identify non-accounting as soon as it occurred and had to wait for the control and inspection bodies, such as the Federal Audit Court (TCU) and the Office of the Comptroller General (CGU), to identify and comment on the inconsistencies.

The value calculated for the public entity's equity in the 2015 BPU was titled "net equity", which resulted in a negative value" of R$1.424 trillion. The net assets calculated in the BPUs from 2011 to 2014 were positive. However, those from 2015 to 2021 were negative. In 2021, the net worth calculated was negative at R$5.166 trillion. The accounting theory used was the owner theory. The purpose of this theory is to determine net worth, while remaining somewhat separate in order to provide transparency for the other functions and activities of the public entity, whether in relation to its operations, activities and decisions, as well as strategic actions, programs and public policies. It also gives the user the perception that the BPU is similar to that of a private entity.

This perception is associated with the accounting theory used and not in relation to the

common characteristics of the public entity with the characteristics of the private entity. Since the characteristics of public entities are much more different than those of private entities. The purpose of the assets is one of the main ones.

In public entities, assets are used to provide operational capacity and potential for their activities. They are not used to generate revenue and remunerate resource providers, as is the case with private entities. The providers of resources for public entities are usually taxpayers who compulsorily pay their taxes, fees, improvement contributions and other legal obligations, and do not expect remuneration. In private entities, assets are used to generate revenue, cash flow and remunerate the providers of resources, who are mostly shareholders, banks and financial institutions. Each of the accounting theories, according to their concepts, can best suit the type of entity, whether public or private.

The owner theory is not suitable to be applied to public entities, as its objective is to assess net worth. Furthermore, the public entity has no owner, partner or proprietor (Kam, 1986). In this theory, the entity uses its assets in order to make a profit for the owners, who are the owners of the results.

In entity theory, one of the main characteristics is that the entity has a life of its own and is distinct from the other people who make it up, be they owners, partners or shareholders (KAM, 1986). As such, it is not suitable for public entities, as there are no partners in their composition. In this theory, the entity uses its assets to generate revenue, cash flow and make a profit to remunerate its shareholders.

The Fund Theory is the one that covers most of the characteristics of the public entity, starting with the purpose of the assets. In this theory, assets are used to provide and maintain the public entity's operational capacity to carry out activities under its responsibilities. According to Abe (2007), it is a group of assets and a set of activities or functions for which the assets are used, and is an extension of the Entity Theory. The Fund Theory, according to Hendriksen and Van Breda (2007), has found greater utility in government institutions (the first sector of the economy) due to the similarity in the use of assets and the purpose of their activities. For Santana et al (2008), the fund theory can also be considered the most appropriate for the disclosure of the assets of non-governmental and non-profit organizations (third sector of the economy).

Therefore, the understanding of the financial statements by government officials can be affected by the consequences of an inappropriate choice of accounting theory for the public entity. The owner's theory, which aims to determine net worth, does not meet the other functions of public activity.

Thus, the owner's accounting theory is inappropriate for public entities, because:

• It obscures the real situation of the public entity;

• It brings little transparency to the operations, activities and decisions made by the public entity; and,

• The negative net worth calculated for the entire period from 2015 to 2021, with results in those years of R$1.424 trillion and R$5.166 trillion respectively, weakens the information itself, as it discloses an "insolvency" of the Union that is not typical of public entities, but of private entities.

Understanding can be even more affected when there is:

• Dispersion of public norms;

• Discrepancy in terminology;

• Discrepancy in the procedures adopted by public entities to record transactions;

• Information from sources that generate government information that is not consistent or reliable, such as the non-accounting of R$344 billion in obligations prior to the 2015 BPU.

And, as an addition and for a better understanding of the accounting statements, it is important, at the very least and once the previous records have been weighed up, that the information from Public Accounting comes from:

• The most appropriate Accounting Theory for the Public Entity, in this case the Fund Theory; and,

• A source of government information that is consistent, reliable, understandable and comparable.

However, once this has been understood, it is important that Public Accounting is used to enable government officials to better qualify their decisions:

• Produce management information in addition to the financial information currently produced; for the better,

• Qualifying the source of government information; as well as,

• Reducing the time it takes to return financial information to public bodies and governments; with a view to,

• Make it possible for the information to be sent to the respective Court of Auditors, at the same time as it is copied by the public entity itself, so that the information can be managed to mitigate possible inconsistencies, providing useful information for government officials to be able to better manage management and governance.

Therefore, the Fund Theory is the most appropriate way to detail the resources received

and their respective applications in public entities (HENDRIKSEN and VAN BREDA, 2007). This approach improves disclosure and is an instrument of transparency, increasing credibility with stakeholders and other users of accounting information in Brazil and other countries. This theory best reflects the necessary and useful information to visualize public entities.

And, if applied, the existing problem with the personalization of the government with the theories of the owner and the entity would possibly be resolved and the characteristic of using and expanding assets to maintain operational capacity and carry out the services under its responsibility would find correspondence in this theory, therefore greater adherence to the reality of the government's social function, as well as improving the quality of the information generated for decision-making.

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