



Federation of European Accountants

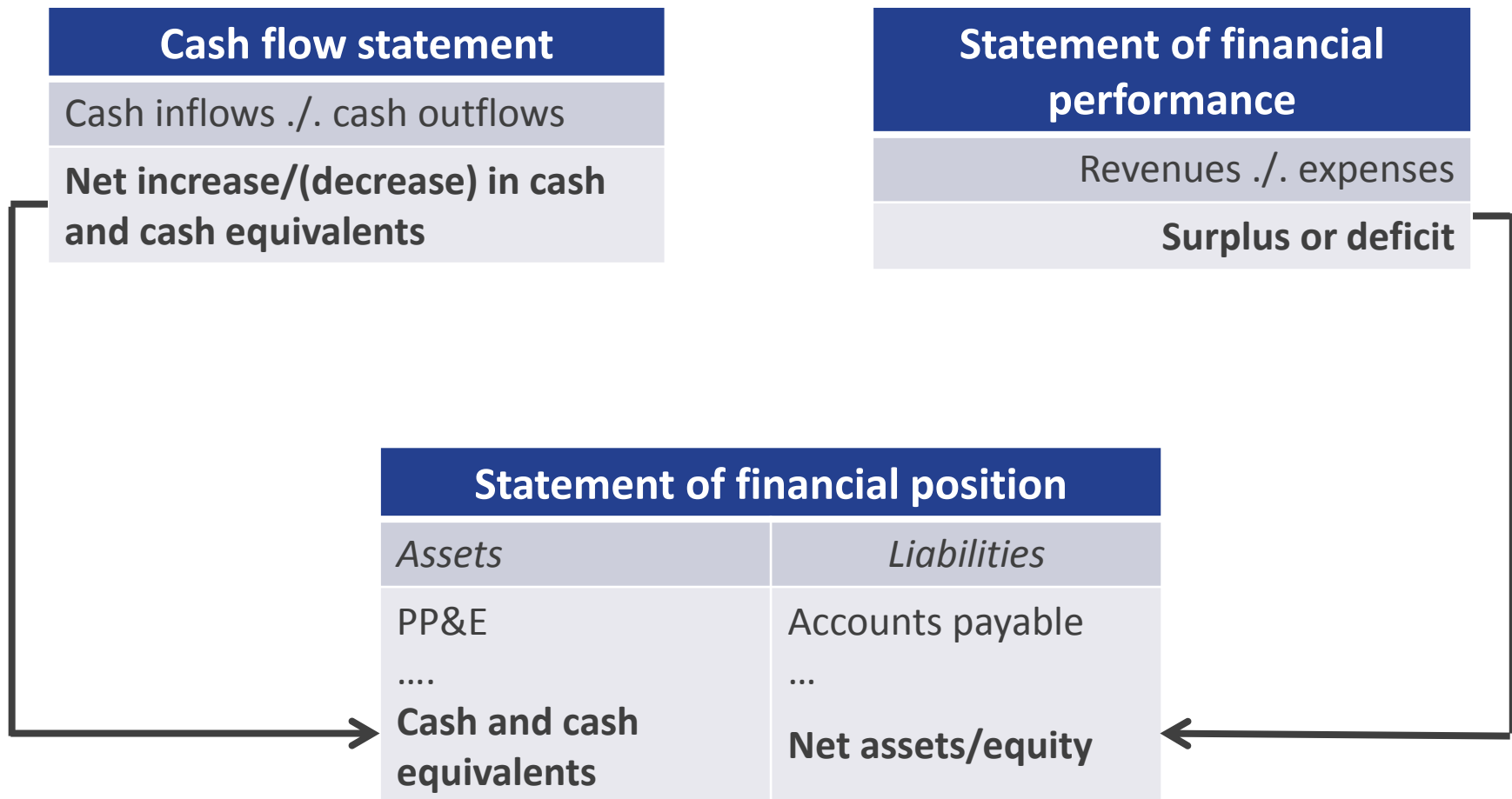
The big misunderstanding of cash versus accrual accounting

Transition from cash accounting to accrual accounting:
problems and benefits

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Three-Component-Approach is integral to accrual accounting



The importance of cash information under IPSAS

- IPSAS 2, *Cash flow Statements*, covers:
 - (a) the sources of cash inflows and the items on which cash was expended during the reporting period [FLOWS], and
 - (b) the cash balance as at the reporting date [STOCKS].
- IPSAS 2 allows to use either the direct method or the indirect method.
- IPSAS 2 encourages the use of the direct method

The importance of cash information under EPSAS

- The EPSAS Cell on First Time Implementation is of the view that having a cash flow statement would be beneficial and “it would furthermore highlight that cash figures also had an important role in the accrual based financial statements being both relevant and important”.
- However, the view of the WG should be sought on the different approaches to cash flow statements (direct, indirect)

The importance of cash information in PFM assessment frameworks (1)

- **PEFA - Framework for assessing public financial management (2016)**
 - Focus on:
 - Forecasting cash flows
 - Management of cash balances
 - Reporting of cash flows in a cash flow statement

The importance of cash information in PFM assessment frameworks (2)

- **IMF - Fiscal Transparency Code (2014)**
 - Focus on:
 - Flows, so that fiscal reports cover cash flows [good practice]
 - Stocks, so that fiscal reports cover cash and deposits [basic practice]
 - Reporting of cash flows in a cash flow statement [where accrual accounting is used]

Conclusion

- The implementation of accrual accounting does not replace cash information – it enriches and complements the cash data by additional perspectives.
- Very often under accruals the budget is kept under the cash regime – reporting on actual cash flows allows comparisons with the budget.
- In order to ensure government operations, sufficient liquidity is essential – regardless of the accounting system applied.

Let's discuss



