

## **ECONOMIC SCIENCES**

### **GLOBAL ADOPTION OF THE IPSAS: TRANSITION FROM THE CASH BASIS TO THE ACCRUAL ACCOUNTING IN PUBLIC SECTOR**

**Viktoriiia Ambarchian<sup>1</sup>**

DOI: <https://doi.org/10.30525/978-9934-26-002-5-23>

A purpose of bringing transparency, accountability, and efficiency to private corporations and government entities has been realized through developing sets of accounting standards – the International Financial Reporting Standards, being applied by private entities and public sector corporations, and International Public Sector Accounting Standards (IPSAS), being appropriate for the general government sector. While the International Financial Reporting Standards have been adopted in many jurisdictions, the IPSAS are still not widely applied due to inconsistencies between the IPSAS accounting framework and national government accounting systems.

Until 2000, the International Accounting Standards Committee had been developing accrual-based accounting standards solely for the private sector. Budgetary institutions, meanwhile, were not recommended to implement the accrual accounting. Therefore, being the part of the budgetary system, they used the cash basis. Historically, the cash basis accounting is applied by fiscal authorities for registering budgetary revenues and expenditures as well as assessing the coherence between their budgets and actual amounts.

Nevertheless, the growing demand for relevant, faithful, and comparable information on financial performance of government sector entities has become an incentive to implement private sector management techniques to the public sector. The accrual basis in reporting was a cornerstone of the public sector management reforms facilitating the early adoption of the accrual accounting by the Australian government [1]. Reforms of the British management system in the public sector through the adoption of the accrual accounting were endorsed in 2001 [2]. Simultaneously, in 2000, the International Public Sector Accounting Standards Board issued the first 5 accrual-based standards, which were primarily drawn from the corresponding international accounting standards. Therefore, the convergence of the public and private accounting was achieved by exact replication of the International

---

<sup>1</sup> Kyiv National Economic University named after Vadym Hetman, Ukraine

Accounting Standards and their implementation in the public sector accounting practice.

The transition to the accrual basis of accounting in the general government sector has been soon announced by many jurisdictions, but under internally set mechanisms. Certain countries have developed their own national accounting standards compliant with the IPSAS, while others have modified IPSAS recommendations to bring them in cohesion with national peculiarities of public sector management [3]. Cavanagh et al. have divided all countries into four groups according to stages of transition from the cash basis to the accrual basis of accounting, which are as follows: cash accounting, elementary accrual accounting, advanced accrual accounting, and full accrual accounting [4].

In 2011, the Council of the European Union in the Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States 2011 declared the requirement to modify public accounting systems of the member states to provide information needed for the accrual data generation [5]. Moreover, in 2013, the European Union established a project on developing the European Public Sector Accounting Standards (EPSAS) aimed at achieving a goal of bridging the gap between budgetary institutions and governments in preparation of financial statements and their consolidation. The Report of the European Commission has disclosed achievements of the EPSAS Working Group on developing the Conceptual Framework and guidelines for the first-time adoption of the EPSAS by the member countries [6]. Despite the announcement of the widespread adoption of the accrual accounting, the accounting system of the European Commission, as the central governing body of the European Union, was still considered as a dual one, where budget appropriations were accounted for using the cash-basis accounting, while financial reports were drawn up under the accrual accounting.

As for 2019, the majority of countries continue applying national accounting standards. Following the Report of the International Federation of Accountants on international standards application, only 11% of 130 countries have fully adopted the accrual accounting, while 51% have partly adopted, and 38% haven't adopt the IPSAS. Among 14 jurisdictions with the fully adopted IPSAS, the majority – 8 countries – are located in the American and Caribbean regions [7]. In Europe, only 2 countries – Estonia and Switzerland – have approved the IPSAS [7]. Insufficient figures of the IPSAS adoption are explained by organizational difficulties and high transition costs.

Since the reform announcement, the scientific community has been debating the appropriateness of full transition to the accrual method in the public sector.

The proponents of the IPSAS adoption emphasize enhancing the qualitative characteristics of financial reports. Research of the IPSAS adoption in developing countries shows that the management reform in public sector were enforced by the International Monetary Fund and World Bank as major donors to provide transparent reporting on public fund expenditure. In turn, developed countries are reluctant regarding the IPSAS adoption due to the weak fair value measurement concept and ill-developed balance-sheet approach [8].

While governments estimate all advantages and drawbacks of the IPSAS, the supranational organizations in their majority have implemented the IPSAS and accrual accounting. The European Commission, the North Atlantic Treatment Organization, the Organization for Economic Co-operation and Development, and United Nations system organizations have made the transition from the cash-basis accounting to the full accrual.

In 2006, the application of the IPSAS was approved by the General Assembly of the United Nations with the purpose of enhancing the quality of financial reports and implementing the best management practice. The managers have distinguished five major benefit categories, namely alignment with best practices, improved stewardship of assets and liabilities, availability of more comprehensive information on costs, improved consistency and comparability, and increased transparency and accountability [9]. Therefore, all the specialized agencies, linked to the United Nations through intergovernmental agreements, have adopted the IPSAS and now prepare financial reports using the accrual basis of accounting. The only exception are the International Monetary Fund and the World Bank Group, which mainly provide financial services recognized as financial instruments, and, hence, apply the International Financial Reporting Standards and the Generally Accepted Accounting Principles, respectively. Nevertheless, certain scientists consider obvious benefits proclaimed by the United Nations as doubtful so far as the application of the accrual basis complicates the accounting treatment for the voluntary contributions recognition, which depend on attached conditions. Difficulties of the IPSAS application by supranational organizations are also concerned with equivocal accounting options, disclosed in certain standards.

In 2014, the International Public Sector Accounting Standards Board issued the Conceptual Framework for General Purpose Financial Reporting, which provides concepts that underpin the IPSAS. Conceptual Framework was developed to enhance IPSAS adoption by establishing the objectives of reporting, the qualitative characteristics of information in financial reports, elements of financial statements, recognition criteria, and measurement bases for assets and liabilities.

Transition from the cash basis to full accrual accounting aimed at improving both the transparency of financial reports and the relevance of reporting information, which, in turn, will boost the quality of management in the public sector and enhance operational activity of the public sector entities. The IPSAS are developed to strengthen the accountability of the entities and transparency of managing the resources entrusted.

### References:

1. Christensen, M. (2002). Accrual Accounting in the Public Sector: the Case of the New South Wales Government. *Accounting History*, vol. 7(2), pp. 93–124. Available at: [https://www.researchgate.net/publication/247780857\\_Accrual\\_accounting\\_in\\_the\\_public\\_sector\\_The\\_case\\_of\\_the\\_New\\_South\\_Wales\\_government](https://www.researchgate.net/publication/247780857_Accrual_accounting_in_the_public_sector_The_case_of_the_New_South_Wales_government)
2. Scheers, B., Sterek, M., & Bouckaert, G. (2005). Lessons from Australian and British Reforms in Results-oriented Financial Management. *OECD Journal on Budgeting*, 5(2), 133–162. Available at: [https://www.oecd-ilibrary.org/governance/lessons-from-australian-and-british-reforms-in-results-oriented-financial-management\\_budget-v5-art14-en](https://www.oecd-ilibrary.org/governance/lessons-from-australian-and-british-reforms-in-results-oriented-financial-management_budget-v5-art14-en)
3. Roje, G., Vašiček, D., & Vašiček, V. (2010). Accounting Regulation and IPSAS Implementation: Efforts of Transition Countries Toward IPSAS Compliance. *Journal of Modern Accounting and Auditing*, 6(12), 1–17. Available at: [https://www.researchgate.net/publication/225292785\\_Accounting\\_regulation\\_and\\_IPSAS\\_implementation\\_efforts\\_of\\_transition\\_countries\\_toward\\_IPSAS\\_compliance](https://www.researchgate.net/publication/225292785_Accounting_regulation_and_IPSAS_implementation_efforts_of_transition_countries_toward_IPSAS_compliance)
4. Cavanagh, J., Flynn, S., & Moretti, D. (2016). *Implementing Accrual Accounting in the Public Sector*. International Monetary Fund. Available at: <https://www.imf.org/external/pubs/ft/tnm/2016/tnm1606.pdf>
5. Council Directive 2011/85/EU on Requirements for Budgetary Frameworks of the Member States 2011. Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32011L0085>
6. European Commission. (2019). *Reporting on the Progress as Regards the European Public Sector Accounting Standards (EPSAS)*. Available at: [https://ec.europa.eu/eurostat/documents/9101903/9823491/EPSAS\\_Progress\\_Report\\_2019.pdf](https://ec.europa.eu/eurostat/documents/9101903/9823491/EPSAS_Progress_Report_2019.pdf)
7. International Federation of Accountants. (2020). *International Standards: 2019 Global Status Report*. Available at: <file:///C:/Users/user/Documents/Downloads/IFAC-International-standards-2019-global-status-report.pdf>
8. Oulasvirta, L. (2014). The Reluctance of a Developed Country to Choose International Public Sector Accounting Standards of the IFAC. A Critical Case Study. *Critical Perspectives on Accounting*, 25(3), 272–285. Available at: [https://www.researchgate.net/publication/261916189\\_The\\_reluctance\\_of\\_a\\_developed\\_country\\_to\\_choose\\_International\\_Public\\_Sector\\_Accounting\\_Standards\\_of\\_the\\_IFA\\_C\\_A\\_critical\\_case\\_study](https://www.researchgate.net/publication/261916189_The_reluctance_of_a_developed_country_to_choose_International_Public_Sector_Accounting_Standards_of_the_IFA_C_A_critical_case_study)
9. United Nations (2014). *IPSAS Benefits Realization Plan for the United Nations (final version)*. Available at: [https://www.un.org/ipsas/Benefits%20Realization%20Plan/IPSAS\\_benefits\\_realization\\_plan.pdf](https://www.un.org/ipsas/Benefits%20Realization%20Plan/IPSAS_benefits_realization_plan.pdf)