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PARLIAMENT OF TASMANIA

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**PARLIAMENTARY STANDING COMMITTEE OF PUBLIC  
ACCOUNTS**

**REPORT ON  
ACCRUAL ACCOUNTING**

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*Laid upon the Table of both Houses of Parliament*

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The Committee was appointed under the provision of section 2 of the Public Accounts Committee Act 1970 (No. 54)

**MEMBERS OF THE COMMITTEE**

*Legislative Council*

Mr Archer  
Mr Batt  
Mr Stopp

*House of Assembly*

Mr Robson (Chairman)  
Mr Llewellyn  
Mr Mainwaring

By Authority:

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## TASMANIAN PUBLIC ACCOUNTS COMMITTEE REPORT ON ACCRUAL ACCOUNTING 1988

### INTRODUCTION

It is generally agreed that economic conditions are not buoyant. Australian Governments have all brought down budgets exercising restraint. Issues of economy, efficient use of resources and program effectiveness are therefore matters of strong interest. There are pressures for achievement of a greater level of output with the same or less level of input. The environment, therefore, is one where Governments are seeking ways to achieve improved performance.

There has been in recent years, a continuing debate on the question of cash versus accrual accounting in the public sector. Often the debate has centred on the respective merits of each accounting methodology without addressing the primary question of the information needs which need to be met.

The Committee is a supporter of the concept of accrual accounting for all aspects of Government activity, however it further believes that both cash and accrual accounting will need to be used to cover the total financial reporting needs of Government.

It believes using both systems will:—

- meet the changing and expanded information needs of resource managers;
- aid economic decision making; and
- discharge public accountability.

### DESCRIPTION AND DEFINITION OF ACCRUAL ACCOUNTING

A cash accounting system primarily records and reports on the receipt of cash and the payments made, based on the time of the event of receipt or when a cheque is drawn. It is precise, easily measured and, provided one is happy with the recognition of payment when the cheque is drawn as against the time of presentation of the cheque, there are no real arguments over the timing of the event.

On the other hand, accrual accounting seeks to recognise for accounting purposes events as well as those which revolve around the time of receipt or payment. At the time of the economic event it records receipt and expenditure.

Accrual accounting measures transactions and events based on the substance of transactions and events rather than when cash is received or paid.

There is also the need to record Capital Expenditure and fixed assets are to be considered, e.g., depreciation on plant and equipment and the recognition of costs in holding these assets. Accrual accounting does this well. Also unfunded liabilities are covered with accrual accounting e.g., superannuation.

Those financial statements needed to show the true financial position will be prepared on an accrual basis, whereas those statements needed to show compliance with spending mandates will be prepared on a cash basis.

Cash and accrual information are complementary. In the commercial sector both cash and accrual information is necessary for effective management. Accrual information highlights stewardship as well as spending and receiving obligations.

### FULL PROGRAM COSTS AND ASSETS RECORDING

Under cash accounting the most significant program costs which are generally not accounted for are costs relating to superannuation and fixed assets. In addition, cash accounting does not report the impact of the increases/decreases in the level of debtors or creditors or any fluctuations in inventory. Some service entities recover through pricing policies only those costs relating to recurrent expenses rather than recovering the full costs by including the cost of utilising fixed assets.

There is no doubt that asset recording and reporting requires improvement. This does not mean that all public assets are to be recorded e.g., roads and bridges. None the less fixed assets represented the most significant resource other than cash being managed within the public sector and which are usually not reported. Generally speaking most assets costs are or have been regarded as a 'sunk cost' which fails to record the identity and the value of the asset.

The current value of assets and the utilisation of these assets can provide important information for decision makers and ensure proper accountability for all resources managed.

## CAN ACCRUAL ACCOUNTING WORK IN GOVERNMENT

Here in Tasmania accrual accounting is practised in modified form always in those agencies of government which are said to be on a businesslike footing e.g., Tasmanian Dairy Authority and Transport Tasmania. At the present moves to bring all agencies of government onto accrual accounting is taking place all over the world.

In Australia the Government of New South Wales has introduced bills which have been passed to bring the State onto a modified form of accrual accounting. In America, the State of New York and New York City have transferred to full accrual accounting.

New York City was a prime example of how accrual accounting helped to save that city from financial ruin. The financial experts had written the city off, they said 'Since 1970-71, every expense budget has been balanced with an array of gimmicks . . . revenue accruals, capitalisation of expenses, raiding reserves, appropriation of illusory fund balances, suspension of payments, carry forward of deficits and questionable receivables, and finally, the creations of a public benefit corporation whose purpose is to borrow funds to bail out the expense budget.'

Needless to say the city was forced to change its habits with accrued accounting. Within a few short years it overhauled its accounting system and installed an automated integrated financial management information system. The city then eliminated its deficit, balanced its budgets, generated year end surpluses and has received numerous credit upgradings.

## WHAT COULD BE DONE

First, it must be said that our government cash accounting systems are well done but that they record only part of the true picture.

Second, those people who are responsible for the present system should be encouraged to join with others in discussing the ramifications of moving slowly to a modified system.

Third, once agreement is reached, relevant people should be sent to New York City to see at first hand how their system is working. Incidentally, New South Wales has done this even though they are presently adopting a new modified accrual system.

Provided there is general agreement amongst all involved a time frame should be agreed on and preparations for a modified system should begin. Amongst those who have been debating the issue, governments, treasuries and the various institutes of accountants, there seems to be an agreement on time table of three to five years to implement a system.

All in all it seems that there needs to be established a dedicated committee who will sell the idea and then it is up to a few motivated people to design and install the system.

The Committee's report was submitted to the Auditor-General for comment and the following reply was received:—

The Audit Department would enthusiastically support a decision to establish an appropriately structured committee whose role is to examine the adoption of accrual accounting and other related issues and which would generate a comprehensive approach to upgrading the Government's financial and other resource management systems.

Fortified by this view and mindful of the necessity to manage public finance in the best possible way, the Committee recommends that the State take the steps required that will lead to the adoption of accrual accounting.

N. M. ROBSON, Chairman.

Committee Room No. 1.  
Parliament House,  
25 August 1988.