

# [Cash to accrual basis](https://assignbuster.com/cash-to-accrual-basis/)

According to Malaysian Institute of Accountants (MIA), along with accrual accounting, it is recommended that the public sector move to accrual accounting in order to optimize the benefits of the shift from cash to accruals. Malaysia is targeting 2016 to fully adopt accrual accounting. Cash accounting records the cash effects of a transaction in the period in which they occur. Under this regime monies paid and received are recorded in the financial statements of an organization.

Cash accounting makes little or no reference to the liabilities that an organization will be required to meet in future, nor does it recognize the benefits that will be obtained from purchased assets over a period of time. Financial statements prepared on a cash basis therefore give imited information of use to financial managers and decision makers. In practice, most countries still use cash accounting to produce periodical balance sheet information.

Accrual accouting is a method of recording financial transactions where the full characteristics of those transactions are recorded in the period to which they related. Accrual accounting facilitates better planning, financial management and decision making in government as well as a robust and accepted way of measuring the economy, efficiency and effectiveness of public policies. One of the objectives of financial reporting is to allow accurate comparison to be made between different organizations.

By using accrual basis for public financial statements, there is increased comparability of an individual organization on a period by period basis. Financial reporting should demonstrate the accountability of the government or unit for the financial affairs and resources entrusted to it, and provide information useful for decision making by: (IFAC PSC Study 1 paragraph 63)

a. Indicating whether resources were obtained and used in accordance with the legally adopted budget. b. Indicating whether resources were obtained and utilized in accordance with legal and contractual requirements, including financial limits established by appropriate legislative authorities. c. Providing information about the sources, allocation, and uses of financial resources. d. Providing information about how the government or unit financed its activities and met its cash requirements. e. Providing information that is useful in evaluating the government’s or unit’s ability to finance its activities and to meet its liabilities and commitments. f. Providing information about the financial condition of the government or unit and changes in it.

g. Providing aggregate information useful in evaluating the government’s or unit’s performance in terms of service costs, efficiency and accomplishments. There are 31 standards on the accrual basis of accounting and one standard on the cash basis of accounting (source: IPSAS Handbook published March 2011). When the accrual basis of accounting underlies the preparation of the financial statements, the financial statements will include:

•the statement of financial position (IPSAS 1), the statement of financial performance (IPSAS 1), •the cash flow statement (IPSAS 2), •the statement of changes in net assets/equity (IPSAS 1), •the notes to the financial statements, or annex (IPSAS 1). When the cash basis of accounting underlies the preparation of the financial statements, the primary financial statement is •the statement of cash receipts and payments. Among the problem statements highlighted in this research are deficiencies in accounting systems as a significant weakness in public sector management, particularly in developing countries.

Difficulties with the adoption of accrual accounting generally in the public sector. Argument that greater transparency emerges because the information supplied by an accrual-based system is deemed to be more comprehensive. Obstacles implementing private sector accounting techniques to public accounting. Feasibility of implementing an accrual-based accounting system, reserved over the cost of the identification & valuing of assets. Shortage of empirical literature in the views of practicing accountants in public sector.

The credit crisis has raised several public sector accounting issues. Governments have extended credit to banks, guaranteed the liabilities of banks, purchased impaired debt instruments and in some instances have assumed control of banks. The unique nature of the credit crisis and the unprecedented response by governments around the world has reinforced the importance of high-quality standards for financial reporting by governments. The credit crisis has increased the need for accountability in the public sector and for transparency in its financial dealings.