



# ACCRUAL ACCOUNTING

Presentation by:  
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Tuesday, 18<sup>th</sup> August 2019

# Outline



- Global Perspective
- Accrual accounting definition
- Why move to accrual accounting
- Benefits of Accrual accounting to public sector
- Q & A session

# Local Media



## To end corruption, let's adopt modern accounting systems

A former Nation Media Group Managing Editor for Business and Economic Affairs.

What you need to know:

- Here is some advice to Mr Yatani and Dr Muia, the two new kids on the block if you want to leave an enduring legacy at the National Treasury.
- Take major steps to move the government from the primitive and antiquated cash-based of accounting to the modern accrual-based double-entry system.
- The sheer lack of a proper accounting system is one of the causes of the ills in the civil service.



## Global auditors body asks Kenya to adopt new accounting tool

Market News  
Tuesday, July 3, 2018 20:19  
By GEOFFREY IRUNGU

## COUNTIES TO ADOPT IPSAS ACCRUAL SYSTEM BY JULY 1, 2020- PSASB

busiacounty.go.ke  
1 min read

Counties and other public entities will adopt the International Public Sector Accounting Standards (IPSAS) which are a set of accounting standards

Issued by the Public Service Accounting Standards Board (PSASB) for use by all public entities in the preparation of financial statements. Addressing the press in a meeting with the County leader, Mulomi, Deputy Auditor General, all public entities will move to the accrual system.

CPA Gichana who is also PS. Internal Audit and Audit Committee member, said the move will support effectively the running and effective performance of the county government. "We shall also ensure that there is building for the accountants and in-

## Auditor general to include non-cash assets in reports

www.the-star.co.ke  
1 min read

This mode of accounting will tell how and where state agencies procure largest to smallest asset

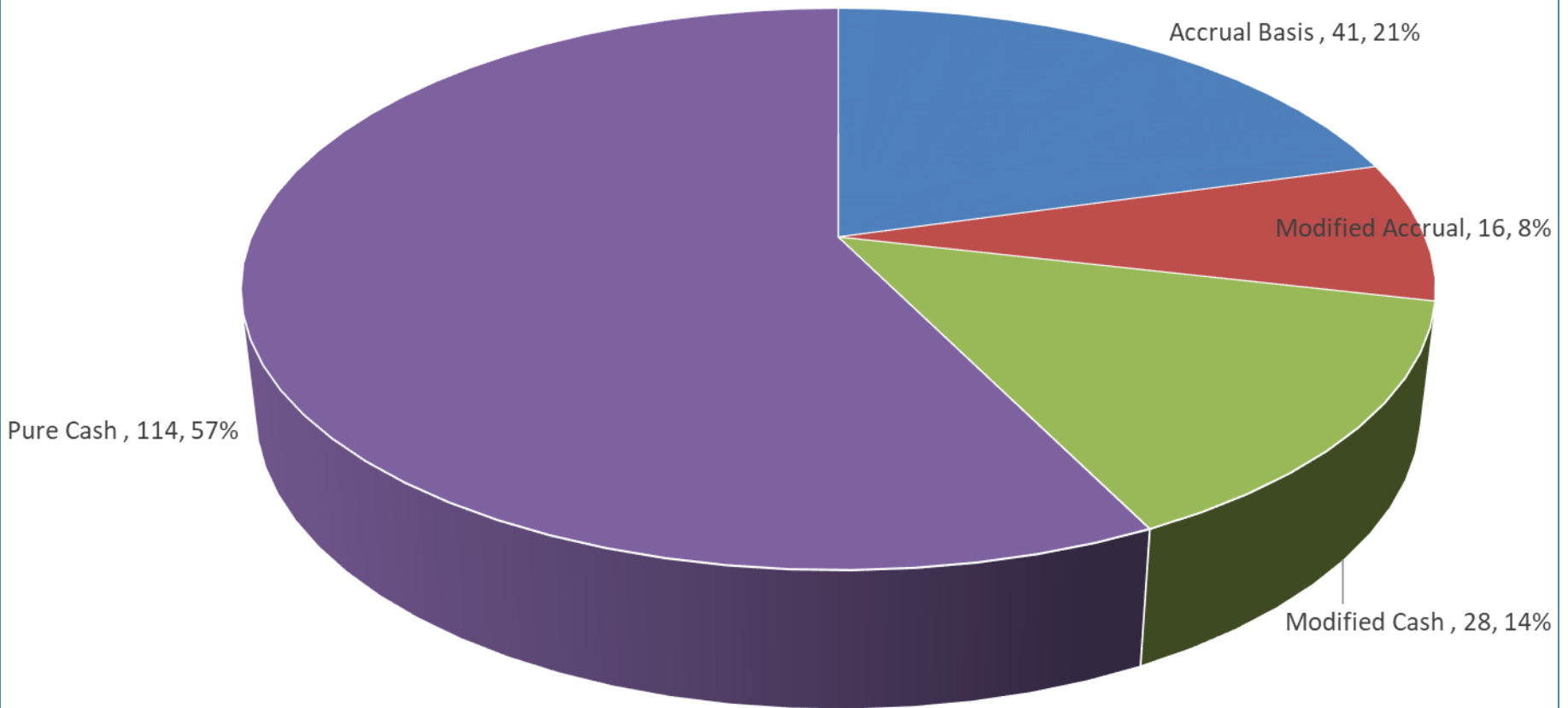
In Summary



# Global Perspective



No. of Countries



- Source IMF Report: 2016

# Global Perspective



- In 2015, **41** governments (21 percent) had completed the transition to **accrual accounting**;
- **16** governments accounted on a **modified accrual** basis (8 percent);
- **28** governments (17 percent) are on a **modified cash** basis; and
- **114** governments (57 percent) remain on pure **cash** accounting (*Source: IMF, 2016*).

# Global Perspective



- A 2018 Status Report by  and  The Chartered Institute of Public Finance & Accountancy that analyzed 150 countries projected that the number of governments reporting on accrual will rise from 25% (38) in 2018 to 65% (98) in 2023.

# Global Perspective



- The regions expected to see the greatest increases in accrual adoption by 2023 included:
- Africa: 19 total countries (two currently)
- Latin America and the Caribbean: 23 total countries (seven currently)
- Asia: 21 total countries (six currently)

# Accrual Accounting



- **Accrual basis** accounting is an accounting method that requires **revenues** to be recorded in the financial statements when they are **earned** and **expenditures** to be recorded in the financial statements when they are **incurred**.
- The timing of this recognition in the financial statements can differ from the timing of the related cash flows.
- Revenues and expenditures may be recorded in the financial statements either before or after the related cash flows have occurred.



# Accrual Accounting



- **Cash basis** accounting is an accounting method that requires transactions to be recorded only when a cash flow has occurred.
- While **accrual accounting** has been the norm among private corporations for over a century, majority of governments prepared their budgets and accounts on a **cash basis** up until the end of the last century.

# Why Accrual Accounting?



Recognition of the **limits** of pure cash accounting;

Development of accrual based **international standards** for government fiscal and financial reporting (GFSM and IPSAS)

**Professionalization** of the government accounting cadre and introduction of private sector techniques into the public sector

Advent of computerized **IFMISs** which greatly reduce the transaction costs of collecting and consolidating accrual-based information.

# Why Accrual Accounting?



- Innovations in Government Accounting

- Recording of all stocks of assets and liabilities, in balance sheets
- The recognition of economic events in flow reports
- Enhanced monitoring of liabilities and contingent liabilities
- Consolidation of all entities under government control

# Accrual Accounting Benefits?



- COK 2010 – Article 10 (National Values and Principles of Governance)
  - Good governance, integrity, transparency and accountability.
- PFM Act, 2012 – Section 66
  - AOs to promote and enforce transparency, effective management and accountability with regard to the use of public finances.

# Accrual Accounting Benefits?



- What are the **Qualitative characteristics** of financial information?
- These are the attributes that make financial information **useful** to users.
- If financial information is to be useful, it must be **relevant** and **faithfully represent** what it purports to represent. The usefulness of financial information is enhanced if it is **comparable**, **verifiable**, **timely** and **understandable**. (IASB 2010, paragraph QC4)

# Accrual Accounting Benefits?



**Relevance;** If it is capable of influencing the decisions of users; Relevant information should have both **predictive** and **confirmatory value.**



**Faithful representation -**  
Must be **complete**, **neutral**  
and **free from error.**



Fundamental  
Characteristics

# Accrual Accounting Benefits?



Comparability

Verifiability

Timeliness

Understandability

Accuracy

Transparency

Consistency

# Why Implement Accrual Accounting?



Availability of more  
comprehensive  
information for  
decision-making



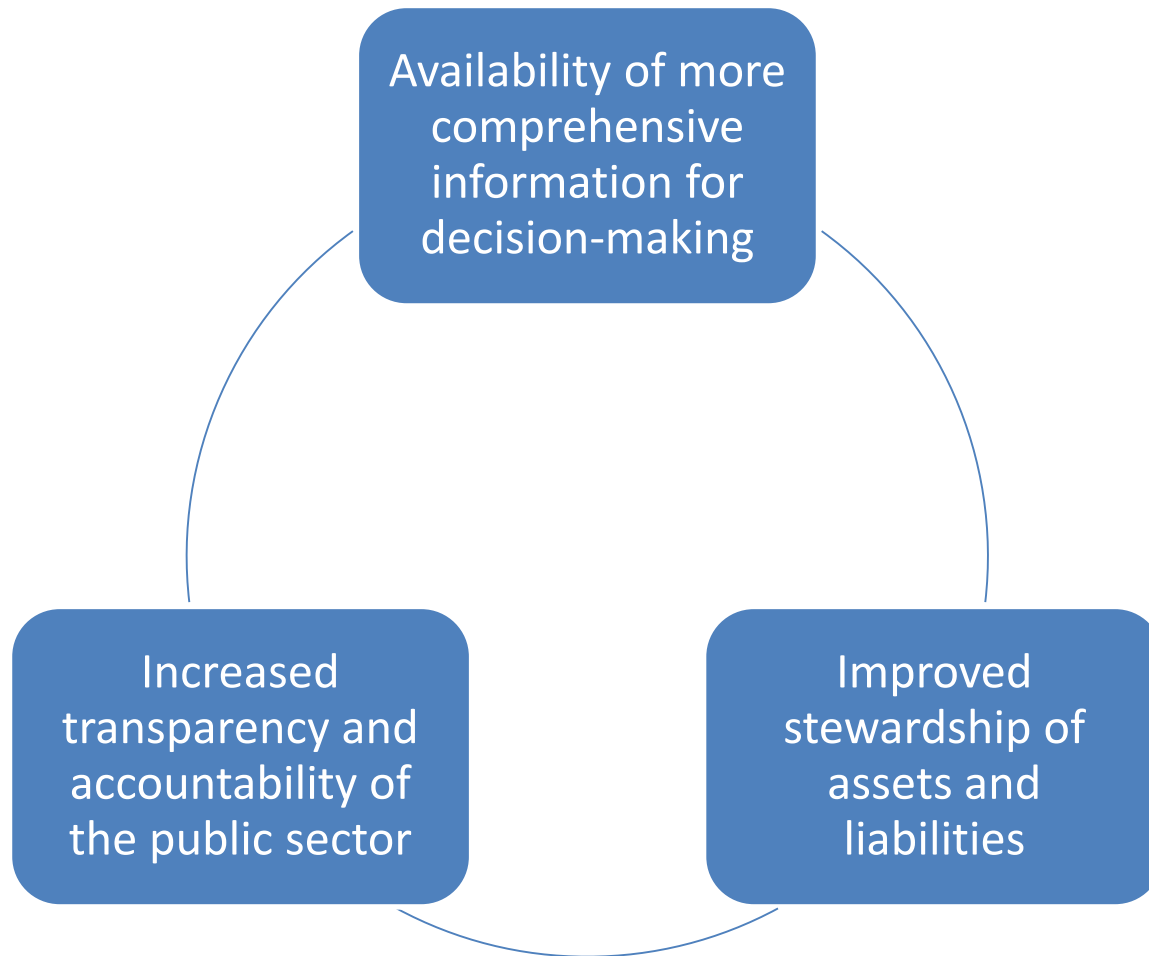
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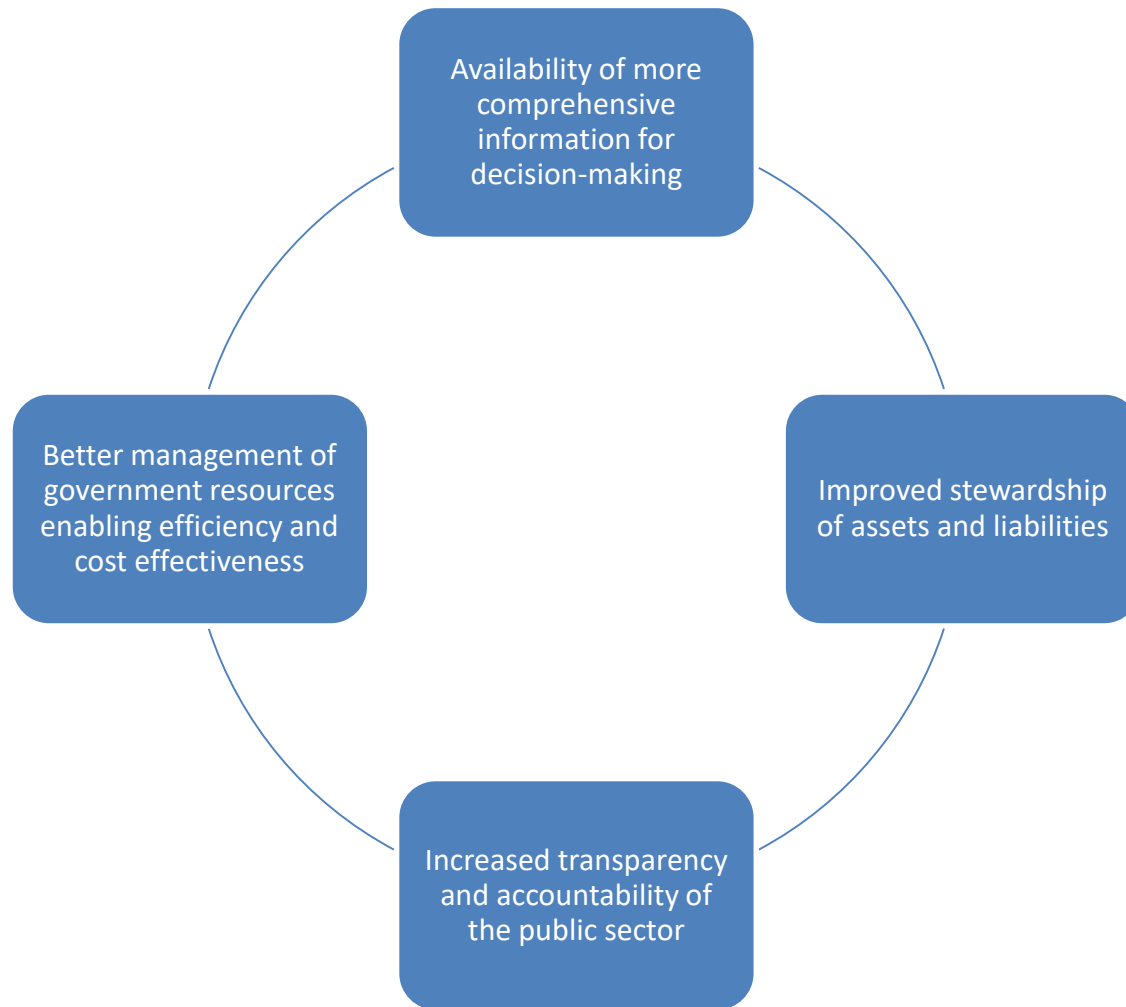
Availability of more  
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Improved  
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# Why Implement Accrual Accounting?



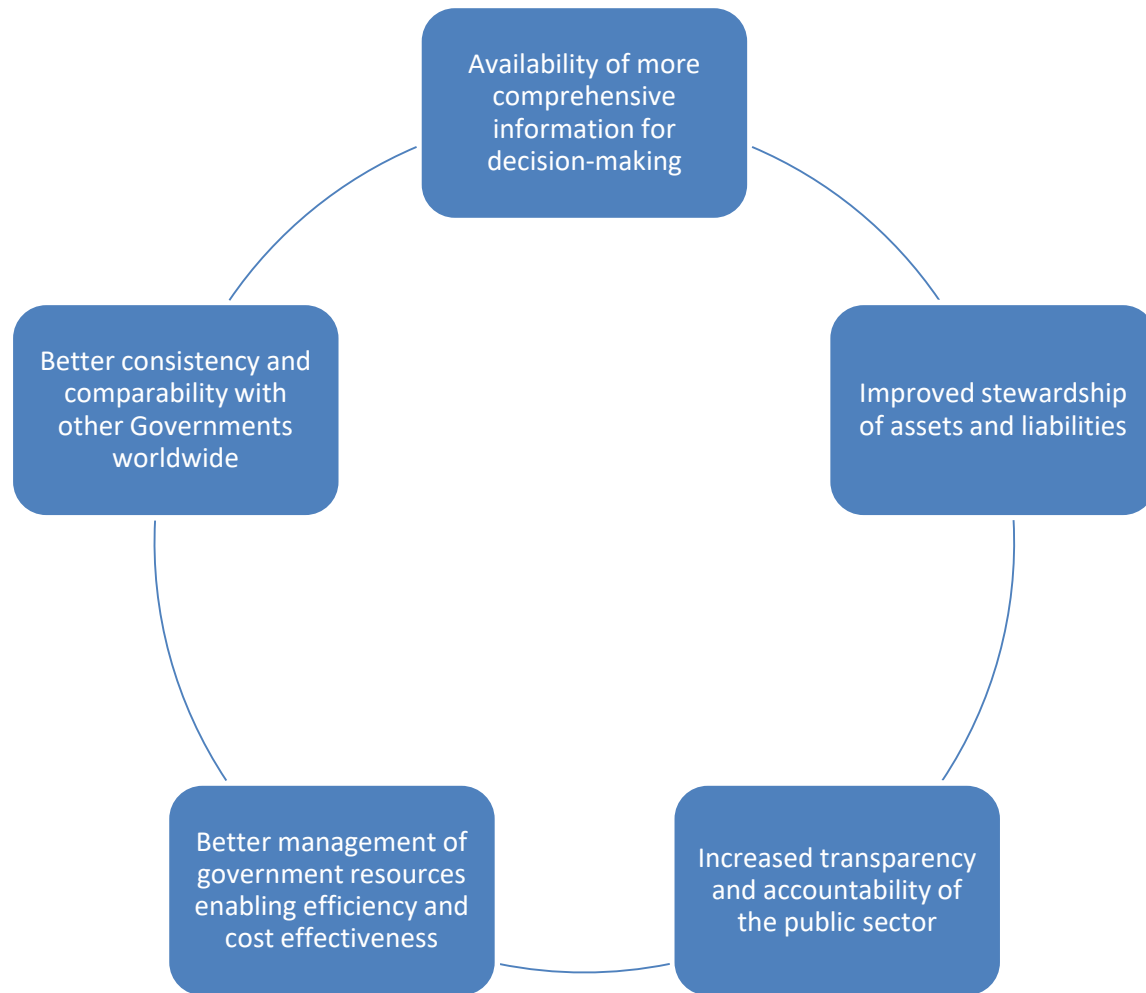
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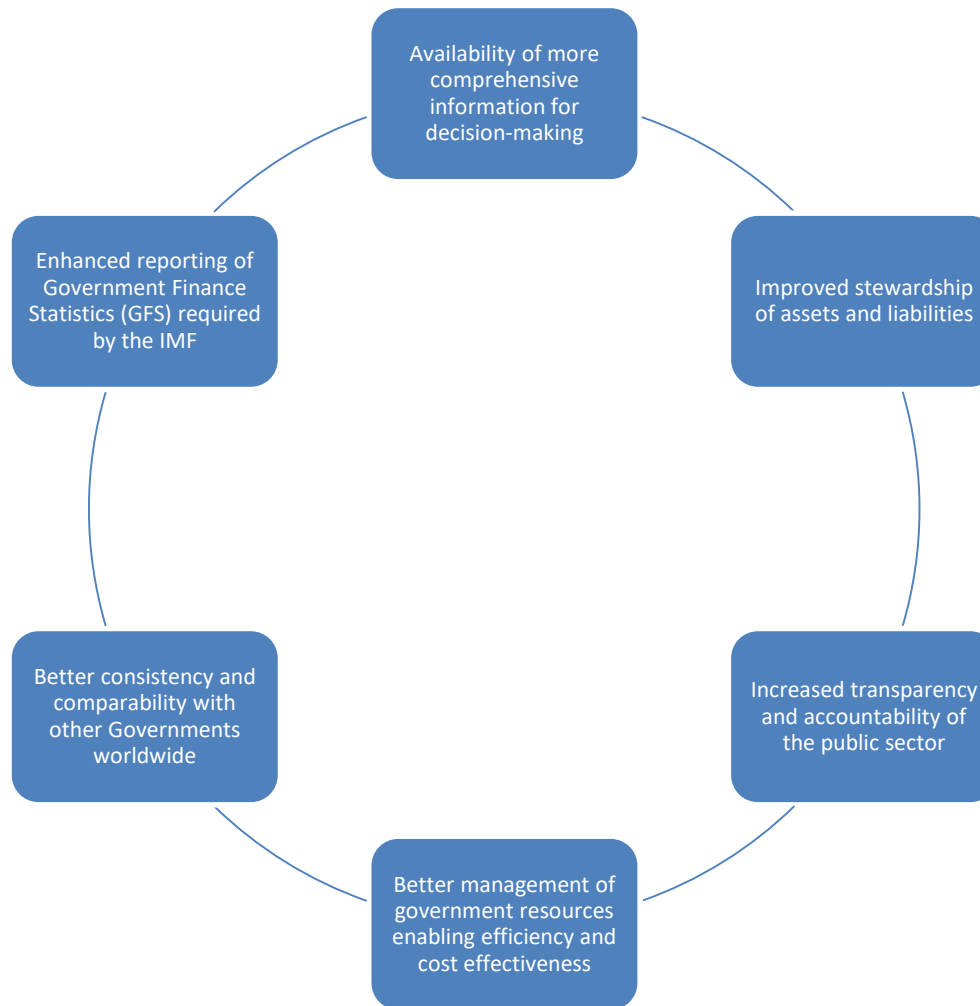
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# Why Implement Accrual Accounting?



- Other Benefits
  - Enhanced monitoring of liabilities and contingent liabilities.
  - Conform to Generally Accepted Accounting Principles or GAAP.
  - Provides a better long-term view and accurate financial picture.
  - The consolidation of all entities under government control.

# Why Implement Accrual Accounting?



- Possible Challenges to adoption of accrual
  - Realistic program timeline and appropriate planning.
  - Buy-in of operational government leadership.
  - Finance department employees capacity and technical accounting support.
  - Property, Plant and Equipment (PPE) recognition.



# Q & A TIME

