PUBLIC SECTOR FINANCIAL MANAGEMENT: PART 3: ACCOUNTING CONCEPTS
“Accounting is the fairest invention of the human mind.”

- Goethe
"That's the beauty of it, son. Aliens could come from a far off galaxy without knowing a thing about earth, but they would understand accounting!"
"It's not the economy anymore, stupid. It's the accounting."

The Accounting Module

Today

- What is accounting
- Financial & Managerial Accounting
- GAAP/IFRS
- Accrual

Tomorrow

- Accounting Cycle
- Accounting Equation
- Recording Financial Information
- Financial Statements
The purposes of accounting

- Common platform so that we all understand what the numbers mean and what we mean by the numbers – no small feat
- Public accountability, including information to your political masters – Parliament, Legislature, Board
- Information to stakeholders – essential in a democracy
- Demonstrating that revenues have been properly collected and accounted for
- Showing that assets and liabilities have been properly valued and accounted for

Bottom Line: The objective of financial reporting based on common accounting principles is to provide information that is useful for decision making inside and outside the government or agency.
The purposes of accounting

- Provides a consistent year on year picture and basis for comparison.
- Comprehensive reporting of financial activity
- Managers properly control the activities of the state/organisation they are responsible for
- There is accurate preparation of budgets using definitions that are understood and accurate.
- Successful management depends upon good quality and timely financial information
Sound Accounting

- Performance Control
- Audit
- Accountability
- Confidence in the Entity
- Common Basis of Understanding
- Budgetary control
A History of Accounting

- Some scholars claim that writing arose in order to record accounting information.
- Account records date back to the ancient civilizations of China, Babylonia, Greece, and Egypt. In China, the focus of early financial records was on public administration not business.
A History of Accounting

- The rulers of these civilizations used accounting to keep track of the cost of labour and materials used in building structures like the great pyramids.
- The need for accounting has existed as long as there has been activity involving money or resources.
An Early iPad: Accounts Tablet with Cuneiform Script, circa 2400 BC by Mesopotamian Bookkeeper
A History of Accounting

• Accounting developed further as a result of the information needs of merchants in the city-states of Italy during the 1400s.
• The monk Luca Pacioli, a mathematician and friend of Leonardo da Vinci, published the first known description of double-entry bookkeeping in 1494.
A History of Accounting

- In the Industrial Revolution of the nineteenth century, the growth of corporations spurred the development of accounting.
- The corporation owners—the shareholders—were no longer necessarily the managers of their business.
- Managers had to create accounting systems to report to the owners how well the company was performing.
What is Accounting?

Guidelines:

- Accounting and its boundaries are dynamic in nature, always responding to new needs as they arise.
- The boundaries of accounting are fuzzy and changeable as a result.
- Accounting is both an art and a science that involves judgment and molding information to the demands of the situation while being to claim objectivity and independence.
What is Accounting?

- Identifies, measures and communicates financial information
- Focuses on economic entities
- Provides this information to interested parties, these being the users of financial information
- Provides this information with the purpose to assist the organization in reaching its stated goals
- Enhances the understanding of what is being measured as well as providing information for decision making.
Basic Functions of Accounting

- Interpret and record financial transactions
- Classify transactions into useful categories and reports
- Summarize and communicate information to those who need it
How it works

Economic Entity
• Financial Information
• Identify
• Measure
• Communicate

Financial Statements
• Balance Sheet
• Income Statement
• Cash Flows
• Net Debt
• Note Disclosures

Management Information
• CEO’s Briefings
• Performance Reporting
• Regular internal reports

GAAP/IFRS

NOT GAAP/IFRS
Accounting View of Time

From, Gouws, 2003, Accounting’s Time Paradigm
Accounting for Whom?

Managerial Accounting meets the internal needs of the organization.

Financial Accounting meets the needs of external stakeholders.
## Contrasting the Accounting Viewpoint with the Budgeting Perspective

<table>
<thead>
<tr>
<th>Dimensions of Comparison</th>
<th>Accountant</th>
<th>Budget Specialist</th>
</tr>
</thead>
<tbody>
<tr>
<td>Time orientation</td>
<td>The past but cognizant with present and future</td>
<td>The future but constrained by the past and present</td>
</tr>
<tr>
<td>Conceptual model</td>
<td>Assets - liabilities = net assets</td>
<td>Appropriations – (commitments + expenditures) = available balance</td>
</tr>
<tr>
<td>Recording system</td>
<td>Double entry</td>
<td>Single entry</td>
</tr>
<tr>
<td>Measurement method</td>
<td>Full accrual basis</td>
<td>Budgetary (commitment) basis</td>
</tr>
<tr>
<td>Primary financial documents</td>
<td>Statements of financial position, performance, cash flow</td>
<td>Budget execution</td>
</tr>
<tr>
<td>Primary users of financial</td>
<td>External users: investors and creditors</td>
<td>Internal users: legislative overseers, policy makers, and managers</td>
</tr>
<tr>
<td>information</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Frequency of reporting</td>
<td>Annual to the public</td>
<td>Quarterly, monthly, or even more frequent as needed</td>
</tr>
<tr>
<td>Coverage of financial documents</td>
<td>Whole government</td>
<td>Parts of government</td>
</tr>
</tbody>
</table>

From James L. Chan, *A Comparison of Government Accounting and Business Accounting,*
Financial Accounting

- Reports to those outside the organization owners, lenders, tax authorities and regulators.
- Emphasis is on summaries of financial consequences of past activities.
- Objectivity and verifiability of data are emphasized.
- Precision of information is required.
- Only summarized data for the entire organization is prepared.
- Must follow Generally Accepted Accounting Principles (GAAP).
- Mandatory for external reports.

Managerial Accounting

- Reports to those inside the organization for planning, directing and motivating, controlling and performance evaluation.
- Emphasis is on decisions affecting the future.
- Relevance of items relating to decision making is emphasized.
- Timeliness of information is required.
- Detailed segment reports about departments, products, customers, and employees are prepared.
- Need not follow Generally Accepted Accounting Principles (GAAP).
- Not mandatory.
“Remember, Art, statistics, credits and debits are in the eye of the manipulator.”
Managerial Accounting Information

- Quarterly reports
- Income/loss statements
- Cash forecasts
- Budget/actual reports
- Cash at hand reports
- Activity reports
- Variance reports
External financial reporting requirements by law
Generally set as a matter of governmental policy
Highly unlikely that it will be used actively within the organization
Senior levels of management, however, and also at the political level, the organization has to be able to explain and defend the financial reports as they are made public
Financial Accounting uses formally defined financial statements—More to Follow

- Balance Sheet: Statement of Financial Position
- Statement of Cash Flows
- Income Statement: Statement of Comprehensive Financial Results
- Statement of Change in Net Debt
- Notes to Statements
Managerial and Financial Accounting

- Both forms of accounting information have to derive from the same basic financial information,
- They use the same Chart of Accounts and the same financial accounting technology that is in use in the organizations.
- At times, internally reported information has to be reconciled with external reporting.

A Chart of Accounts is a Listing of All of the Accounts of an Organization
<table>
<thead>
<tr>
<th>Account #</th>
<th>Account Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>110-11211</td>
<td>Asset</td>
<td>Cash in Bank</td>
</tr>
<tr>
<td>110-13000</td>
<td>Asset</td>
<td>Acct Receivable</td>
</tr>
<tr>
<td>110-14000</td>
<td>Asset</td>
<td>Fixed Assets</td>
</tr>
<tr>
<td>110-20000</td>
<td>Liability</td>
<td>Acct Payable</td>
</tr>
<tr>
<td>110-21100</td>
<td>Liability</td>
<td>FIT Withheld</td>
</tr>
<tr>
<td>110-21101</td>
<td>Liability</td>
<td>FICA and Medicare</td>
</tr>
<tr>
<td>110-21102</td>
<td>Liability</td>
<td>Retirement</td>
</tr>
<tr>
<td>110-27100</td>
<td>Equity</td>
<td>Fund Balance</td>
</tr>
<tr>
<td>110-31000</td>
<td>Revenue</td>
<td>Property Taxes</td>
</tr>
<tr>
<td>110-33000</td>
<td>Revenue</td>
<td>Court Fees</td>
</tr>
<tr>
<td>110-42100-111</td>
<td>Expenditure</td>
<td>Police Salaries</td>
</tr>
<tr>
<td>110-42100-143</td>
<td>Expenditure</td>
<td>FICA and Medicare Matching</td>
</tr>
<tr>
<td>110-42100-144</td>
<td>Expenditure</td>
<td>Retirement Matching</td>
</tr>
<tr>
<td>110-41533-237</td>
<td>Expenditure</td>
<td>Supplies</td>
</tr>
</tbody>
</table>
GAAP/IFRS — ACCOUNTING STANDARDS
Generally Accepted Accounting Principles (GAAP)

- Provide guidance on the creation of financial reports
- Encompass broad principles and conventions of general application, as well as rules and procedures that determine accepted accounting practices at a particular time.
- Set out by the Public Sector Accounting Board
- Complex system of guidance to public sector and not-for-profit entities
Canada’s Move to IFRS

- IFRS is a comprehensive set of high quality accounting standards issued by the International Accounting Standards Board (IASB)
- Accepted or required in over 100 jurisdictions around the world.
- Consistent with Canadian GAAP in that IFRS:
  - Consists of a principles-based set of standards
  - Has many choices available for application
- Key point for public sector is that we have GAAP standards created by a public-sector focused standard setter
Accounting Principles

- Entity
- Money Denominator
- Full Disclosure
- Objectivity
- Consistency
- Materiality
- Accrual
- Going Concern
- Matching
- Conservatism
- Costing
Basic Accounting Principles

Entity Concept

- Requires that you define the organizational component for which you are trying to account
- The unit stands apart from other organizations and individuals as a separate economic unit
- From an accounting perspective, sharp boundaries are drawn around each entity so as not to confuse its affairs with those of other entities
- Need to know what is being taken into account on a consistent basis
Basic Accounting Principles

Money Denominator/Stable Monetary Unit Concept

• Requires that all items included on the financial statements be measurable in dollar (yen, Euro) terms
• Should be stable over time
• Cannot record non-quantifiable items
Basic Accounting Principles

Objectivity/ Reliability Principle

- Require that values be based on an objective valuation of resources
- Objective evidence means that different people looking at the evidence will arrive at the same values for the transaction
- Reliable data are verifiable
- Third party sources, e.g. bank statements, receipts
- Verifiable by an independent observer
Basic Accounting Principles

Accrual Concept/ Recognition

- Revenues are recorded when the organization is entitled to them
- Expenses are recorded when resources are used to generate revenues
Basic Accounting Principles

The Matching Principle

- The matching principle requires that revenue and expenses be accrued; that is, they are recognized as they are earned or incurred, not just when they are received or paid or when they affect an appropriation.
- Requires the use of accrual basis of accounting.
- Long-term assets are assumed in the public sector to provide benefits over their lives and as such it is not revenues that are matched but depreciated value against results.
Basic Accounting Principles

Cost Convention: Mix of Ways to Measure

- Different measurement principles in different areas
- Old norm of historic cost disappearing
- Items such as property, plant and equipment usually accounted for based on cost when acquired, less depreciation
Basic Accounting Principles

- Items such as investments are measured at fair market value at date of statement
- Others are measured at amortized costs or other bases
- No simple answer
- Often driven by practical considerations: cost of measuring and its utility and relevance
Basic Accounting Principles

Conservatism/Prudence

- Says that you should anticipate losses but not gains
- Need to give due regard for risk and risk management
- Role of prudence in predicting and reporting
Basic Accounting Principles

Going Concern Concept

- Assumes that the organization will continue in operation
- Assumes the business will remain in operation long enough to use existing assets for their intended purpose
- This assumption allows you to defer the recognition of some expenses to later periods (such as depreciation), when a business will presumably still be in operation.
- Bankruptcy values may be lower
- Amortization policies are only justifiable and appropriate if we assume continuity of the department.
Basic Accounting Principles

Materiality -1

• Reporting only needs to contain the level of detail necessary for decision making
• Don't need to be accurate to the penny or even the nearest $1,000 in some cases but in some cases you do. Depends of risk and interests of the users of the information.
• A piece of information is material if it would affect a decision maker’s decision
Basic Accounting Principles

Materiality - 2

In determining whether an item or an aggregation of items is material, the following factors should be considered:

• the size of the item;
• nature of the item - for example, irregularities or illegal acts by departmental personnel would be material even if the amounts were small; and,
• cumulative effects - the total effect of individual amounts on the financial statements taken as a whole
Basic Accounting Principles

Consistency Principle

• Once you follow an accounting principle or method, you should continue to do so in the future. This gives you more consistent reported results.
• It also ensures an apples-to-apples comparison
• Any changes in the accounting rules, standards of recognition, costing conventions, etc., need to be recorded in the notes to financial reports and, at times, previous financial statements may have to be restated to re-level the playing field.
Basic Accounting Principles

• **Full Disclosure Principle**
  • If any information is important to an understanding of a financial report or may have an affect on the reader of the report or a decision-maker, it should be disclosed.
  • Source of the many notes that go along with financial reports.
Accounting Principles: Constraints on Providing Financial Information

Benefits must exceed costs

• Benefits of the information produced should exceed the costs of producing the information
• Financial (and all managerial) information is not costless
“We complied with all the required accounting standards…..” and $4 still buys a Skinny Mocha, but not much more…. 

- Standards a set of pretty general principles that dictate the preparation of financial statements
  - Many alternatives often acceptable under PSAB standards
  - Role of recognition
  - Degree of interpretation

- Acceptable alternatives, from a set of less than perfect accounting treatment available

- Conforming to PSAB standards does not mean that the information provided is complete and accurate, but it is the start
This is what you want from your external auditor.

“In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Government of Canada as at 31 March 2014, and the results of its operations, changes in its net debt, and its cash flows for the year then ended in accordance with the stated accounting policies of the Government of Canada set out in Note 1 to the consolidated financial statements, which conform with Canadian public sector accounting standards. “
CASH AND ACCRUAL ACCOUNTING
It's accrual world.
Why Accrual?

- Public sector focus on accountability for funds at hand has lead to using a cash basis as it is more easily understood and more sensitive to annual budgetary approvals of governing body.
- Significant gaps in the cash approach has created a growing trend of governments and other parts of the public sector to adopt the accrual approach to both accounting and budgeting.
Quick Snapshot

- Cash Accounting recognizes
  - revenues when cash is received and
  - expenses in the form of expenditures when bills are paid (focus on cash movement).

- Accrual Accounting recognizes
  - revenue when goods or services have been provided and
  - expenses when resources have been used (focus on when revenues are earned or resources are consumed).
Example

- Government purchases a piece of equipment costing $100,000 on April 1, 2014. The equipment is expected to last for 10 years and to contribute to operations evenly over that period.
- Under accrual, the government would record the $100,000 cost as an asset in the fiscal year it was purchased (March 31, 2015) and then record $10,000 of amortization expense for each year that it was used.
- Under the cash method of accounting, the government would have recorded, in the 2015 fiscal year, the entire cost ($100,000) as an expenditure for that year.
- In addition, the accrual method continues to track the outstanding balance of the asset until it is sold or removed from service. The former basis, however, would not have reported that any balance was remaining.
Example

So the accounting for this example would be

<table>
<thead>
<tr>
<th></th>
<th>March 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2015</td>
</tr>
<tr>
<td><strong>Impact on Statement of Operations</strong></td>
<td></td>
</tr>
<tr>
<td>Accrual</td>
<td>($10,000)</td>
</tr>
<tr>
<td>Cash</td>
<td>($100,000)</td>
</tr>
<tr>
<td><strong>Impact on Balance Sheet</strong></td>
<td></td>
</tr>
<tr>
<td>Accrual</td>
<td>$90,000</td>
</tr>
<tr>
<td>Cash</td>
<td>nil</td>
</tr>
</tbody>
</table>
Another Example

- On March 31, 2013, government requires environmental remediation of a toxic site following a regulatory ruling and it is estimated to cost $100,000 over the next 10 years. Work begins July 31, 2013 and costs $10,000 that fiscal year.
- Under accrual, the government would record the entire $100,000 cost of the clean-up in the fiscal year it was identified (March 2013).
- Under cash, the government would have recorded, in the 2013-14 fiscal year, only the amount paid toward the clean-up that year -$10,000.
- In addition, the accrual method continues to track the outstanding balance owing regarding the clean-up after the initial $10,000 is paid. The former basis, however, would not have reported that any balance was remaining.
Another Example – Impact on Financial Statements

<table>
<thead>
<tr>
<th>Impact on Statement of Operations</th>
<th>March 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2013</td>
</tr>
<tr>
<td>Accrual</td>
<td>($100,000)</td>
</tr>
<tr>
<td>Cash</td>
<td>nil</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Impact on Balance Sheet</th>
<th>March 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2013</td>
</tr>
<tr>
<td>Accrual</td>
<td>$100,000</td>
</tr>
<tr>
<td>Cash</td>
<td>nil</td>
</tr>
</tbody>
</table>
Accrual Accounting

- Capital assets are reported on the financial statements
- Non cash transactions – depreciation, amortization, provisions, accruals, receivables are recorded
- Recognition of (retirement and pension benefits, accumulated leave) employee benefits in the financial statements
- Financial and reporting practices are similar to private sector
Why to Not Do This?

- Smaller public sector organizations do not need to do this – I mean small
- Size and scale only require limited financial information
- Limited assets being held for a long period
- No capital
- Little or no long term liability
- Day to day existence
- Simple bookkeeping will suffice.
Weaknesses of the Cash Basis

• Failure to accurately represent the amount of resource usage. For instance, a large capital acquisition will distort expenditure upward in the first year but the usage of that asset will not be recognized in following years.
• Information about assets and liabilities is frequently very limited
• Lack of an effective balance sheet to reflect true worth (or net debt) of the organization
Weaknesses of the Cash Basis

- Failure to take account of future commitments, guarantees, or other contingent liabilities.
- A liability will not be recognized until the cash is paid to settle the debt.
- Concentration on cash payments alone, sometimes resulting in an unnoticed deterioration in fixed assets.
- Focus on control of the inputs purchased rather than the outputs produced.
Weaknesses of the Cash Basis

- Distortion of incentives by encouraging managers to underestimate the costs of programs and to spend their full annual appropriations.
- Encourages end of year spending mentality
Benefits of Accrual

- Better measurement of costs and revenues including comparisons over time
- Full cost of providing a service can be compared with outside suppliers
- Greater focus on outputs rather than inputs
- A better indication of the sustainability of Government policy
- Greater comparability of management performance results.
Benefits of Accrual

- Provides a full picture of a government’s financial position
- Shows how activities of government were financed and how government met its cash requirements
- Provides useful information about the real level of government’s liabilities
Squaring Accrual with the Westminster Model of Government

- Notion that governments only vote funds or cash for one year appears to contradict this
- Vehicle for voting such funds in appropriations
- No contradiction as the approval of cash expenditures through appropriations is needed in both systems.
- Having both cash (annualized) budgets and accrual accounting means frequent reconciliations
Cash Treatment of Capital

Buying a computer system at a cost of $2.5 M, with a payment spread over two years.

<table>
<thead>
<tr>
<th>Capital Item</th>
<th>2012-13</th>
<th>2013-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Computer System - Expenditure</td>
<td>1,750,000</td>
<td>750,000</td>
</tr>
</tbody>
</table>

What is recorded here is the movement of cash to pay for the system.
## Accrual Treatment of Capital

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Statement Cash Reduction</td>
<td>1,750,000</td>
<td>750,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>750,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventory Increase</td>
<td>2,500,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Computer System – annual use/depreciation</td>
<td>500,000</td>
<td>500,000</td>
<td>500,000</td>
<td>500,000</td>
<td>500,000</td>
</tr>
<tr>
<td>Inventory (Asset) Valuation</td>
<td>2,500,000</td>
<td>2,000,000</td>
<td>1,500,00</td>
<td>1,000,00</td>
<td>500,000</td>
</tr>
</tbody>
</table>
Accrual Treatment of Capital

• Accrual would never have a single entry such as this in its Balance Sheet
• Rather, there would be two entries, perhaps three, depending on the circumstances:
  • Accounts payable or cash reduction entry
  • Inventory (Assets) entry and,
  • Depreciation.

More to follow next lecture.
Recognition of Long Term Assets & Liabilities

- Public Debt
- Pension Obligations
- Contingent Liabilities
- Tax revenues recorded in period in which they are earned.
- Contractual agreements, e.g. sick leave, leave credits
Significant Definitions and Concepts

Recognition:

- Point at which an asset or liability is formally recorded in the accounting system is the point of recognition.
- Possible to be aware of a liability and not recognize it: example: commitment to partner on a building project but costs not understood sufficiently to plug in the numbers.
Significant Definitions and Concepts

Recognition can get carried away: Example: When should state pensions become a liability on government’s balance sheet?

- When a person is born?
- When they start work?
- When they retire?
<table>
<thead>
<tr>
<th><strong>Event</strong></th>
<th><strong>Cash Basis</strong></th>
<th><strong>Accrual Basis</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Article ordered from supplier</td>
<td>No effect</td>
<td>No effect</td>
</tr>
<tr>
<td>Article arrives in Inventory</td>
<td>No effect</td>
<td>Increase accounts payable and Increase Inventory</td>
</tr>
<tr>
<td>Article is used</td>
<td>No effect</td>
<td>Decrease inventory and Decrease fund balance</td>
</tr>
<tr>
<td>Article is paid for</td>
<td>Decrease cash</td>
<td>Decrease cash</td>
</tr>
<tr>
<td></td>
<td>Decrease fund balance</td>
<td>Decrease accounts payable</td>
</tr>
</tbody>
</table>
Significant Definitions and Concepts

Expense:

- Expenses represent the cost of goods and services consumed or used up in the process of fulfilling the organization’s objectives.
- They are measured by the amount of an asset used (e.g. depreciation) or the amount of a liability incurred (e.g. creditor's amount).
- Expense, used both as a noun and a verb, refers to the identification, in the accounting system of an obligation to pay, a liability or unpaid obligation.
Significant Definitions and Concepts in General Accounting

Expenditure:

- An expenditure is the amount of cash paid for goods and services.
- May be to purchase an asset or reduce a liability.
Example of the difference between expenditure and expense

A regional office of Ontario Transport makes an expenditure of $255,500 to purchase snow plowing equipment. The expenditure occurs on a single day and the equipment is placed in service. This will appear on the Statement of Cash Flows. Assuming the equipment will be used for seven years, the cost of the equipment will be reported as depreciation expense of $100 per day for the next 2,555 days (7 years of service with 365 days each year). This depreciation expense will appear on the Statement of Operations and then on the Balance Sheet.
Significant Definitions and Concepts

Treatment of Non-cash transactions:

• Accrual accounting entails recording non-cash transactions such as depreciation, provisions, bad debts, etc.

• Non-cash transactions have a monetary value and contribute to the government, organization or unit’s financial position.

• Examples of non-cash transactions:
  • Depreciation
  • Future liabilities, e.g. pensions, vacation leave
Can Accrual Accounting and Budgeting prevent a public sector Enron?

- Is it the form of the accounting system that creates the risk in government accounting?
- Would a change from cash to accruals make the difference?
- No – Enron accounted on an accruals basis! – well, sort of, it even abused its accounting standards: mark-to-market accounting
- Other factors are far more important
Can Accrual Accounting and Budgeting prevent a public sector Enron?

- Strong audit/accountability arrangements
- Clear separation of capital from revenue expenditure and income
- Political willingness to challenge and cause change in accounts if necessary
- Independence of standard setting from Government
- Independence of External Audit function
- Capacity of managers to ‘read the balance sheet’
- Internal systems of control
<table>
<thead>
<tr>
<th></th>
<th>Cash Accounting</th>
<th>Accrual Accounting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operational requirements</td>
<td>Relatively simple</td>
<td>Relatively complex</td>
</tr>
<tr>
<td>Links to traditional budget and revenue systems</td>
<td>Relatively strong</td>
<td>Relatively weak</td>
</tr>
<tr>
<td>Coverage</td>
<td>Records only transactions that result in cash payments or receipts</td>
<td>Records estimated non-cash transactions as well</td>
</tr>
<tr>
<td>Timing</td>
<td>Records only transactions that occur within the accounting period</td>
<td>Records the estimated future effects of current transactions and policy changes</td>
</tr>
<tr>
<td>Audit and control</td>
<td>Relatively simple</td>
<td>Relatively demanding</td>
</tr>
</tbody>
</table>
The Value of Accounting is achieved if...

• It met its primary purpose of accountability, transparency, and usefulness, particularly to stakeholders:
  • There is an analysis of financial performance, rather than a list of activities.
  • One can assess and document performance against targets or other bases for comparison.
  • Provide and review trends in financial and non-financial performance (e.g., “triple-bottom-line reporting”).
  • Integrity of financial data was upheld - compiled under an independently determined and internationally recognized financial reporting framework, and independently audited against international standards.
“Books and auditing of accounts, instead of exposing frauds, only conceal them; for prudence is never so ready to conceive new precautions as knavery is to elude them.”