



MOVING TOWARDS ACCRUAL BASIS ACCOUNTING: ASSESSING THE BENEFITS, CHALLENGES, SUITABILITY, AND IMPLEMENTATION FOR PUBLIC SECTOR ORGANIZATIONS IN PAKISTAN

Pershotam Oad¹  | Quratulain Nazeer Ahmed²  | Syed Aamir Alam Rizvi^{3*} 

Abstract

Shifting from cash basis accounting to accrual basis accounting can have several benefits for public sector organizations in Pakistan. However, it also comes with its set of challenges. The objectives of this study are to evaluate the benefits, challenges, suitability, and implementation of shifting from a cash basis to an accrual basis accounting system in public sector organizations in Pakistan. Currently, most of the state-owned organizations in Pakistan practice a cash-based accounting system. However, the world is now switching towards accrual accounting, and many countries have already initiated the transition. This research study has adopted the qualitative approach using Interpretivism. Interviews with 14 public sector personnel were conducted, who are directly related to the accounts, audit, and administrative departments of their organizations. The case study method was applied. The results suggest that shifting from cash to accrual basis accounting can bring numerous benefits to public sector organizations in Pakistan, such as accurate financial reporting, better decision-making, enhanced budgeting & planning, and improved resource management. However, it requires careful planning, stakeholder engagement, capacity building, and adequate resources to ensure a successful transition. Training & development, digitalization, IT upgradation, support of leadership, and adoption of a systematic change process can also play a significant role. The outcomes of this study can be useful for governmental institutions and policymakers. The government can also use this research to reduce the resistance among the users by informing them about the benefits it offers.

Keywords: *Accrual basis, Accounting, Cash basis, Public sector organizations, Generally Accepted Accounting Principles, Financial Accounting Standards Board, and International Financial Reporting Standards.*

JEL: *M41, M48*

Author's Affiliation:


Institution: Sindh Madressa-tul-Islam University, Pakistan¹⁻² | Institute of Business Management, Karachi³

Country: Pakistan

Corresponding Author's Email: *syedaamiralamrizvi@gmail.com

The material presented by the author(s) does not necessarily portray the view point of the editors and the management of the ILMA University, Pakistan.

(Online) 2409-6520 (Print) 2414-8393 ©2023, published by the ILMA University, Pakistan.

This is open access article under the  license. <https://creativecommons.org/licenses/by/4.0/>

1. INTRODUCTION:

Cash basis accounting and accrual basis accounting are the two most common approaches to financial reporting and accounting. When cash is received by an organization, the transaction must be recorded in the cash accounting system. The concepts and guidelines that govern accrual accounting are established by several accounting bodies. Each of these approaches offers several benefits in addition to some drawbacks. (Bruno & Lapsley, 2018). Public sector organizations in developing countries worldwide use cash basis accounting. On the other hand, private-sector organizations and some public-sector entities in developed countries use accrual accounting. (Faccia et al., 2020). Regarding the recording of transactions, public organizations have a responsibility to adhere to the rules that have been established by the financial watchdog or the governmental agency. This is necessary to facilitate easier comparison and to make things plain for a variety of stakeholders within the organization, including investors. Organizations are required to adhere to certain reporting standards known as the International Financial Reporting Standards (IFRS) and the Generally Accepted Accounting Principles (GAAP). These standards give a set of guidelines for organizations on their accounting and financial reporting, and organizations are required to follow these guidelines. (Gornik-Tomaszewski & Shoaf, 2020).

Some organizations currently follow cash-based accounting systems, which is a convenient method to record transactions. (Dissanayake et al., 2020). Companies with more than \$25 million in annual sales are required to have accrual accounting systems. Nevertheless, these prerequisites are not standardized throughout the countries, and some nations do not impose any limitations on their citizens. (De Silva Lokuwaduge & De Silva, 2020). GAAP stipulates that organizations operating in the public sector must adhere to its norms and principles. The cash accounting method is being replaced by the accrual accounting method in many government organizations around the world; nevertheless, the employees in these organizations are often resistant to change. (Dissanayake et al., 2020). Pakistan now needs to shift to accrual accounting, which is resisted by these organizations advocating certain benefits of cash accounting (Adepeju, 2017).

Cash-based and accrual-based accounting systems record financial transactions involving revenues and costs. Cash-based systems recognize revenue when received, while accrual-based systems recognize it when earned, resulting in completed performance. Expenses are recorded when payments are made, while taxes are paid on outstanding amounts. Cash-based systems do not require taxes on unreceived funds, while accrual-based systems require taxes on outstanding amounts. (Poljašević et al., 2019)

Public sector organizations voice opposition to switching to accounting software due to cost concerns and barriers in overcoming the changing landscape. (Eulner & Waldbauer, 2018). Many businesses get a larger return on their investment after switching to accrual accounting. If every business followed the same guidelines, making the comparison would be simpler and quicker. The financial regulator will not have to use different protocols for the many businesses it oversees, which would

simplify the governance of standards. (Dewi et al., 2019).

This study examines the implementation of accrual accounting systems in public sector organizations through in-depth interviews with accounting and auditing experts. It analyzes the pros and cons of cash and accrual accounting, compares criteria, and examines their performance and practicality in various settings.

1.1 Research Objectives:

- To evaluate the costs and benefits of cash accounting and accrual accounting systems.
- To evaluate the performance of both the systems.
- To investigate the implementation of an accrual accounting system for public sector organizations in Pakistan.

1.2 Research Questions:

- What are the costs and benefits of cash accounting and accrual accounting systems?
- How do both accounting systems perform?
- How can the accrual accounting system be implemented in public sector organizations in Pakistan?

2. LITERATURE REVIEW:

The use of accrual accounting has traditionally been seen as a method for providing decision-makers with access to more precise accounting information. Cash accounting places its primary emphasis not just on cash payments and cash receipts but also on cash shortages and cash surpluses. On the other hand, the primary emphasis of accrual accounting is placed on a company's revenues, costs, gains, and losses. (Bergmann et al., 2019) scholars have repeatedly criticized the lack of a consistent and well-defined theoretical basis for international research. So far, most researchers have drawn from various streams of theoretical perspectives with often unsatisfactory results. The goal of this paper is to put forward the International Public Sector Accounting Standards Board's (IPSASB). Accrual trading has been recommended as a method for governments to conduct their financial dealings by members of the accounting profession. The primary justification offered for the shift is that it would facilitate the establishment of corporate structures inside government agencies. According to the opinions of accountants, this will provide for a better degree of transparency and accountability within them. (Azhar et al., 2022) it reviews relevant literature on the experiences of different levels of governments worldwide in adopting public sector accrual accounting (PSAA). The shift towards accrual accounting in public sector companies is not frequent and occurs rarely. The nature of the extensive reforms could frequently affect the style and speed of the transition. It provides information that is not accessible with cash accounting on the status of public resources and the financial performance of the organization. (Bruno & Lapsley, 2018). When using accrual accounting, governments are required to pay off their obligations, which may include long-term liabilities such as payments for employees' leave and retirement expenses. Additionally, it takes a unique approach to the treatment of capital expenditures, recalculating the cost of an aircraft to take

into account its whole term of operation. This method assists governmental entities in more efficiently managing their finances. (Christofzik, 2019).

Accrual budgeting shifts focus from financial inputs to outcomes and outputs, recalculating depreciation costs and treating government initiatives as assets compared to costs in cash accounting. (Nitzl et al., 2020). In the last twenty years, the countries of New Zealand, Australia, and the European Economic Community (EEC) have all decided to adopt the accounting standards necessary to compile financial reports by the International Financial Reporting Standards (IFRS). (Azhar et al., 2022). The Government Accounting Standards Board (GASB) in the United States is an independent, non-profit, private organization that is responsible for modifying and establishing standards for financial reporting for all levels of government in the United States, including municipal, state, and federal governments. (Bruno & Lapsley, 2018).

There are significant differences in the accounting standards used in the public and private sectors. in the US (Bergmann et al., 2019) scholars have repeatedly criticized the lack of a consistent and well-defined theoretical basis for international research. So far, most researchers have drawn from various streams of theoretical perspectives with often unsatisfactory results. The goal of this paper is to put forward the International Public Sector Accounting Standards Board's (IPSASB). In contrast to the IFRS, which is anticipated for profit-making entities, the AASB and New Zealand's financial reporting standards are chosen to entrust towards the development of standards with sector neutrality (Azhar et al., 2022) it reviews relevant literature on the experiences of different levels of governments worldwide in adopting public sector accrual accounting (PSAA. The Australian Bureau of Statistics (AASB) and Government Finance Statistics (GFS) prepare different bottom lines for different transactions. (Azhar et al., 2022) it reviews relevant literature on the experiences of different levels of governments worldwide in adopting public sector accrual accounting (PSAA . It has been argued that accrual accounting is mostly not equipped to give solutions and may result in the production of confusion and spurious data. (Bruno & Lapsley, 2018) but accrual accounting has been successfully implemented in developed countries, but in developing countries, it has yet to take root. The factors that influence the speed and nature of migration include the political and government environment and the skills and capability of organizations and people toward implementing changes. (Saidin & Aswar, 2018)\

Accrual accounting has the requirement for substantial investment in the management of information systems to support the budgeting requirements and also improve management practices. (Mbelwa et al., 2019) The accounting system of the government is at least two decades old, and it is still following outdated cash accounting. Since the 1990s, there have been widespread demands for an overhaul of the system by the private sector. Various governments in the last three decades have pushed for reforms in the accounting system. (Sharma & An, 2018). The main reason for the difficulty in implementing accrual accounting is that financial accounting is underestimated in the process of commercialization. The Treasury Board of Canada has identified key reasons for its implementation in various government departments, which have changed the accrual accounting system.

(Ismail et al., 2018). The increasing appeal of accrual accounting and its wide-ranging effects on the functioning and role of the accounting systems of the public sector have received little study on its consequences and application to the wider community. It is even more relevant in developing countries, where the rewards for change are very small. (Saidin & Aswar, 2018).

Accrual budgeting is also implemented in some countries. It quantifies liabilities and assets that can be relevant to the overall stance of fiscal sustainability and fiscal policy. Cash accounting quantifies mainly conventional debt, whereas accrual accounting quantifies quasi-debt liabilities. (Dissanayake et al., 2020) The "golden rule" that has been implemented in a few countries might arguably be expressed in terms of accrual accounting. This golden rule has prohibited borrowing to cater to the cost of the current services provisioned by the government. Information on the costs is essential to evaluating the efficiency of government services. (Mbelwa et al., 2019). While accrual accounting involves identifying, measuring, and periodically reporting government liabilities and assets, it also requires governments to accept a more systematic approach to identifying, tracking, and valuing all liabilities. The requirement to identify, assess, and report government debts will result in enhanced transparency that could foster enhanced financial planning (Sharma & An, 2018). Cash accounting is mainly concerned with the recognizing and recording of cash payments and receipts. The simple nature of operating cash accounting fails to provide necessary information related to the transactions of non-cash, liabilities, and stock of assets. Accrual accounting is an inclusive accounting system that requires the recording of stocks and flows. (Christofzik, 2019) Cash management is a vital part of the accrual-based framework of financial management. The duty of configuring current systems to provide such reporting data and macro-cash accounting is moderate (Saidin & Aswar, 2018)

Given the conceptual and technological limitations of accrual accounting, there are preconditions for success. (Ismail et al., 2018). Cash-based accounting is a vital basis for the movement toward an accrual framework. Countries that do not have a reliable system of cash-based shall first focus on improving the process and systems of the existing basis before considering moving to an actual basis. (Azhar et al., 2022). The intended introduction of accrual accounting is mainly supported at the upper level by the executives of the companies. The support of the parliament is vital not only to make certain that the passage of any new financial management lawmaking but also to endorse the changed evaluation and financial reporting regime that would follow. (Sharma & An, 2018). The lack of sufficient resources could be a major obstacle to successfully implementing accrual accounting. Consultants might be used to support in-house resources in developing the framework, procedures, and associated systems. However, to make sure that transformations are sustainable, consultants would need to be used largely for capacity building. (Bruno & Lapsley, 2018). In theory, accrual and cash accounting could be implemented with a manual or electronic system. Implementation of this system will be a key project for the government. (Mbelwa et al., 2019). The move to accrual accounting is frequently more supportive than the leading component of wider reforms in the public sector. Accrual budgeting is related to the enhanced focus on public sector performance and related to reforms like cost recovery, performance budgeting, and outsourcing.

(Dissanayake et al., 2020). The U.S. has implemented accrual accounting for agencies and entities that have to use consolidated reporting, which includes a budget of the federal government. The developing countries have limited resources that might affect the overall timeframe of the change. It can take up to ten years for them to change the accounting system from cash to accruing. (Azhar et al., 2022). The complexities involved in the valuation and identification of non-financial assets might be a way to initiate the focus on the financial liabilities and assets. Many governments already have in place memorandums that have records of accounts receivables, payables, and liabilities. (Bergmann et al., 2019). State-owned enterprises, if they are operating on a cash basis, might be targeted in the first stage of the move toward accrual accounting. The government might initially prepare consolidated reports for a range of subsectors and then progress towards completing whole government reports in the final stage. (Azhar et al., 2022).

It can be possible to design diverse implementation ways on the materiality or size of the entities. When capacity is low, it might be sensible to perform pilot studies in crucial representative agencies. It might also be useful to put off the transition of small entities that might not have expertise and resources. (Bruno & Lapsley, 2018).

3. METHODOLOGY:

This study investigates cash accounting and accrual accounting by thoroughly comprehending and comparing the advantages and disadvantages of both approaches. This is exploratory research, and its objective is to obtain a deeper understanding of crucial topics, discover new ideas, and evaluate the examined phenomenon. (Creswell, 2013). Saunders et al. (2007) strongly dovetailed to apply an interpretative approach to qualitative research. The researcher gains a broader viewpoint by interviewing and observing people. (Thiel, 2014) Interviews and observations broaden the researcher's perspective. (Saunders et al., 2007). This study obtained qualitative data utilizing several interviewing techniques. Data was collected using semi-structured interviews and participant observations. The data was analyzed thematically. (Boyatzis, 1998; Denzin and Lincoln, 2018). To study a topic in the public sector, it's important to consult a variety of data sources, such as organizational reports, newsletters, websites, and other relevant materials. Therefore, secondary data was also consulted (Saunders et al., 2007; Thiel, 2014).

According to Ghauri, Grønhaug, and Strange (2020), the approaches used in qualitative research are comprehensive, explorative, contextually rich, and logical. In this study, a case study analysis that is often utilized in public administration was carried out. (Gummesson, 1991; Thiel, 2014; Yin, 2013). In Pakistan, there are numerous public organizations. The collective case method was used because the main work was different. (Lincoln, 2018; Silverman, 2003). There are several methods for conducting qualitative research, but for this study, the case study approach seems to be the most suitable and practical one. (Eisenhardt, 1989; Thiel, 2014; Yin, 2013). Multiple methods of data collecting were used to bolster the case study, including semi-structured interviews with cops and officials as the primary

source of data. Methods used included semi-structured interviews, participant observation, and document analysis. Documentary analyses have several advantages, including reduced costs and greater validity and dependability because they rely on secondary data sources rather than primary ones. (Kawulich, 2005; Saunders et al., 2007; Thiel, 2014; Yin, 2013) Purposeful and snowball sampling were used to select interviews. Purposeful sampling was used to find experts on the research issue. Snowball sampling was used to discover people with change process experiences. (Creswell 2013; Saunders, Lewis, and Thornhill 2007 Easterby 2015). Thematic analysis was employed in the study. (Braun & Clarke, 2021; Lochmiller, 2021). In addition to developing acceptable codes and themes and reviewing and analyzing trends both within and between themes, the researcher built an adequate structure for qualitative analysis while using template analysis. (Brooks et al., 2015; King, 2004). The first set of codes was then categorized and arranged. The development of themes and sub-themes was also aided by this. (Boyatzis, 1998; Brooks & King, 2014; Johnson, 2019)

According to Marshall et al. (2013), Twelve respondents may be an adequate amount for a qualitative research sample to reach data saturation. Personal interviews with 14 government officials and officers were conducted for this study. The interviewees were given a topic framework but were encouraged to speak according to their perspectives as well.

4. FINDINGS:

4.1 Merits of Cash Accounting:

Cash accounting is widely used by public sector organizations all around the world and is one of the major accounting practices adopted throughout the globe. The interviewees suggested several reasons for the adoption and continuation of cash accounting. “One of the major reasons for the adoption of cash accounting is easy to handle transactions,” which was supported by almost all the respondents. Cash accounting is not only easy to implement, but also, it is the easiest accounting method to learn, use, and maintain, and it is the most cost-efficient of all the other available options. One of the respondents said that “cash accounting is the simplest method of all as it takes the least time in managing the accounts as it does not require one to go into the details of the accounting.” Another respondent included that “cash accounting only records the cash ins and outs, which provides it with better information about the cash present within the institute.” One of the interviewees informed us that “the timing of a transaction can have a huge impact on the profitability and financial performance of the firm. Cash accounting allows the subjective judgment of several transactions, which is not allowed in accrual accounting.”

4.2 Demerits of Cash Accounting:

One of the significant issues highlighted by 10 out of 14 respondents is that “the information provided by the cash accounting is insufficient for stakeholders of the public sector organization including shareholders and investors. The cash accounting records mainly the cash in and out, which is insufficient information as the investors require much more information to make any decision. The respondents highlighted that cash accounting deals mainly with the current cash position of the company and ignore all the other factors, which include information about debtors, creditors, and others, which is necessary information not only for decision-making but also for measuring performance. Cash accounting is different than accrual accounting which makes it difficult to make a comparison between the two. The financial performance in reports is very different in both cash and accrual accounting because of their recording nature, even if the performance has been the same for both companies. Three respondents highlighted that “difficulties are faced in tracing the revenues or expenses. This means that the cash accounting does not help in tracing the due expenses or the upcoming revenues which are to be received by the public sector entity”. Another substantial issue was highlighted by some respondents “Cash accounting does not provide the inventory tracking readily and takes more time in tracing the inventory than the time taken during accrual accounting moreover, the partial payments and uncollectable amounts are also difficult to trace in the cash accounting which is a major issue in the cash accounting.”

4.3 Benefits of Accrual Accounting:

Three respondents mentioned that “the accrual accounting systems can allow public entities to know about the upcoming expenses along with the revenues, which provides a better financial forecasted picture of the entity and also prepares the organization to meet certain expenses with the coming resources.” Another benefit of the accrual accounting system was highlighted by 4 of the respondents “the accrual accounting provides the comparability within the financial statements and the performance of the company which is very difficult to obtain in cash accounting. The respondents suggested that if all the organizations followed the accrual accounting system, the comparability would be easier, and also, this could help the government to further help other departments grow through the successful policies implemented. Currently, the performance is not properly evaluated.”

One of the interviewees stated that the “accrual accounting system relies on the upcoming events, which also includes the management of debtors and creditors. For public sector organizations, debt and liabilities management is one of the major concerns which can be managed through accrual accounting. “The two respondents of public sector universities disclosed that “due to cash accounting, the universities are unable to know about the expenses to be incurred in the coming semester and the revenues to be received through nominal tuition fees. The government’s budget is fixed every year, and the institutions wait for the budget to be released as the upcoming expenses cannot be paid without the help of the government’s aid. Accrual accounting is the solution as this allows long-term planning with a future

approach to help the organizations manage their funds for the future”.

4.4 Challenges to Implementing Accrual Accounting:

Three respondents mentioned that “cash accounting has been in practice for a long and organizations have become used to this accounting method. The major issue in accrual accounting is its implementation as not only will resistance arise from this switch, but also, the organization will require several resources to implement the new system effectively”. Two interviewees added that “the challenges with accrual accounting is that the revenues and expenses are not matched exactly, and there are differences into it.”

Four of the respondents shared that “the revenues are recorded when the transaction has taken place, and the same is the case with expenses in accrual accounting, which makes it difficult to check revenues and expenses again and again.” One of the interviewees further disclosed that “private-sector organizations are required to report financial statements every month.” “But the accountants of the public sector do not report the financial statements. After the implementation of accrual accounting, the organizations will be required to report their financial information on a month-to-quarterly-yearly basis.” Three respondents mentioned that “accountants will require knowledge about recording the transactions and as it follows the double entry system, many of the accountants will find it difficult to adopt this method. Another issue is the knowledge regarding accounting software which will also require training to develop the skills for recording transactions”.

4.5 Suitability for Accrual Accounting:

Five respondents revealed that “training and development can play a vital role in switching from a cash basis to an actual basis.” Moreover, digitalization and technological upgradation are also essential” Businesses with long-term ambitions may encounter temporary setbacks, but these are outweighed by the long-term rewards. Four of the respondents cited “the need for public sector enterprises to adhere to a long-term strategy” as an instance where accrual accounting is more preferred and useful over cash accounting. Having access to cash can be helpful in the short term, but it doesn’t solve any problems in the long run. “Since long-term planning is more effective in accrual accounting than in cash accounting, this requires a switch from cash accounting to accrual accounting.” An officer of Audit and Accounts services said that “ the regional adoption of the accounting standards and regulations also has an impact on the adoption of accrual accounting as the regions that follow IFRS (International Financial Reporting Standards) tend to adopt accrual accounting more severely than the countries following GAAP (Generally Accepted Accounting Principles).”

4.6 Implementation of Accrual Accounting:

Some interviewees reported that “accrual accounting has become a standard for the private sector organizations in Pakistan.” Moreover, IFRS has been implemented

for auditing purposes. Several factors need consideration for the implementation of accrual accounting in public sector organizations as well. The most important factors to consider while implementing are support from institutions and taking ownership of the change process. Therefore, the implementation needs to be supported through political policies as well as the government must take ownership and responsibility for the implementation. Taking ownership is an essential factor. Apart from financial and moral support for the implementation, the organizations need to have an implementation plan.”

One interviewee also addressed, “Accrual accounting is very beneficial for the long-term decision-making of any organization as the entity can have the information about upcoming cash transactions. When the organizations have long-term plans for the future, accrual accounting would be best”. One of the interviewees further disclosed that “ the public sector organizations are now working for long-term success and have plans which are usually more than one year in length.” This indeed suggests the need for the integration of accounting in the long-term decision-making of the organization. The accrual accounting system can be achieved through training and development. The employees currently working on the cash accounting methods would find it not only difficult but also they would make errors in recording the transactions due to the lack of knowledge and information; therefore, they should be given a learning environment and mentorship”.

Two of the participants emphasized that “implementation should be done gradually as the systems cannot be changed overnight. The government also needs to overcome resistance to change as the existing employees will not welcome such a change, and this resistance can affect the success of this implementation. To make this implementation successful, the government needs to overcome resistance by managing the change effectively. dissemination of information will be necessary, which means the employees must be informed about the change beforehand and their suggestions regarding the timeline of implementation and other things which can lower the resistance from employees. The employees will commit mistakes and errors in the early phases of implementation, and the team of experts must find those errors and guide accountants to overcome such issues so that they are not repeated”. Two interviewees added that “training and development, IT upgradation, technological advancement, hiring employees on merit, digitalization, software upgradation, and adoption of the systematic change process are the main factors to consider for change process for shift cash to accrual-based accounting.”

5. DISCUSSION:

Merits of cash accounting were proven by the literature (Dorn et al., 2021; Nguyen et al., 2021). Demerits were highlighted by (Shi et al., 2020). According to Bodó et al. (2019), Accrual accounting is a superior alternative for firms and other organizations since it improves performance management and gives a better picture of forthcoming events. The same was highlighted by the interviewees of the research. Respondents highlighted the challenges to implementing accrual-based accounting that was described by Azhar et al., (2022)it reviews relevant literature on the experiences of different levels of governments worldwide in adopting public

sector accrual accounting (PSAA. Accrual accounting is an effective method of recording the transactions taking place in the organization, and it is more effective in several things and especially for the measurement of performance (Hertati et al., 2019). Respondents revealed that the difficulties in monthly reporting are one of the reasons for opposition to accrual accounting since it will greatly complicate financial statement manipulation and increase accounting concerns (Roychowdhury et al., 2019). Accrual accounting is a novel concept for many public sector organizations, specifically the traditional organizations which have been performing repetitive tasks for several years. For the implementation of accrual accounting, one of the major constraints is the training for recording the transactions along with the information about managing the transactions through accrual accounting (de Azevedo et al., 2020) Financial Management Information Systems (FMIS. Accrual accounting is an effective method of recording the transactions taking place in the organization, and it is more effective in several things and especially for the measurement of performance (Hertati et al., 2019). Another reason for the adoption of accrual accounting reported by the respondents of the research is the accuracy of the results of financial statements and reports. The reports are generated in cash accounting as well, but the results are not accurate and may vary due to the subjective approach. However, this is not the case with accrual accounting (Sarah et al., 2021). The respondents suggested that to make any plan successful in the long term, the organizations need to come up with a proper plan and should work on it (Williamson et al., 2020).

5.1 CONCLUSION:

The results of the study suggest that public-sector organizations need to shift to accrual accounting, as this is supported by both the interviews and the literature and that it is needed by the public. Accrual accounting uses the double entry system to record the transactions, and the timing of recording the transactions can make a difference by providing more accurate results about the business. Moreover, it can provide the current business position along with the future cash position in the public sector entities. This suggests that accrual accounting is more useful for the state-owned entities of Pakistan, with a long-term approach, as it also follows the going concern principle. Government institutions should adopt Generally Accepted Accounting Principles (GAAP) and Financial Accounting Standards Board (FASB). The interview results suggest that the public sector organizations in Pakistan need to have a comparability factor so that their performance can be measured. One of the major issues with cash accounting is that it depends on the organization to record the transactions when the cash has been received. However, this approach takes away the comparability of the organization with other organizations. In other words, cash accounting does not follow any rules, and therefore, only the cash position of the organization is known, but the real position of the organization in terms of cash receivables and payables is not known. The public sector organizations need to bring comparability so that the government would be able to find the lacking and work to improve the financial position of the organization.

Using cash accounting, public sector organizations can manipulate the financial results as they may not record the transaction or record it at a delayed time which can

change the financial position of the organization for the period. Accrual accounting is not influenced by the accountants as this follows the rules and standards, which would not allow the manipulation of financial statements and, thus, provide accurate information about the financial position of the organization. Furthermore, public sector organizations exist for the benefit of the public, and these organizations are created with the vision of existing for an indefinite period. However, cash accounting does not follow the going concern principle and, therefore, lives in the present time without having the knowledge and information about the future. Therefore, accrual accounting can help the organization to follow the going concern principle coupled with information about future events and the future financial position of the company.

The results of the research revealed that the transition from cash accounting to accrual accounting would not be an easy task for the government as many organizations will resist such a change, and the government has to deal with these people while also ensuring that the new systems will be more beneficial for both the government and the stakeholders. Training & development, digitalization, IT upgradation, support of leadership, and adoption of a systematic change process can play a significant role. The implementation process can also be difficult for the government as it is not a simple task; rather, it would take years to complete, and the government has to support the concerns financially and morally.

DECLARATION OF INTEREST

It is declared that the authors of this research work have no competing interests.

REFERENCES:

- Adepeju, B. S. (2017). Implementing international public sector accounting standards in Nigeria: issues and challenges. *International Journal of Business, Economics, and Law*, 12(1), 52–61.
- Azhar, Z., Alfian, E., Kishan, K., & Assanah, N. H. (2022). Accrual Accounting at Different Levels of the Public Sector: A Systematic Literature Review. *Australian Accounting Review*, 32(1), 36–62. <https://doi.org/10.1111/AUAR.12357>
- Bergmann, A., Fuchs, S., & Schuler, C. (2019). A theoretical basis for public sector accrual accounting research: current state and perspectives. *Public Money and Management*, 39(8), 560–570. <https://doi.org/10.1080/09540962.2019.1654319>
- Bodó, B., Helberger, N., Eskens, S., & Möller, J. (2019). Interested in Diversity: The Role of user attitudes, algorithmic feedback loops, and Policy in news personalization. *Digital Journalism*, 7(2), 206–229. <https://doi.org/10.1080/21670811.2018.1521292>
- Boyatzis, R. E. (1998). *Transforming Qualitative Information Thematic Analysis and Code Development*. May, 200.

- Braun, V., & Clarke, V. (2021). Conceptual and design thinking for thematic analysis. *Qualitative Psychology*, 1–67. <https://doi.org/10.1037/qup0000196>
- Brooks, J., & King, N. (2014). Doing Template Analysis: Evaluating an End-of-Life Care Service. *Doing Template Analysis: Evaluating an End-of-Life Care Service*. <https://doi.org/10.4135/978144627305013512755>
- Brooks, J., McCluskey, S., Turley, E., & King, N. (2015). The Utility of Template Analysis in Qualitative Psychology Research. *Qualitative Research in Psychology*, 12(2), 202–222. <https://doi.org/10.1080/14780887.2014.955224>
- Bruno, A., & Lapsley, I. (2018). The emergence of an accounting practice: The fabrication of a government accrual accounting system. *Accounting, Auditing and Accountability Journal*, 31(4), 1045–1066. <https://doi.org/10.1108/AAAJ-01-2016-2400>
- Christofzik, D. I. (2019). Does accrual accounting alter fiscal policy decisions? - Evidence from Germany. *European Journal of Political Economy*, 60(December 2018), 1805. <https://doi.org/10.1016/j.ejpoleco.2019.07.003>
- Creswell. (2013). *Qualitative inquiry and research design*. Sage Publications Ltd. Retrieved from <https://books.google.com.pk> on July 09, 2023
- De Azevedo, R. R., Lino, A. F., de Aquino, A. C. B., & Machado-Martins, T. C. P. (2020). Financial Management Information Systems and accounting policies retention in Brazil. *International Journal of Public Sector Management*, 33(2–3), 207–227. <https://doi.org/10.1108/IJPSM-01-2019-0027>
- De Silva Lokuwaduge, C. S., & De Silva, K. (2020). Determinants of public sector accounting reforms: A case study of Sri Lanka in rapidly developing Asia. *International Journal of Public Sector Management*, 33(2–3), 191–205. <https://doi.org/10.1108/IJPSM-03-2019-0085>
- Dewi, N. F., Ferdous Azam, S. M., & Yusoff, S. K. M. (2019). Factors influencing the information quality of local government financial statements and financial accountability. *Management Science Letters*, 9(9), 1373–1384. <https://doi.org/10.5267/j.msl.2019.5.013>
- Dissanayake, T., Dellaportas, S., & Yapa, P. W. S. (2020). The diffusion-adoption of accrual accounting in Sri Lankan local governments. *Financial Accountability and Management*, 36(3), 261–277. <https://doi.org/10.1111/faam.12222>
- Dorn, F., Gaebler, S., & Roesel, F. (2021). Ineffective fiscal rules? The effect of public sector accounting standards on budgets, efficiency, and accountability. *Public Choice*, 186(3–4), 387–412. <https://doi.org/10.1007/s11127-019-00755-8>

- Easterby, M. (2015). *Management and business research*. Sage Publications Ltd. Retrieved from <https://books.google.com.pk> on July 09, 2023
- Eisenhardt. (1989). Building theories from case study research. *Academy of Management Review*, 14(4), 532-550.
- Eulner, V., & Waldbauer, G. (2018). New development: Cash versus accrual accounting for the public sector—EPSAS. *Public Money and Management*, 0962, 1–4. <https://doi.org/10.1080/09540962.2018.1444560>
- Faccia, A., Moşteanu, N. R., & Cavaliere, L. P. L. (2020). Blockchain Hash, the Missing Axis of the Accounts to Settle the Triple Entry Bookkeeping System. *ACM International Conference Proceeding Series*, 18–23. <https://doi.org/10.1145/3430279.3430283>
- Ghuri, P., Grønhaug, K., & Strange, R. (2020). *Research Methods in Business Studies*. *Research Methods in Business Studies*. <https://doi.org/10.1017/9781108762427>
- Gornik-Tomaszewski, S., & Shoaf, V. (2020). Continued Impact of International Financial Reporting Standards on U.S. Generally Accepted Accounting Principles. *The Journal of Global Awareness*, 1(1), 1–12. <https://doi.org/10.24073/jga/1/01/07>
- Gummesson, E. (1991). “Qualitative Research in Management.” Sage Publications Ltd. Retrieved from <https://books.google.com.pk> on July 09, 2023
- Hertati, L., Zarkasyih, W., Suharman, H., & Umar, H. (2019). the Effect of Human Resource Ethics on Financial Reporting Implications for Good Government Governance (Survey of Related Sub-Units in State-Owned Enterprises in Sumsel). *International Journal of Economics and Financial Issues*, 9(4), 367–376. <https://doi.org/10.32479/ijefi.8466>
- Ismail, S., Siraj, S. A., & Baharim, S. (2018). Implementation of accrual accounting by the Malaysian federal government: Are the accountants ready? *Journal of Accounting and Organizational Change*, 14(2), 234–247. <https://doi.org/10.1108/JAOC-03-2017-0020/FULL/XML>
- Johnson, G. (2019). Qualitative Data Analysis. *Research Methods for Public Administrators*, 162–170. <https://doi.org/10.4324/9781315701134-11>
- Kawulich, B. B. (2005). Participant observation as a data collection method. *Forum Qualitative Sozialforschung*, 6(2).
- King, N. (2004). Chapter 21: Using Templates in the Thematic Analysis of Text
Nigel King. *Essential Guide to Qualitative Methods in Organizational Research*, 256–270.
- Lincoln, D. and. (2018). Qualitative Research. In *Synthese* (Vol. 195, Issue 5).

<https://doi.org/10.1007/s11229-017-1319-x>

- Lochmiller, C. R. (2021). Conducting thematic analysis with qualitative data. *Qualitative Report*, 26(6), 2029–2044. <https://doi.org/10.46743/2160-3715/2021.5008>
- Marshall, B., Cardon, P., Poddar, A., & Fontenot, R. (2013). Does sample size matter in qualitative research?: A review of qualitative interviews in is research. *Journal of Computer Information Systems*, 54(1), 11–22. <https://doi.org/10.1080/08874417.2013.11645667>
- Mbelwa, L. H., Adhikari, P., & Shahadat, K. (2019). Investigation of the institutional and decision-usefulness factors in the implementation of accrual accounting reforms in the public sector of Tanzania. *Journal of Accounting in Emerging Economies*, 9(3), 335–365. <https://doi.org/10.1108/JAEE-01-2018-0005>
- Nguyen, L. A., O’Connell, B., Kend, M., Thi Pham, V. A., & Vesty, G. (2021). The likelihood of widespread accounting manipulation within an emerging economy. *Journal of Accounting in Emerging Economies*, 11(2), 312–339. <https://doi.org/10.1108/JAEE-02-2020-0041/FULL/XML>
- Nitzl, C., Hilgers, D., Hirsch, B., & Linder Müller, D. (2020). The Influence of the Organizational Structure, Environment, and Resource Provision on the Use of Accrual Accounting in Municipalities. *Schmalenbach Business Review*, 72(2), 271–298. <https://doi.org/10.1007/s41464-020-00086-y>
- Poljašević, J., Vašiček, V., & Jovanović, T. (2019). Comparative review of dual reporting in the public sector in three south-east European countries. *Journal of Public Budgeting, Accounting, and Financial Management*, 31(3), 325–344. <https://doi.org/10.1108/JPBAFM-02-2019-0035>
- Roychowdhury, S., Shroff, N., & Verdi, R. S. (2019). The effects of financial reporting and disclosure on corporate investment: A review. *Journal of Accounting and Economics*, 68(2–3), 101246. <https://doi.org/10.1016/j.jacceco.2019.101246>
- Saidin, S. Z., & Aswar, K. (2018). Accrual accounting adoption in Java municipalities: An empirical investigation. *International Journal of Business and Economic Sciences Applied Research*, 11(3), 24–30. <https://doi.org/10.25103/ijbesar.113.03>
- Sarah, C. L., Timothy, K., & Loren, M. (2021). Does the importance of relevance and faithful representation differ between GAAP and tax reporting? A discussion of the trade-offs between cash-basis, accrual-basis, and fair value accounting methods. *Journal of Accounting and Taxation*, 13(3), 144–152. <https://doi.org/10.5897/jat2021.0458>
- Saunders, M., Lewis, P., & Thornhill, A. (2007). Research Methods for Business Students. In Pearson. https://www.researchgate.net/publication/330760964_Research_Methods_for_Business_Students_Chapter_4_Understanding

research_philosophy_and_approaches_to_theory_development

- Sharma, U., & An, Y. (2018). Accounting and Accountability in Fiji: A Review and Synthesis. *Australian Accounting Review*, 28(3), 421–427. <https://doi.org/10.1111/auar.12197>
- Shi, W., Connelly, B. L., Hoskisson, R. E., & Ketchen, D. J. (2020). Portfolio Spillover of Institutional Investor Activism: An Awareness–Motivation–Capability Perspective. <https://doi.org/10.5465/Amj.2018.0074>, 63(6), 1865–1892. <https://doi.org/10.5465/AMJ.2018.0074>
- Silverman. (2003). *Doing Qualitative Research*. Doing Qualitative Research. Sage Publications Ltd. Retrieved from <https://books.google.com.pk> on July 09, 2023
- Thiel, V. (2014). *Research methods in public administration and public management*.
- Williamson, B., Eynon, R., & Potter, J. (2020). Pandemic politics, pedagogies, and practices: digital technologies and distance education during the coronavirus emergency. *Learning, Media and Technology*, 45(2), 107–114. <https://doi.org/10.1080/17439884.2020.1761641>
- Yin, R. K. (2013). Validity and generalization in future case study evaluations. *Evaluation*, 19(3), 321–332. <https://doi.org/10.1177/1356389013497081>