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Analysis the Process of Change in Accounting from Cash Basis to Accrual Basis in the Indonesian Government

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Abstract

This paper will discuss three critical issues related to accrual accounting in government. First, this paper will explain the accounting concepts and how to apply to government accounting. In accounting concepts there are four important things, such as the cash basis, modified cash basis, modified accrual and cash basis accrual basis. The second part of this paper will analyze about the constraints of what is in the process of change in the cash basis to accrual basis. Several constraints that can be occurred in this process are the human resources and accounting information system in government. Finally, this paper will discuss about some benefits that obtained from using accrual accounting for government. Some usefulness of accrual basis includes more information in decision-making, more transparent and more accountable, to improve the efficiency and effectiveness in government and so forth.

Keywords: accrual accounting, government accounting, constraint and benefits.

1. Introduction

Most of countries had reformed their countries financial especially in preparing and presenting financial statements. Pallot & Ball (1997) mention that this shift toward comprehensive public accrual accounting started in the late 1980's, New Zealand was the first nation to adopt public sector accrual accounting. Based on the Law No. 17 year 2003 about Country Financial, Law No. 1 year 2004 about Country Treasury and Law No. 15 year 2004 about Management Audit and Country Financial Responsibility, Indonesia attempt to implement accrual accounting in their government accounting. Indonesia want to improve their accountability and transparency financial through accounting and financial statements in accordance with International best practices (International Public Sector Accounting Standard) adapted to the conditions and needs for Indonesia government.

Government Regulation (PP) No. 24 in 2005 as Government Accounting standard in Indonesia. Government accounting standards is accounting principles in preparing and presenting financial statements for government, not only for central government but also for local governments. Based on this regulation, Indonesia should implement accrual accounting since 2008, but in fact, not all governments both central and local government already implement accrual accounting basis. Mardiasmo (2006) argue that the debate relate to public sector accounting reform in Indonesia is the changes form

single entry to become double entry book keeping and technical change or cash accounting become accrual accounting. The objective is to realize good public governance. This change as a solution due to it will result auditable report in their financial statements from government. It can be increased accountability and transparency.

This paper will discuss three critical issues related to accrual accounting in Indonesia for their government. First, it will explain the accounting concepts including cash accounting, modified cash accounting, modified accrual accounting, and accrual accounting. Second, it will analyze about the constraints of what is in the process of change in the cash basis to accrual basis. Finally, this paper will discuss about some benefits that obtained from using accrual accounting for government.

2. Analysis

2.1. Accounting Concepts

Accounting basis is accounting principles that determine when the effect of transactions or event should be recognized for financial reporting objectives. This basis relates to the time when measurement is made and when this is recorded. In general there are two types of basis accounting such as cash basis and accrual basis. Not only for private sectors but also for public sectors concern to use accrual basis rather cash basis, because the financial statement from accrual basis relevant to the real conditions. For instance, relate to liability account, in cash basis does not have that account. We can see the accounting concepts from the figure 1 in the following:

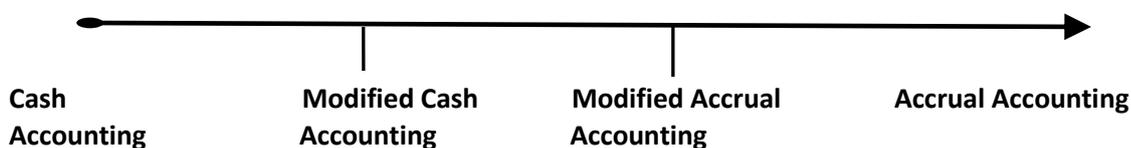


Figure 1: Accounting System Spectrum

Source: Adopted from Baker and Rennie (2006)

It can be seen from the figure 1 that Accounting systems range from cash to accrual accounting. Most of government in the world have adopted cash Accounting (Ellwood, 2003). It is not necessary that every government embrace every accounting system along

the spectrum, though often a government will move from cash accounting to a modified accounting system, before adopting full accrual accounting. Christensen (2005) argue that there may be similarities in the two ends of the spectrum, cash and accrual accounting, these two systems differ in many regards and are regarded as opposites.

The four types of accounting basis are:

1) Cash Basis Accounting

Cash Accounting - Under the cash basis of accounting, revenue is recorded when the cash is received and expenses are recorded when the cash is paid (Kieso, Weygandt, Warfield, Irvine, Silvester, Young, & Wiecek, 2002). In this basis, transactions are recognized when they are received or paid. To measure the financial performance of government is to know the difference between cash receipts and cash disbursement during a period. In government accounting practices in Indonesia, the cash basis for the budget realization report means that revenue is recognized when cash is received by treasury and expenditure is recognized when cash out from treasury.

This system has advantages and limitations. The advantages are include to show sources of funds, allocation and use of cash resources, easy to understand and explain, does not requires a detailed knowledge of accounting, and does not require consideration when determining the amount of cash flows in a period of time. However, the limitations are only focus on cash flows in the current report period, ignore other source that may affect the ability of government to provide goods and services in the present and future, there is no a balance sheet, to make control and performance evaluation.

2) Modified Cash Basis Accounting

This method is quite similar with cash basis, but this basis will record transaction in the current year period with a certain time or period or specific period. Cash receipt and payment that occurred during a certain period due to the previous reporting period will be recognized as revenue and expenditure over the last reporting period (previous period). Cash flow at the beginning of the reporting period include in the reporting period last year are deducted from the current reporting period.

3) Modified Accrual Basis Accounting

This accounting basis includes the recognition of some assets, but not all, such as physical assets, and recognition of some liabilities, but not all, such as debt

retirement. The accounting basis which is used by a government, depend on the policies and conditions.

4) Accrual Accounting

Accrual Accounting - the accrual basis of accounting recognizes the effect of transactions and events in the period in which the transactions and events occur, regardless of whether there has been a receipt or payment of cash or its equivalent. Accrual accounting encompasses deferrals that occur when a cash receipt or payment occurs prior to the criteria for recognition of revenue or expense being satisfied (Kieso, Weygandt, Warfield, Irvine, Silvester, Young, & Wiecek, 2002).

In this basis, transactions are recognized and recorded in the accounting records and reported in the financial period when the transactions occur.

This basis is widely used by public sector intuitions and government in most countries. The reason is because if they apply this basis, it will show the time for the flow of resources. This basis provides the most comprehensive information for all resource flows are recorded.

In conclusion, each accounting basis has the benefits and limitations. Every countries will apply one basis depends on the policies and conditions. For instance, Indonesia attempts to apply accrual accounting in their government, both central and local governments. The next section will discuss about government must know the constraints of the process change from cash basis and modified accounting become accrual basis accounting.

2.2. Constraint in the Process Change

Today, Indonesia face the process change form cash basis accounting, and modified accounting to be accrual accounting. To implement accrual accounting in government has a major challenge for the government. This must have preparation related to rules, systems and human resources. This paper will focus on the human resources and accounting information system in government.

1) Human resources

1. The important issue in implementing accrual accounting in government is human resources. Connolly and Hyndman (2006) argued that some countries have found that implementation was impeded because of lack of desire from senior management to learn and adapt. The key in inspiring change throughout the organization and ensuring that the change is implemented is a leader (Oakland and

Tanner, 2007). The important issue is that about the lack of accountancy skills was found to be another roadblock in the implementation process (Blondal, 2003; Pallot and Ball, 1996). There needs to be trained accountants in accruals and trained managers how to use the new accrual information. Connolly and Hyndman (2006) found that once accrual accounting was implemented, the information produced was too complex and that there was a lack of understanding among the users of the information. Finally, Luder 1992 discussed about the implementation barriers one of them is the qualification of accountancy staff. Staff training and recruitment, the training of administrative especially accounting staff as his Structural variables of the politico administrative system.

In conclusion, in Indonesia, government should concern to the human resources not only who responsible to prepare financial statement based on accrual accounting but also who responsible to use the information. Therefore, it better for employees have accountancy skill, if it is necessary to train them.

2) Accounting information system

Blondal (2003) argues that the appropriate technology must be in place to facilitate the use of accrual accounting information. Connolly and Hyndman (2006) found that underdeveloped information systems led to information that was too slow to produce and complex to understand.

Finally, it can be concluded that the accounting information system for government is important to have. Luder (1992) argues that in implementation barriers, one of them is organizational characteristics. In a government with several organizational units exercising responsibility for the development of accounting procedures, there exists the risk that strongly diversified and non uniform accounting systems will develop.

Some of the factors to be considered by the government for the successful implementation accrual accounting such as (Indonesian Accountants Magazine, 2010):

- 1) Political support for legislature and leader of institutions,
- 2) Involvement of all parties in the early stages to prevent resistance,
- 3) The need to activate the participation of internal auditors,
- 4) Proactive communication with all parties involved, especially external auditors;
- 5) Educate and train the human resources in a consistent and sustainable,
- 6) Support facilities and infrastructure especially reliable Information Technology (IT) systems,

- 7) Systems development, Information Technology (IT) and human resources.
- 8) Determine the approach to recording transactions in the accounting system for considering the provision of cash and accrual is equally important.

The conclusion from the international workshop with the title “How to Move to accrual Accounting- Learning from the Experts” that held by Indonesian Accountant Institution, several stages to implement and apply accrual basis accounting in the following:

- a) Identify and collect information about accrual accounting such as preparation of accounting standards, a standard chart of accounts, and implementation plan.
- b) Prepare how to implement regulations, accounting policies, business processes and accounting systems,
- c) Develop accounting system, guidelines, human resources and Information Technology (IT),
- d) Pilot implementation in some work units to improve accounting systems, IT and human resources development.
- e) Parallel implementation, evaluation and finalization of the system,
- f) The implementation of accrual accounting.

At the end, it can be concluded that human resources and IT including accounting information system have important role to be successful implementation of accrual accounting in government accounting both central and local or province governments.

2.3. Benefits of using Accrual Accounting for Government.

Guthrie (1998) argues that the adoption of accrual accounting techniques is a means to enact significant changes. Moreover, Barton (1999); Blondal (2003) mentioned that accruals allow for the capturing of full costs, thereby, supporting more effective decision making. Evans (1995) benefits of accrual accounting include increased comparability, better decision and better management of capital asset. Accrual accounting also makes more information available to leader, the parliament and the public improving the quality of overall decision making (Lye, Perera and Rahman, 2005; Blondal 2003; Pallot and Ball, 1997). In addition, the effectiveness and efficiency of decisions increases, since more information is available, specifically regarding the cost of programs and services. Accrual accounting allows for the analysis of information and its effects on overall goals, objectives and costs of service. The ability to analyze the outcomes of various

departments, projects and initiative will lead to increase accountability over the quality, quantity and cost of inputs being used (Pallot and Ball, 1996).

By using accrual accounting for financial reporting purposes, the government can compare itself against the private industry for performance measurement and outsourcing purposes. (Pallot and Ball, 1996). Moreover, accrual accounting allows for more effective and efficient use of resources, especially regarding capital assets (Ellwood, 2003, Pallot and Ball 1997). In addition, accrual accounting is better match the cost of the asset to the benefits being received and forces the government to keep detailed asset registries (Pallot and Ball 1997). This accrual accounting can result comprehensive financial statements and relevant to make decision. This basis is the best suggestion for government to support their manager performance. This basis provide comprehensive information because all resources are recorded, including internal transactions, in-kind transactions and other economical flow (Widjajarso, 2005). Finally, Mellor (1996) argued that the use of accrual reporting in the public sector is appropriate, because it gives a complete picture of the government's financial position, disclosed the impact of policy over the long term, focuses attention on the management of total resources and obligations, and increases integrity of financial reporting by introducing discipline.

It can be concluded that there are several benefits of using accrual accounting for the governments such as increased comparability, better decision and better management of capital asset, makes more information available to manager, the parliament and the public improving the quality of overall decision making, the effectiveness and efficiency of decisions increases, more effective and efficient use of resources, especially regarding capital assets. The important thing has result to prepare financial statement for governments and more auditable because more information is available.

3. Conclusion

There four types of accounting basis such as cash accounting, modified cash accounting, modified accrual accounting and accrual accounting. Each accounting basis has the benefits and limitations. Every countries will apply one basis depends on the policies and conditions. For instance, Indonesia attempts to apply accrual accounting in their government, both central and local governments.

In Indonesia, government should concern to the human resources not only who responsible to prepare financial statement based on accrual accounting but also who responsible to use the information. Therefore, it better for employees have accountancy

skill, if it is necessary to train them. Finally, the accounting information system for government is important to have such as Information Technology (IT) and the infrastructure.

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