

INTRODUCTION TO ACCRUAL ACCOUNTING

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WHAT IS CASH ACCOUNTING?

- ▶ Records cash payments and receipts when they are made or received.

WHAT IS ACCRUAL ACCOUNTING?

- ▶ A method of recording expenses as they are incurred and income as it is earned during an accounting period.
- ▶ A major aspect of accrual accounting is that there is much greater emphasis placed on the use and recording of capital assets.

FINANCIAL REPORTS PREPARED ON AN ACCRUAL BASIS ALLOWS USERS TO:

- ▶ Assess the accountability for all resources the entity controls and the deployment of those resources.
- ▶ Assess the financial position, financial performance, and cash flows of the entity.
- ▶ Make decisions about providing resources to, or doing business with, the entity.

ADVANTAGES OF ACCRUAL ACCOUNTING

- ▶ It shows how a government has financed its activities and met its cash requirements.
- ▶ It allows users to evaluate a government's ongoing ability to finance its activities and to meet its liabilities and commitments.

- ▶ It shows the financial position of a government and changes in its financial position.
- ▶ It provides a government with the opportunity to demonstrate successful management of its resources.
- ▶ It is useful in evaluating a government's performance in terms of its service costs, efficiency and accomplishments.

Governance in Public Sector: The Importance of a uniform accounting standard

- ▶ Key components of any governance and accountability system – preparation of Financial Statements in accordance with GAAPs
- ▶ In this respects the IPSAS provide the foundation for better reporting and better corporate governance

Auditor's Concern

- ▶ In planning their approach to auditing an entity's Financial Statements under IPSAS, the external auditors will initially be concerned to ensure that:
 - The entity has acceptable financial and other information systems in place, along with arrangements to provide annual assurance on the reliability of such systems;

- The entity's finance team have sufficient knowledge and understanding of IPSAS and their applicability to the entity's Financial Statements; and
- The entity has arrangements in place to produce reliable Financial Statements, along with adequate supporting working papers, to an acceptable timetable.

Uniformity of Accounting standards in Public sector

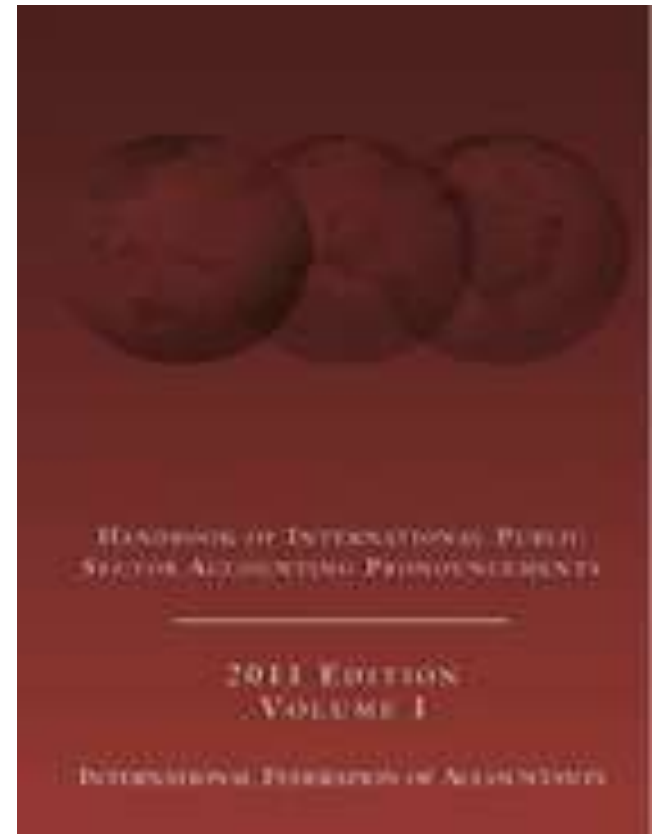
1. **Consistency of financial reporting.**
 - As a benchmark against IASB which produces Financial standards for the private sector
 - Best practices for accounting reporting standards (eg IASs, IFRSs).
2. **Good guidance on ethical conduct for the professional accountant practicing in public sector.**

3. Needs good accounting standard for monitoring and managing organization performance.
4. Promote confidence of financial reporting and financial management within the government.

WHAT IS IPSAS?

Accounting standards for use by public sector entities around the world.

IPSAS represents international best practice in financial reporting by public sector entities.



INTERNATIONAL FEDERATION OF ACCOUNTANTS (IFAC)

MISSION

To serve the public interest, IFAC will continue to strengthen the worldwide accountancy profession and contribute to the development of strong international economies by establishing and promoting adherence to high quality professional standards, furthering the international convergence of such standards, and speaking out on public interest issues where the profession's expertise is most relevant.

IFAC

▶ Developing IPSAS

Objectives :

- Establishment of appropriate financial reporting practice
- Consistency among countries
- Harmonization (between economics and accounting practice)

International Public Sector Accounting Standards Board Approach and Strategy

1. Disclosure of financial information and to promote accrual basis accounting
2. Introducing International Public Sector Accounting Standard
3. Adopt same principle of financial reporting for public and private sector

Obstacles in adopting International Accounting Standard for Public Sector

- ▶ Lack of commitment from government
- ▶ IFAC do not have the authority to get government to enforce the standards
- ▶ Political, economics and cultural issues may present barriers for government to adopt IPSAS
- ▶ Lack of urgency to improve financial reporting and financial management among government agencies

- ▶ In order to promote the corporate governance and uniformity of accounting standards in public sector, Government must have the political will to comply with IPSAS

PART 2:

TRANSITION FROM CASH TO ACCRUAL ACCOUNTING: GUIDANCE FROM IFAC

PURPOSE OF IFAC TRANSITION GUIDE

- ▶ To assist public sector entities in the process of adopting or considering adopting accrual basis International Public Sector Accounting Standards (IPSASs).
- ▶ To assist public sector entities transitioning from cash to the accrual basis.

INTRODUCTION

Made up of 4 Parts:

- ▶ **Part I – Introduction**
- ▶ **Part II – General Financial Reporting Issues**
- ▶ **Part III – Financial Statement Elements**
- ▶ **Part IV – Specific Topics**

PART I

- ▶ Introduction
- ▶ Managing the Process
- ▶ Skill Assessment and Training

PART II

- ▶ Accounting Policy Issues
- ▶ Reporting Entity Issues

PART III

- ▶ Assets
- ▶ Liabilities
- ▶ Revenue and Expenses

PART IV

- ▶ Cash, Intangible Assets, Impairment of Assets, Financial Instruments, etc.

PART I

Addresses general issues associated with the transition to accrual accounting:

- ▶ Factors influencing the nature and speed of the transition.
- ▶ Options in respect of the transition paths.
- ▶ Management of the transition process.
- ▶ Identification, design and delivery of training.

FACTORS INFLUENCING THE NATURE AND SPEED OF THE TRANSITION

- ▶ The system of government and the political environment
- ▶ Whether the reforms are focused solely on accounting change or whether they encompass other wider scale reforms
- ▶ Whether the changes are being driven from the top down or bottom up
- ▶ The capability of existing information system, the completeness and accuracy of existing information particularly in relation to assets and liabilities

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- ▶ Any change to the basis of accounting for budgeting
- ▶ The level of political commitment to the adoption of accrual accounting
- ▶ The capability and skills of the people and organizations responsible for implementing the changes

SUCCESSFUL TRANSITION

- ▶ A clear mandate
- ▶ Political commitment
- ▶ The commitment of central entities and key officials
- ▶ Adequate resources
- ▶ Adequate technological capacity and information
- ▶ The use of legislator

SKILLS ASSESSMENT AND TRAINING

- ▶ All personnel involved in the transition to accrual accounting should understand the reasons for the change, be capable of implementing the changes they have responsibility for, operate the new systems and procedures, and understand the information produced.

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- ▶ Entities need to assess the impact of the changes on the competencies required in relevant positions, and develop a strategy which includes, but is not confined to, training for upgrading skills.

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- ▶ Options for addressing gaps in competency include recruitment, consultants, development of external courses, and training for existing staff.
- ▶ Separate outreach activities and information materials are required for educating and creating awareness in groups such as politicians and the media.

SUCCESS OF ADOPTION

- ▶ The successful adoption of accrual accounting and the associated systems changes cannot occur without appropriately trained personnel.
- ▶ Training on the benefits of accrual accounting and general awareness of the reforms and expected benefits is crucial – people need to be convinced of the benefits or they will not see the purpose of the reforms.
- ▶ Such training needs to occur at all levels of government.

IT IS IMPORTANT THAT PERSONNEL:

- ▶ Understand the reasons for the changes, the reform design, the implementation approach and reform implications.
- ▶ Understand the practicalities of implementing the reforms in their own entity and are able to implement changes.
- ▶ Are able to operate systems and procedures following implementation.
- ▶ Are able to use the information generated by new systems.

- ▶ Implementation of changes also require cultural or ‘mind-shift’ changes.
- ▶ It is important that both technical and the cultural aspects of change are addressed in the development of communications and training strategies.

THANK YOU

Any queries?

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