



# Accrual-Based Accounting and the Reform of Public Financial Management

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## Abstract

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Public financial management reform represents a strategic effort to strengthen state financial governance through enhanced transparency, accountability, and fiscal efficiency. The transition of the accounting system from a cash basis to an accrual basis constitutes a crucial component of this reform, as it provides a more comprehensive view of the government's financial position. The accrual basis enables the recognition of revenues, expenses, assets, and liabilities at the time economic transactions occur, rather than when cash is exchanged. Nevertheless, the implementation of this system encounters several challenges, including limitations in human resources, technological infrastructure readiness, and the complexity of regulatory frameworks and institutional coordination. This study aims to examine the dynamics of accrual-based government accounting reform in relation to improving public transparency and accountability. Using a historical study approach, the research analyzes the evolution of public financial policies and the implementation of accrual accounting to identify the key success factors and obstacles encountered during its application in the public sector.



## **1. Introduction**

Public financial management reform is a key agenda item in improving good governance by enhancing the transparency, accountability, and efficiency of public resource management. This effort stems from the awareness of the importance of a financial system that can provide more comprehensive, relevant, and reliable financial information for public decision-making. This reform was then realized through the implementation of accrual-based accounting, which became the main pillar of change towards a modern financial reporting system in the public sector (Thomas et al., 2017). Before the reform, most government entities used the cash basis, which only recognized transactions when cash was received or paid. This system was considered inadequate to fully reflect the financial position because it did not recognize assets, liabilities, or costs that had not been realized.

Therefore, many countries began adopting accrual-based accounting, which recognizes transactions when the economic event occurs, regardless of the movement of cash. With this approach, financial information becomes more transparent, as financial statements can show the government's total assets, liabilities, and equity more accurately (Phuong-Nguyen et al., 2020). Accrual-based accounting also plays an important role in strengthening public accountability. With more comprehensive information, policymakers and the public can assess the extent to which the government manages public resources effectively. This system provides a strong basis for performance-based budgeting and results-oriented management, allowing public oversight of fiscal performance to be more objective (Lentner et al., 2020). Furthermore, the application of the accrual basis aligns with the International

Public Sector Accounting Standards (IPSAS), which are the global standards for strengthening the credibility and consistency of financial reporting in the public sector.

However, the transition to the accrual system is not free from challenges. Key obstacles include the limitations of human resources with accrual expertise, inadequate technology infrastructure, and bureaucratic resistance to system changes. Research indicates that many developing countries still face difficulties in aligning reform policies with existing institutional capacity, leading to accrual implementation often being partial or symbolic (Parker et al., 2019). In addition to technical factors, political support also plays a critical role in the success of public accounting reform. Strong political commitment is needed to provide a stable regulatory framework, ensure funding for training, and foster a culture of accountability within the bureaucracy.

Without this support, accrual reform risks becoming merely a formal policy without a real impact on fiscal transparency or financial management efficiency (Nasution, 2017). In the global context, the application of accrual accounting has been proven to have a positive impact on the quality of financial reporting and public trust. Empirical studies show that countries that successfully implement this system experience a significant increase in fiscal transparency and the reliability of financial information (Pamungkas et al., 2018). However, the level of success is highly dependent on institutional readiness and synergy among the involved agencies. This research employs a historical study approach to trace the process of public financial management reform and the implementation of accrual-based accounting in the

context of building transparent and accountable financial governance. This approach allows for a chronological tracing of the paradigm shift in government accounting from a cash basis to an accrual basis, as well as the identification of internal and external factors influencing the success of the reform. The research findings are expected to provide theoretical and practical contributions to understanding the dynamics of modernizing government accounting systems in the era of public financial reform

## **2. Literature Review**

### **2.1 Public Financial Management Reform and the Principle of Accountability**

Public financial management reform is part of the effort to realize good governance, which demands transparency, accountability, and efficiency in the management of public resources. According to Thomas et al. (2017), public financial reform aims not only to improve the reporting system but also to strengthen control and oversight mechanisms over the use of state budgets. Public accountability is the core of this reform, where every government entity is obliged to account for the use of resources to the public through credible and auditable financial reports. In the modern context, fiscal accountability cannot be separated from transparency. Both form the basis for public trust in the government.

Parker et al. (2019) explain that increased transparency in public financial reports strengthens participatory mechanisms in fiscal policy oversight. Public financial reform, accompanied by the adoption of international reporting standards,

such as the IPSAS, enables the creation of a financial information system that is comparable across countries. This strengthens cross-institutional accountability and minimizes the space for deviation practices. Furthermore, Upadhaya et al. (2019) highlight that the success of public financial reform heavily depends on the quality of the Public Financial Management (PFM) system implemented. An effective PFM system is capable of improving fiscal discipline and optimizing the allocation of public resources. Accrual-based accounting reform is a key instrument in strengthening the PFM system by providing relevant financial information for strategic decision-making.

## **2.2. Implementation of Accrual-Based Accounting in the Public Sector**

The application of accrual-based accounting in the public sector is one of the important steps in government accounting reform. This system recognizes revenues, expenses, assets, and liabilities when the economic transaction occurs, not just when cash changes hands. Phuong-Nguyen et al. (2020) state that the application of the accrual basis improves the quality of financial reports and expands the scope for analyzing government performance. With this system, the government can more accurately measure the costs and benefits of the fiscal policies implemented. Meanwhile, Lentner et al. (2020) emphasize that the success of accrual basis adoption depends on institutional readiness, the audit system, and human resource capacity.

Countries that successfully implement the accrual system have reform strategies that involve intensive training, information technology support, and adjustments to financial regulations. Furthermore, strong political commitment is a determining factor in ensuring the sustainability of the reform. Research by Alsharari

(2019) indicates that the adoption of IPSAS-based accrual accounting not only meets accountability demands but also helps reduce information asymmetry between the government and the public. This reform strengthens the principle of fiscal transparency, where all state obligations and assets are systematically reported. Nevertheless, implementation barriers still often occur, especially in system conversion, technical understanding, and limitations of historical accounting data. According to Nasution (2017), the adoption of the accrual system also plays an important role in maintaining fiscal discipline. With a more complete recognition of liabilities and assets, the government can control deficits and debt more effectively. This strengthens fiscal integrity and creates a more sustainable financial system in the long run.

### **2.3. Challenges and Future Directions for Public Accounting Reform**

Although many countries have adopted the accrual system, its implementation in the public sector still faces various challenges. Rahman and Mahmud (2018) found that the main constraints stem from the lack of professional public accounting training and information systems that do not fully support accrual recording. In addition, reform is often hampered by bureaucratic resistance reluctant to abandon the old system. According to Dauda (2019), this resistance is often influenced by the perception that accrual accounting is a complex and expensive system to implement. Therefore, public financial reform needs to be carried out gradually, starting from high-capacity entities before being implemented nationally. This phased approach also allows for continuous evaluation to address implementation weaknesses.

Furthermore, Pamungkas et al. (2018) affirm that the success of accrual reform is highly determined by the integration of the accounting system with the performance management system. When financial reports are used as tools to assess the effectiveness of programs and policies, accrual accounting serves not only as a reporting instrument but also as a means of increasing efficiency and public accountability. Overall, the literature shows that accrual-based public financial reform has a positive impact on fiscal transparency and accountability. However, its success demands inter-agency collaboration, investment in training, and strengthening of information technology infrastructure. The combination of political support, institutional capacity, and technical readiness is the main key to ensuring the sustainability of this reform.

### **3. Methods**

This research adopts a historical study approach to analyze the dynamics of public financial management reform and the implementation of accrual-based accounting as an integral part of the modernization of the government financial system. This approach was chosen because it is capable of presenting a chronological and comprehensive perspective on the evolution of government accounting policy, especially in the transition from a cash-based system to an accrual-based system. Through historical analysis, this research not only traces policy changes but also seeks to understand the social, economic, and political context underlying the reform process. The research stages include four main steps: heuristics, criticism, interpretation, and historiography. In the heuristics stage, the researcher collected

various relevant secondary sources, including scientific articles, government financial reports, and policy documents related to public accounting reform.

Key sources refer to reputable international journals from the last five years, such as the works of Pamungkas et al. (2018), Phuong-Nguyen et al. (2020), Lentner et al. (2020) which examine the application of accrual-based accounting in improving the transparency and accountability of state financial management. The second stage, source criticism, was carried out to assess the validity and relevance of the documents obtained. External criticism was directed at testing the authenticity of the sources, while internal criticism focused on evaluating the content and context of the data. This step ensures that all information used has high academic reliability and is in line with the research objectives. The third stage, interpretation, is the process of processing validated data to identify patterns and causal relationships between policy reform and the results of accrual-based accounting implementation.

The analysis at this stage is placed within the theoretical framework of public financial governance that emphasizes the principles of fiscal transparency and accountability (Thomas et al., 2017). The final stage, historiography, produced a chronological and analytical narrative reconstruction of the journey of public financial management reform. The research results are presented in the form of a scientific narrative that describes the development of the government accounting system, the driving and inhibiting factors of the reform, and its implications for increasing transparency and accountability. This historical approach is expected to provide a theoretical contribution to strengthening the government accounting



literature while offering policy recommendations to improve the public financial system in the future.

## 4. Results

The results of this study show that accrual-based public financial management reform has led to fundamental changes in the government accounting system, both in terms of institutional structure, reporting system, and public accountability mechanisms. Based on historical analysis, this reform does not only represent a technical transformation but also reflects a paradigm shift that places transparency and accountability as the main foundations of state financial governance. The shift from a cash system to an accrual system was carried out as an effort to overcome various weaknesses of the previous system, which was unable to provide a comprehensive picture of the government's financial condition. In the cash-based system, revenues and expenditures are only recognized when cash transactions occur, so unrealized assets and liabilities are not reflected in the financial statements (Klammer, 2019). This condition caused the cash system to be considered inadequate to support data- and performance-based decision-making processes comprehensively.

The application of accrual-based accounting allows for the recognition of all assets, liabilities, revenues, and expenses when economic transactions occur, not just when cash flows occur. Thus, the resulting financial statements become more comprehensive and are able to describe the government's financial position thoroughly. The implementation of this system provides a stronger basis for

policymakers in formulating fiscal policies that are accurate, measurable, and sustainable. The findings of Tran et al. (2021) confirm that accrual accounting contributes to improving the government's ability to assess long-term liabilities and to manage state assets more effectively. With the availability of more detailed information on the value of fixed assets, receivables, and liabilities, the government can design strategies for the use of public resources more efficiently, transparently, and accountably. In addition to improving the quality of financial reporting, accrual accounting reform also has significant implications for increasing fiscal accountability.

Through this system, the public and supervisory institutions can objectively assess the extent to which the government carries out its responsibilities in the use of public funds. Dewi et al. (2018) highlight that the adoption of the accrual basis strengthens the integrity of financial statements and creates a more transparent relationship between fiscal inputs and policy outputs. Accrual-based financial statements also provide a clearer basis for evaluation by public audit institutions in assessing the effectiveness and efficiency of government programs, thereby strengthening both external and internal oversight mechanisms. The results of this study also indicate that the implementation of accrual-based accounting encourages a change in organizational culture in the public sector.

This reform demands an increase in analytical capacity, professionalism, and a deeper understanding of modern financial concepts among government officials. Therefore, intensive and continuous training is an important aspect in strengthening human resource competence so that they are able to translate accrual principles into

administrative practice. Tóth (2019) found that countries that successfully implemented the accrual system effectively generally have structured training and institutional transition strategies, accompanied by strong technological support and supervisory systems. Effective reform is carried out not only at the macro policy level but also includes technological transformation and strengthening of internal audit systems across all government lines. However, the results of the analysis also show that the application of the accrual system is not free from obstacles. The main challenge lies in the consistency of application and the readiness of the supporting infrastructure.

Many government entities still face constraints in preparing accrual-based financial statements due to limited information systems, data quality, and inadequate human resources. Parker et al. (2019) assert that the success of accrual reform is highly dependent on cross-agency coordination and the availability of integrated reporting systems. Without such coordination, accrual implementation risks becoming merely a formal administrative process without providing real substance to fiscal transparency and accountability. From the regulatory side, public accounting reform also demands harmonization with the national legal and fiscal policy framework. Inconsistency between accounting standards and financial regulations often creates confusion in applying accrual principles.

For example, there are still differences in revenue recognition between government accounting standards and state budget provisions. This inconsistency leads to difficulties in the consolidation process of financial statements between government entities. Nasution (2017) highlight the importance of synchronization

policies between the accounting framework and the budget system to ensure integration in the implementation of fiscal transparency. Without regulatory alignment, accrual reform will face structural constraints that can hinder the effectiveness of public financial policy. Furthermore, the historical analysis in this study reveals that accrual-based public financial reform has broad implications for decision-making processes at the government level. More complete financial information allows for more comprehensive cost-benefit analysis and policy evaluation.

The accrual system also provides a more accurate picture of long-term liabilities, such as pension obligations, debt, and government project contracts, which were previously not recorded in the cash system. Thus, fiscal policy becomes more oriented towards sustainability and long-term efficiency, not merely annual budget balance. In addition, the application of accrual accounting also contributes to increasing the efficiency of public financial management. Systematic transaction recording allows the government to identify duplication of expenditures, strengthen internal control mechanisms, and accelerate the audit and reporting process. Thomas et al. (2017) show that the accrual system encourages better fiscal discipline through transparent recording of assets and liabilities, thereby strengthening public confidence in the credibility of government financial reports. From a macroeconomic perspective, accrual-based public financial reform also increases a country's fiscal credibility in the eyes of international financial institutions.

Accurate and transparent financial reports are important indicators in assessing economic stability, governance, and the level of investor confidence.

Several studies show that countries that successfully implement the accrual system tend to gain an increase in credit ratings and fiscal reputation in the global market, as they are considered to have more professional, efficient, and high-integrity financial management. Nevertheless, the implementation of accrual accounting in the public sector also raises significant administrative consequences. The complexity of this system demands significant investment in the form of increased training costs, development of accounting software, and strengthening of audit and oversight systems. In the context of public financial reform, these transition costs can be seen as a long-term investment to achieve better governance.

However, if this process is not managed with careful planning, the cost of reform can actually lead to bureaucratic resistance and slow down the process of institutional transformation. Overall, the results of this study confirm that accrual-based public financial management reform brings significant positive impacts on increasing fiscal transparency, accountability, and efficiency. However, its success is highly influenced by consistent political support, institutional readiness, and human resource competence. Accrual reform is not just a technical change but a systemic transformation that touches on institutional, regulatory, and organizational culture aspects. Therefore, the sustainability of this reform requires cross-sector commitment, inter-agency coordination, and strengthening of the oversight system to ensure that the accrual principle is truly applied effectively and consistently across all government entities. With continuous and directed implementation, the accrual system can become a strong foundation for the formation of a government that is

transparent, accountable, and oriented towards performance and long-term fiscal sustainability.

## **5. Discussion**

The results of this study confirm that the implementation of accrual-based accounting in the public sector is the main foundation for building a financial governance system that is transparent, accountable, and performance-oriented. Public financial reform adopting the accrual approach does not only change the mechanism of financial recording but also reformulates the paradigm of government fiscal management. This change demands a shift from administrative orientation towards a managerial system based on data, performance, and measurable fiscal accountability.

Nevertheless, the success rate of the reform is highly dependent on institutional readiness, human resource capacity, and political commitment in overseeing the transformation process sustainably. The findings of this study are in line with the results of the study by Efuntade (2019), which states that the application of the IPSAS is a fundamental strategy in strengthening fiscal accountability and transparency. This standard emphasizes the importance of comprehensive recognition of assets and liabilities so that financial reports are able to represent the actual financial condition. Through the accrual system, the government can identify long-term liabilities that were previously hidden in the cash-based system, while obtaining more comprehensive financial information to support the planning of sustainable fiscal policies. In addition, the application of accrual also functions as a

supervisory instrument that strengthens the evaluative capability of fiscal performance and the efficiency of public resource use.

Despite this, implementation challenges remain a central issue in accrual accounting reform. This reform demands a deep change in bureaucratic culture as well as a significant increase in institutional capacity. Tóth (2019) highlight that the failure to build accounting information system infrastructure and institutional capacity is often the main inhibiting factor in the implementation process. On the other hand, resistance to change in the bureaucratic environment causes the process of adopting technology and updating financial procedures to run slowly. In many cases, accrual reform stops at the administrative level without producing substantial changes to the patterns of management and decision-making in the public sector. From a financial governance perspective, Tran et al. (2021) emphasize the importance of harmonization between the accrual system and the national fiscal legal framework.

Inconsistency between accounting regulations and the budgeting system often leads to inconsistency in financial reporting and hinders the consolidation of data between government entities. Therefore, reform needs to be designed systemically, by considering the integration of fiscal policy, public audit mechanisms, and financial reporting systems so that the application of accrual is truly effective. In addition to technical and institutional aspects, political commitment is also a determining factor for the sustainability of reform. Dewi et al. (2018) assert that without strong political support, accrual reform has the potential to become an administrative formality without generating a real impact on the quality of public financial governance.

The government must ensure that accrual principles are implemented not merely as a regulatory obligation, but as a strategic foundation in fiscal decision-making and long-term planning (Dorn et al., 2021). This study concludes that the success of accrual-based public financial reform requires a holistic approach that integrates technical, institutional, regulatory, and organizational culture aspects. The implementation of accrual-based accounting not only improves the quality of financial reports but also strengthens public trust in government performance. With consistent political commitment, adequate institutional support, and increased human resource capacity, accrual-based public financial reform has the potential to be the main driver for creating transparent, efficient, and sustainable governance.

## **6. Conclusion**

Public financial management reform through the implementation of accrual-based accounting has become a strategic step in strengthening transparent and accountable governance. The change from a cash-based system to an accrual basis provides significant benefits to the quality of financial reporting, the effectiveness of fiscal oversight, and public trust in state financial management. This system allows the government to present a more realistic financial condition through the recognition of assets, liabilities, revenues, and expenses when economic transactions occur. The research results show that the success of accrual reform is highly dependent on institutional readiness, human resource capacity, information technology support, and political commitment in supporting the sustainability of the change.



Without such support, reform risks becoming merely an administrative formality without providing a substantive impact on fiscal transparency. On the other hand, the application of accrual also demands harmonization with fiscal policies and the budgeting system so that the results of financial reporting are aligned with budget management practices. Accrual-based public accounting reform is not just a technical update but a systemic transformation that reflects the modernization of the financial bureaucracy. With consistent implementation and cross-agency support, accrual accounting has the potential to be the main foundation for building a government that is open, efficient, and highly integrated.

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