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NCP 27 – MANAGEMENT ACCOUNTING: Analysis, Implementation and Impact on the Portuguese Public Sector

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ABSTRACT

NCP 27 represents a fundamental instrument for the modernization of public management in Portugal, by introducing cost accounting and expenditure allocation systems that support decision-making, evaluate performance, and ensure greater transparency in the use of public resources.

This paper aims to analyze NCP 27 in depth, examining its regulatory framework, the concepts and methodologies it advocates, as well as the challenges and opportunities associated with its implementation in Portuguese public administration entities. To this end, a qualitative and descriptive methodology is adopted, based on the documentary analysis of applicable legislation, accounting standards, and relevant scientific literature. The main concepts and methodologies advocated by the standard are examined, namely the determination of the cost of services and goods produced, cost centers, the allocation of indirect costs, and the costing systems applicable to the public sector.

The results show that, despite the transformative potential of NCP 27, its implementation faces considerable challenges, particularly in terms of human resource capacity building, adaptation of information systems, and organizational resistance to change. It is concluded that the full application of this standard is crucial for strengthening accountability and efficiency in the management of public resources in Portugal.

KEYWORDS: NCP 27; Management Accounting; SNC-AP; Public Sector; Costing; Public Administrations.

1. INTRODUCTION

The growing demand for transparency, efficiency, and accountability in the management of public resources has driven, in recent decades, a profound reform of public accounting systems in Portugal and in most European Union countries. In this context, the approval of the Accounting Standardization System for Public Administrations (SNCAP), by Decree-Law No. 192/2015, of September 11, constituted a historical milestone in the modernization of national public accounting, bringing it closer to international public sector accounting standards (IPSAS – International Public Sector Accounting Standards).

The SNC-AP integrates a set of Public Accounting Standards (NCP), each regulating specific areas of the financial activity of public entities. Among these, NCP 27 stands out, dedicated to Management Accounting, whose central purpose is to provide public sector entities with instruments that allow them to determine the costs of goods produced and services provided, support management decision-making, and evaluate organizational performance.

Management accounting in the public sector takes on particular relevance, since public entities generally do not operate in competitive markets, making cost information essential for justifying resource allocation, supporting public pricing and tariff policies, and ensuring accountability to citizens and oversight bodies.

This work is structured as follows: after this introduction, the second chapter contextualizes NCP 27 within the framework of public accounting reform in Portugal; the third chapter provides a detailed analysis of the normative content; the fourth chapter addresses the implementation of the standard and its impacts; the fifth chapter presents a fictitious practical case of the application of NCP 27 in a municipal council; and the sixth chapter presents the conclusions and recommendations.

2. REGULATORY FRAMEWORK AND CONTEXTUALIZATION

2.1 The SNC-AP and the Public Accounting Reform in Portugal

The reform of public accounting in Portugal is part of a broader international trend of modernizing public administration, often referred to as New Public Management (NPM), which advocates the adoption of management practices inspired by the private sector, with a special focus on efficiency, performance evaluation, and accountability.

In terms of regulations, the process of reforming public accounting in Portugal began with the approval of the Official Public Accounting Plan (POCP), by Decree-Law No. 232/97 of September 3, which was followed by specific sectoral plans. However, the multiplicity of accounting regimes, the fragmentation of regulations, and the disconnect from international standards determined the need for a more comprehensive and structural reform. The SNC-AP, approved by Decree-Law No. 192/2015 of September 11 and regulated by Ordinance No. 218/2016 of August 9, addressed this need by establishing a single, modern accounting framework harmonized with international public sector standards (IPSAS). The SNC-AP is based on three complementary accounting subsystems: financial accounting, budgetary accounting, and management accounting, the latter being specifically regulated by NCP 27.

The implementation of the SNC-AP (Accounting Standards for Public Administration) was carried out in phases, with Decree-Law No. 85/2016, of December 21, establishing the transition rules and deadlines applicable to different entities. The full entry into force of the system for all obligated entities occurred from January 1, 2018, although the implementation schedule for management accounting, due to its greater technical complexity, benefited from greater temporal flexibility.

2.2 NCP 27 in the Context of SNC-AP

NCP 27 is the SNC-AP standard specifically dedicated to Management Accounting, applicable to public administration entities subject to SNC-AP under Article 3 of Decree-Law No. 192/2015. This standard does not have a direct equivalent in IPSAS, reflecting the particularities and specific needs of the Portuguese public context.

Within the framework of the SNC-AP (Accounting Standards for Public Administration), management accounting occupies a strategic place, as it complements financial and budgetary information with data on costs, outputs, and efficiency. The combination of the three accounting subsystems allows for an integrated and comprehensive view of the economic and financial reality of public entities, essential for informed decision-making and performance evaluation.

NCP 27 establishes the principles, concepts, and procedures applicable to the determination and analysis of costs in the public sector, stipulating that entities must implement a management accounting system appropriate to their size and specific characteristics, capable of providing relevant information on the cost of services rendered and goods produced. This information is, moreover, fundamental for the preparation of performance reports and for compliance with the accountability requirements imposed by the current public management paradigm.

3. ANALYSIS OF NCP 27 – MANAGEMENT ACCOUNTING

3.1 Scope and Objectives of the Standard

NCP 27 defines Management Accounting as the accounting subsystem whose primary objective is to determine the costs of activities, services provided and goods produced by public entities, providing information to support internal management, decision-making and performance evaluation (Decree No. 218/2016, Annex IV).

The standard stipulates that entities subject to the SNC-AP (Accounting Standards for Public Administration) must adopt a management accounting system that meets at least three fundamental objectives: (i) the determination of costs by activity, service or product; (ii) support for the definition of public prices and tariffs; and (iii) the provision of performance indicators for evaluation and accountability purposes. These objectives are aligned with the requirements of the Budget Framework Law (Law No. 151/2015, of September 11), which enshrines program budgeting and performance evaluation as structuring principles of public financial management.

Regarding its scope, NCP 27 covers all entities of central, regional and local government, as well as autonomous services and funds, that are subject to the SNC-AP (Accounting Standards for Public Administration). Implementation should be proportionate to the size and complexity of each entity, allowing for different levels of sophistication depending on management needs and available resources.

3.2 Fundamental Concepts

NCP 27 introduces and clarifies a set of fundamental concepts for the practice of Management Accounting in the public sector, aligning national terminology with international practices. Among the most relevant concepts, the following stand out:

- **Cost:** This corresponds to the monetary value of the resources used or consumed by a given cost object (activity, asset, service, program, or organizational unit), resulting from the allocation of expenses through criteria previously defined by the entity.
- **Cost object:** Any activity, product, service, project, or organizational unit for which a cost is to be determined. In the public sector, the most common cost objects are services provided to the public, government programs, and support activities.
- **Cost center:** An organizational or functional unit to which costs are attributed, with a view to their control and subsequent allocation to cost objects. Cost centers can be primary centers, when they contribute directly to the production of goods or the provision of services, or subsidiary centers, when they perform support functions for operational activities.
- **Direct cost:** expenses specifically identifiable with a single cost object.
- **Indirect cost:** expenses that cannot be directly associated with a single cost object, requiring the use of appropriate allocation criteria.

The correct identification and classification of these costs is essential for the reliability of the information produced by the management accounting system and for the comparability of data between entities.

3.3 Costing Systems

NCP 27 does not impose a single, mandatory costing system, recognizing the diverse realities of public entities and the need to adapt the system to the specificities of each organization. However, the standard guides entities towards adopting costing systems that allow for the rigorous and consistent determination of costs, in line with the defined objectives.

NCP 27 identifies several costing systems that can be used by public entities, namely:

- **Total Costing or Absorption Costing:** This method involves all production costs – both direct and indirect – being allocated to the cost object. This system is the most widely used in the Portuguese public sector because it is simpler to implement and provides information on the complete cost of the services provided.
- **Variable Costing:** This method involves allocating only variable costs to the cost object, while treating fixed costs as period costs. While less common in the public sector, this method can be useful for short-term analyses and capacity decisions.
- **Direct costing system:** A system that only attributes direct costs to final products or activities, meaning it does not incorporate indirect costs into the products, services, or activities.
- **Rational costing system:** A system that allocates total costs, less sub-activity costs, to final products or activities.
- **Standard cost:** A costing method that allocates expenses to cost objects based on reasonable estimates or cost studies and through budgeted values rather than relying on actual expenses incurred. Furthermore, it also corresponds to the projected cost of providing a service or producing a unit of output, or a predetermined cost to be attributed to services rendered or products produced.

Although these systems are those referenced in point 3.2 of the Accounting Standards Commission, relating to NCP 27, there is a very important system that is present in point 5.1 of the same document, relating to the ABC System.

4. ABC SYSTEM (ACTIVITY-BASED COSTING)

The ABC (Activity-Based Costing) system is a management accounting methodology that seeks to allocate costs to goods and services based on the activities that consume resources. Unlike traditional costing systems, which tend to distribute indirect costs using generic criteria, ABC assumes that activities consume resources and that products or services consume those activities. This system is recommended for use in public entities because it allows for a more accurate allocation of indirect costs and a better evaluation of the performance of the activities carried out.

The implementation of this system includes the following steps:

1. **Identification of activities-** It consists of identifying the activities carried out by the entity that consume resources. These activities can be primary, when they contribute directly to the provision of services or the production of goods, or auxiliary, when they perform support functions.
2. **Allocation of costs to activities-** After identifying the activities, costs are associated with each one. This phase considers costs related to personnel, supplies and external services, depreciation, material consumption, and other expenses necessary for carrying out the activities.
3. **Definition of cost drivers-** Cost drivers represent the factors that explain the consumption of resources by activities. There must be cause-and-effect relationships between the chosen driver and the cost of the activity. Examples of drivers are the number of consultations in a health unit, the number of students in an educational establishment, or the number of tons of waste collected by a municipality.
4. **Calculation of the unit cost of inductors.** The unit cost of each activity is determined by dividing the total cost of the activity by the quantity of the respective cost driver.
5. **Allocation of costs to cost objects.** The costs of activities are allocated to final cost objects, such as goods, services, projects, or programs, according to the quantity of drivers consumed.

The main advantage of the ABC System lies in its ability to reduce distortions associated with the arbitrary allocation of indirect costs, providing more reliable information for decision-making. Furthermore, it allows for the identification of activities that do not add value, supports continuous improvement processes, and evaluates the efficiency of public services.

NCP 27 considers the ABC System particularly suitable for public entities due to the growing importance of indirect costs and the need to accurately understand the costs of the activities carried out. The use of this system contributes to a better allocation of public resources, reinforcing transparency, accountability, and the evaluation of the efficiency of public policies.

The choice of the most appropriate costing system should be based on the characteristics of the entity, the nature of its outputs, and the management objectives it intends to achieve, and should be documented and justified in the entity's accounting policies.

Cost Centers and Allocation of Indirect Expenses

Cost center structuring is the cornerstone of any management accounting system's architecture. NCP 27 stipulates that entities must organize their cost center structure in a manner consistent with their functional organization and defined cost accounting objectives.

Cost centers are grouped into main centers, which correspond to the activities or services that constitute the entity's core business and whose costs are directly allocated to outputs, and subsidiary centers, which provide support services to the main centers (e.g., human resources, IT, maintenance). The costs of the subsidiary centers are subsequently allocated to the main centers using appropriate allocation methods, such as the direct method, the scalar method, or the concurrent systems method.

The allocation of indirect costs is one of the most complex challenges in Management Accounting, and the choice of allocation bases is crucial for the reliability of the costs determined. NCP 27 requires that the allocation bases used best reflect the causal relationship between resource consumption and the cost object, and must be documented, consistent, and periodically reviewable.

Implementation of NCP 27 in the Portuguese Public Sector

Implementation Status

The implementation of NCP 27 in Portuguese public administration entities has been making significant progress, but at a slower pace than initially anticipated. Available studies on the adoption status of SNC-AP, particularly those conducted within academic projects and by oversight bodies (Court of Auditors, General Inspectorate of Finance), reveal that management accounting, among the three subsystems of SNC-AP, has the lowest degree of effective implementation.

This situation is partly explained by the greater technical and organizational demands associated with implementing a costing system, as well as the less immediate obligation arising from the legal framework, which gives entities greater flexibility regarding the level of sophistication of the system to be adopted. Nevertheless, several entities in central, regional, and local government have taken concrete steps in implementing management accounting systems, and good practices can be identified in organizations such as hospitals, larger municipalities, and public institutes.

The Directorate-General for Public Administration and Employment (DGAEP) and the Directorate-General for the Budget (DGO) have played a significant role in supporting and guiding public entities in the implementation process of the SNC-AP (Accounting Standards for Public Administration), particularly through the preparation of guidance documents and the provision of specialized training. Additionally, the Accounting Standards Commission (CNC) has issued interpretative guidelines aimed at clarifying the practical application of the standards, including NCP 27.

Challenges and Constraints

The implementation of NCP 27 faces a diverse set of challenges that need to be rigorously characterized in order to identify appropriate solutions. Based on the available literature and empirical studies, the main constraints can be grouped into four categories:

Human Resources and Training

Implementing a management accounting system requires specific technical skills that are not always available in public entities. According to most studies, the lack of specialized training in management accounting and costing systems is the main obstacle to the effective implementation of NCP 27. This problem is compounded by the high turnover of technical staff in some entities, which hinders the accumulation of knowledge and experience.

Information Systems

Implementing a management accounting system requires the availability of integrated information systems capable of recording and processing the data necessary for cost accounting. Many public entities have outdated or inadequate information systems to support the requirements of NCP 27, which implies significant investments in software and technological infrastructure.

Organizational Resistance

The implementation of new accounting and management control systems implies organizational changes that can generate resistance from managers and technicians involved. The still-developing culture of accountability in some Portuguese public entities, coupled with the perception that cost information can be used to justify budget cuts or negative performance evaluations, constitutes a factor of resistance to change.

Heterogeneity of the Public Sector

The Portuguese public sector is characterized by great heterogeneity in terms of size, complexity, and the nature of the activities carried out by different entities. This diversity makes it difficult to define uniform and adaptable implementation models, requiring customized solutions that increase costs and implementation time.

Contributions to Accountability and Transparency

Despite the challenges identified, the implementation of NCP 27 represents an invaluable contribution to strengthening accountability and transparency in the management of public resources. The availability of accurate information on the costs of public services allows citizens, legislative bodies and oversight bodies to assess the efficiency and effectiveness of government action based on concrete and verifiable data (Pollitt & Bouckaert, 2011).

Beyond the external dimension of accountability, management accounting plays an essential role in supporting internal management. Information on costs allows public managers to identify inefficiencies, compare the performance of different units or services, justify decisions regarding outsourcing or process redesign, and negotiate budget allocations with greater rigor. In this sense, NCP 27 constitutes a central instrument for achieving results-oriented public management centered on public value (Moore, 1995).

Additionally, the availability of information on the costs of public services is essential for setting tariffs and fees that reflect the true cost of the services provided, promoting equity among users and reducing the implicit cross-subsidies that often result from the absence of adequate costing systems.

Case Study - Municipality of Vila Nova

The Municipality of Vila Nova provides two main services: Municipal Waste Collection and the Municipal Swimming Pool. The complete entries for a given accounting period are presented.

Data for the period:

- Personnel expenses (Class 6): €120,000 - direct: €90,000 | indirect: €30,000
- External supplies and services: €40,000 - direct: €25,000 | indirect: €15,000

- Depreciation: €20,000 - expenses not incorporated
- Revenue: waste collection fees €35,000 | swimming pool ticket sales €8,000 | transfers from the State Treasury €150,000
- Distribution of indirect costs: 60% Waste / 40% Swimming pool

Service	Direct Costs	Indirect Costs	Total Costs
Waste Collection	69,000	27,000	96,000
Municipal Swimming Pool	46,000	18,000	64,000

Step 1 — Reflection of expenses (account 916)
This records all expenses from the financial accounting (Class 6). The total of account 916 should correspond to the total of the accounts in Class 6. It is credited against accounts 921, 922, 923, and 924.

Account	Description	Debit (€)	Credit (€)
9163	Personal reflection	120,000	
9162	FSE reflected	40,000	
9164	Depreciation reflected	20,000	
916	Total expenses reflected		180,000

Step 2 — Reclassification (accounts 921, 922, 923)
This entry records expenses that are directly identified with a single cost object (activity, product, or service). It is debited against account 916 and credited to accounts 93, 94, 95, 96, or 97.

Account	Description	Debit (€)	Credit (€)
9211	Direct expenses - Personnel	90,000	
9213	Direct expenses - FSE	25,000	
9221	Indirect expenses - Personnel	30,000	
9223	Indirect expenses - FSE	15,000	
9231	Unincorporated expenses - Depreciation	20,000	
916	Reflected expenses		180,000

Step 3 — Costs by activity (account 94) Direct expenses → account 94 directly:

Account	Description	Debit (€)	Credit (€)
9401	Activity - Waste Collection (direct)	69,000	
9402	Activity - Municipal Swimming Pool (direct)	46,000	
921	Direct expenses		115,000

Indirect expenses split 60% / 40%:

Account	Description	Debit (€)	Credit (€)
9401	Activity - Waste Collection (indirect 60%)	27,000	
9402	Activity - Municipal Swimming Pool (indirect 40%)	18,000	
922	Indirect expenses		45,000

Step 4 — Cost of services (account 97)
It determines the costs of the final services provided. It is fundamental for local authorities, as it allows them to set tariffs and fees justified by the real cost (Article 8, paragraph 2, subparagraph c) of Law 53-E/2006). Credited to 982 — Results: Services.

Account	Description	Debit (€)	Credit (€)
9701	Service cost — Waste Collection	96,000	
9702	Service cost — Municipal Swimming Pool (debit)	64,000	
9401	Activity — Waste Collection (credit)		96,000
9402	Activity — Municipal Swimming Pool (credit)		64,000

Step 5 — Earnings (account 917 / 925 / 926)
Account 925 records income directly associated with a specific product or service (e.g., earmarked municipal tax revenue). Account 926 records general, non-earmarked income (e.g., property tax, budget transfers not allocated to a specific service). Both are credited against account 917.

Account	Description	Debit (€)	Credit (€)
917	Reflected income	193,000	
9252	Direct revenue — Waste rates		35,000
9252	Direct revenue — Pool ticket sales		8,000
9263	General income — Transfers OE		150,000

Step 6 — Calculation of Results (account 98)
Calculate the results by product (981) and by service (982), comparing revenues with costs. Account 986 records non-incorporated expenses and 987 the general revenues for the period.

Account	Description	Debit (€)	Credit (€)
982	Results — Waste Collection: cost (debit)	96,000	
9701	Service cost — Waste Collection (credit)		96,000

Account	Description	Debit (€)	Credit (€)
982	Results — Swimming pool: cost (debit)	64,000	
9702	Service cost — Municipal Swimming Pool (credit)		64,000

Account	Description	Debit (€)	Credit (€)
9252	Direct income — Residual fees (debit)	35,000	
982	Results — Waste Collection: yield (credit)		35,000

Account	Description	Debit (€)	Credit (€)
9252	Direct income — Swimming pool (debit)	8,000	
982	Results — Swimming pool: yield (credit)		8,000

Account	Description	Debit (€)	Credit (€)
9263	General income — Transfer of State Budget (debit)	150,000	
987	Total income for the period (credit)		150,000

Account	Description	Debit (€)	Credit (€)
986	Expenses not incorporated (debit)	20,000	
923	Unincorporated expenses — Depreciation (credit)		20,000

Summary of Results for the Period:

Service / Heading	Income (€)	Expenses (€)	Result (€)
Collection of Urban Waste	35,000	96,000	-61,000
Municipal Swimming Pool	8,000	64,000	-56,000
General income (OE Transfers)	150,000	—	+150,000
Unincorporated expenses (Depreciation)	—	20,000	-20,000
NET RESULT FOR THE PERIOD	**193,000**	**180,000**	**+13,000**

NOTICE: The Waste Collection and Municipal Swimming Pool services have negative results (deficit), which is common in the public sector. General revenues (transfers from the State Budget) cover these deficits, resulting in a net positive result of €13,000.

CONCLUSIONS

This study sought to provide an in-depth analysis of NCP 27 – Management Accounting, a standard within the SNC-AP (Accounting Standards for Public Administration), examining its regulatory framework, its substantive content, and the challenges and opportunities associated with its implementation in the context of the Portuguese public administration.

From the analysis performed, the following main conclusions can be drawn:
NCP 27 represents a regulatory instrument of high strategic relevance for the modernization of public management in Portugal. By establishing the principles, concepts, and procedures for determining and analyzing costs in the public sector, this standard creates the conditions for more efficient, transparent, and results-oriented management, in line with international standards and the growing demands for accountability.

The standard advocates a flexible approach to the implementation of management accounting, recognizing the diversity of public entities and allowing for different degrees of sophistication in the costing systems adopted. This flexibility, while understandable from a practical standpoint, carries the risk of generating heterogeneity in the quality and comparability of information produced by different entities.

The implementation of NCP 27 faces significant challenges of a technical, organizational, and cultural nature, which have limited the pace and depth of the adoption of management accounting in Portuguese public entities. Human resource development, modernization of information systems, and the promotion of a culture of accountability are essential priorities for successful implementation.

The potential benefits of effectively implementing NCP 27 are considerable and encompass both the internal dimension of management support and the external dimension of accountability. The availability of accurate information on the costs of public services is an essential requirement for informed decision-making, performance evaluation, and transparency to citizens.

In summary, NCP 27 represents a decisive step in building a more modern, efficient, and transparent public management system in Portugal. However, its full utilization requires a continued and concerted effort from all stakeholders (legislators, managers, technicians, and academics) to overcome the identified challenges and realize the transformative potential of this standard.

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