

# IPN Journal *of* Research and Practice *in* Public Sector Accounting *and* Management

*(Special Issue)*

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**Perakaunan dan Pelaporan Aset Warisan, Aset Pertahanan dan Aset Infrastruktur Berasaskan Akruan**

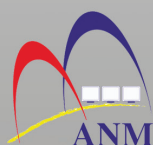
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**Accrual Accounting: Change And Managing Change**

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**Conceptual Understanding In Managing Change Towards Accrual Based Accounting In Malaysian Public Sector**

**Dr. Fauziah Mahat  
Assoc. Prof. Dr. Noor Azman Ali**



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# **IPN Journal** *of* **Research and Practice** *in* **Public Sector Accounting** *and* **Management**

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## NOTES FROM THE ACCOUNTANT GENERAL OF MALAYSIA

Dear Readers,

Welcome to the special issue of the *IPN Journal of Research and Practice in Public Sector Accounting and Management*. Its purpose is to enhance the development of theory, research and practice to support Public Sector Accounting and Management in Malaysia.

By the year 2015, our agenda is to adopt accrual accounting in the preparation of Federal Government Financial Statement. Therefore, in this issue, we are pleased to publish five papers which focus some of the issues faced by countries adopting accrual accounting for the Federal Government, including Malaysia. It is recognized that Public Sector Accounting practices in Malaysia has evolved since independence. However, there was a dearth of published empirical material on Public Sector Accounting in Malaysia and thus, represent a very small body of research which has had little impact on Public Sector Accounting practices.

In our journey to adopt accrual accounting, although the International Federation of Accountants (IFAC) has established International Public Sector Accounting Standards (IPSAS), there is still a need to evaluate the applicability of the standards in a Malaysian setting. In addition, the adoption of accrual accounting will have to address some of the issues. Among them are the recognition of tax revenue, pension and gratuity; valuation of assets including military and heritage assets; intangible assets etc.

The steps taken by Institut Perakaunan Negara, in collaboration with various universities to investigate some of the issues described above will help us to gain a broader view of the phenomena and a better understanding in the adoption of accrual accounting in a Malaysian setting. I hope that this '*one small step in a long journey*' will extend the mainstream accounting literature particularly in the Malaysian public sector.

Lastly, I would like to take this opportunity to thank all parties for giving their time and expertise in publishing this journal. Congratulations.

Datuk Wan Selamah Wan Sulaiman



## Fund Accounting For Federal Government: Is It Still Relevant?

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### Abstract

In the early days, the main purpose of public sector accounting was to demonstrate the legal and contractual provision of the government. It acts as the trustee to protect and manage public moneys and discharge accountability. Fund Accounting is used and defined as the rational resource to serve as a reliable control technique for those purposes. However, developments in governmental activities in recent years have raised concerns over whether the cash basis of accounting is sufficient and whether fund accounting is still relevant for present government accounting and financial reporting in the accrual accounting environment. Thus, the main objective of this paper is to provide an extensive review of literature for current developments in governmental fund accounting. The findings of this study, through extensive literature review, shall contribute to the empirical study to be conducted in order to support the revised fund accounting model for the Federal Government in Malaysia. This is done to achieve the control mechanisms of resource management and performance evaluation.

### Keywords:

Government Funds, Fund Accounting, Accrual Accounting, Federal Government, Malaysia

### Introduction

Traditionally, Government in United States of America (USA) uses input-based budgeting systems and cash-based accounting systems for accounting and financial reporting with the aim to protect and manage public money and discharge accountability. However, these systems do not provide the information that is necessary for a government to operate efficiently and effectively. Therefore, a growing number of countries, such as Australia, New Zealand, and the United Kingdom, are already shifting, or are planning to shift, from input based to outcome based budgeting system and from cash-based to some form of accrual accounting system.

The main purpose of public sector accounting in the early days was to demonstrate legal and contractual provisions of the Federal Government that is chosen by its people to carry out the duties of managing the country according to the Federal Constitution (Rayegan, Parveizi, Nazari, and Emami, 2012.) Fund accounting is used and defined as the rational response to serve as a reliable control technique for that purpose. However, due to the growing establishment of business types of government agencies, the need for the adoption of accrual accounting in the public sector is required for measuring performance and providing information on the operating results (Freeman & Shoulders, 1999).

Among the numerous changes in government accounting in recent years is the emergence of accrual basis of accounting based on the International Public Sector Accounting Standards (IPSAS). Financial statements prepared on the accrual basis inform users of past transactions involving the payment and receipt of cash. They also show obligations to pay cash in the future and of resources that represent cash to be received in the future (Chan, 2003).

According to the International Public Sector Accounting Standards Board (IPSAS), accrual based financial reporting by the public sector provides the following advantages (Chan, 2003):

1. It shows how an entity financed its activities and met its cash requirements.
2. It allows users to evaluate an entity's ongoing ability to finance its activities and to meet its liabilities and commitments.
3. It shows the financial position of an entity and changes in financial position.
4. It provides an entity with the opportunity to demonstrate successful management of its resources.
5. It is useful in evaluating an entity's performance in terms of its service costs, efficiency, and accomplishments.

In addition, the purposes of government accounting and the nature of public goods and tax financing also give rise to differences of public sector accounting with commercial accounting (Chan, 2003). According to Chan, government accounting has three purposes listed as follows:

1. Its basic purpose is to safeguard the public treasury by preventing and detecting corruption and graft.
2. The intermediate purpose of government accounting is to facilitate sound financial management which includes activities such as collecting taxes and other revenues, paying bills, borrowing and repaying debts. In a well run government, these activities

are budgeted and their execution through authorised transactions are recorded in the financial accounting system.

3. The advanced purpose of government accounting is to help government discharge its public accountability.

In order to serve the three identified purposes and to prepare financial statements that comply with the generally accepted accounting principles (GAAPs), fund accounting was used to account for government type activities. Fund Accounting is a self-contained accounting entity with its own assets, liabilities, revenues, expenditures and fund balance. Fund Accounting is the financial accounting techniques adopted and reported in terms of funds in the operating statements and balance sheet of public sector organizations.

The objectives of fund accounting are to show the financial condition and its changes in the organization, the results of operations of the organization and its compliance with legal restrictions. According to Razek and Hosch (1995), the practical effects of adopting fund accounting depend upon the extent to which different funds are utilized and the form and extent to which the individual fund accounts are consolidated in the final accounts. Fund accounting explicitly requires the political, economic and legal differences that exist between the services provided, and the activities carried on, within public sector organizations.

Based on previous articles reviewed by Ingram (1986), the following are some arguments against fund accounting:

1. It fails to describe the operating results of the government as a whole.
2. It is too complicated for external users to understand.
3. It focuses too much on legal compliance and too little on efficiency evaluation.
4. It does not permit taxpayers to determine the need for taxes.
5. It permits managers to distort performance and thereby misappropriate resources and abuse of funds.

Procedures and practices of accounting and reporting in Malaysia are governed by a set of rules. Among the regulations governing the accounting procedures for the government are Federal Constitutions (Revised 1972), the Financial Procedures Act, 1957 (Revised 1972) and the Audit Act 1957 (Revised 1972). These Acts provide limited and general provisions on financial, budgeting, accounting and auditing aspects of the government. The Federal Constitution, for example, sets out the rules regarding financial provisions. Specific requirements concerning the control and management of public finance as well as the financial and accounting procedures are provided by the Financial Procedure Act 1957.

Further guidelines and requirements concerning accounting procedures are issued by the Treasury through instructions and circulars (Zakiah Salleh, 2007).

For the Malaysian Government, all government revenues and monies received have to be accounted for into a fund, known as the Consolidated Fund. Article 97(1) of the Federal Constitution states that all revenues and monies howsoever raised or received by the Federation shall, subject to the provisions of this Constitution and of Federal law, be paid into and form one fund. This fund is known as the Federal Consolidated Fund. Article 97(2) states that all revenues and moneys howsoever raised or received by a State shall, subject to Clause (3) be paid into and form one fund. This fund is to be known as the Consolidated Fund of that State. Section 7 of the Financial Procedure Act, 1957 further explains that there are three separate accounts maintained by the financial authority in respect of the Consolidated Fund. These are the Consolidated Revenue, Trust and Loan Account. Government Accounting Standard (GAS) Nos 3, 4 & 5 set up by the Accountant General Department in Malaysia also explains the three types of Consolidated Fund in compliance with Federal and State Government in preparing their Public Accounts. Public sector organizations are producing financial statements as regulated under Section 16 (1) of the Financial Procedure Act 1957 (Revised 1972). This is known as Public Accounts. The Federal Public Accounts contain the Balance Sheet, Statement of Cash Receipts and Payments, Statement of Memorandum Accounts and notes to the Accounts. The Balance Sheet comprises of a Statement of Cash, Statement of Investments, the Statement of Consolidated Revenue Account, the Statement of Consolidated Loan Account and the Statement of Consolidated Trust Account.

The Federal and State Governments in Malaysia have adopted a modified cash basis of accounting in the preparation of the annual financial statements. Expenditures incurred in the prior financial year but not yet paid will be paid in January of the new financial year and are reported as expenses for the prior financial year. As for Local Government, Statutory Bodies and Government Linked Companies in Malaysia, they have adopted an accrual basis of accounting in preparation of the general purpose of financial statements.

For Federal Government in Malaysia, the planned adoption of accrual accounting in 2015 shall provide a broader measure of the burden of government financial commitments than does cash accounting. Full disclosure of liabilities and contingent liabilities is equally necessary in assessing the true economic implications of public sector financial management (Accountants Today, 2011).

Given that the emphasis of accrual accounting is more reliable than cash accounting in measuring financial performance, this study thus attempts to evaluate the relevance of the concept of fund accounting adopted by the Federal Government in Malaysia for its transformation process toward accrual basis of accounting. The main objective of this paper

is to provide extensive review of literature for the current developments in governmental fund accounting. It is hoped that this study can provide literature evidence on the relevance of fund accounting which can still be adopted by the Federal Government in Malaysia during its transformation process toward an accrual basis of government accounting and financial reporting. The findings of this study through extensive literature review shall contribute to the empirical study to be conducted. This is to support the revised fund accounting model for the Federal Government in Malaysia as it moves towards its accrual accounting implementation for the control mechanisms of resources management and performance evaluation.

### **Literature Review of Fund Accounting**

In business accounting, the term “funds” typically refers to working capital (current assets less current liabilities) or selected elements of it (such as cash and investments) (Lynn and Freemann, 1983). However, the term fund has a different meaning for government and not-for-profit accounting entities since they establish their accounting systems based on a fund basis (Lynn and Freemann, 1983). As an accounting entity, each fund has its own self-balancing sets of accounts from which separate financial statements can be prepared. Government and not-for-profits commonly use several funds to account for their resources and activities. For example a church may use one fund for general operations, another for resources set aside to construct a new building and a third for its religious schools.

A fund is defined as a fiscal and accounting entity with a self balancing set of accounts recording cash and other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitation (Razek and Hosch, 1995; Governmental Accounting Standards Board, GASB, 1998). With term self-balancing for sets of accounts, each fund of a government or not-for-profit uses the accounting equation:  $\text{assets} = \text{liabilities} + \text{fund balance}$ . This is a variation of the business accounting equation ( $\text{assets} = \text{liabilities} + \text{owners' equity}$ ). The term fund balance like owners' equity is a residual and is often referred to as net assets. Fund balance or net assets is the amount left to the parties with rights to the assets after all other claims against those assets have been liquidated (Lynn and Freemann, 1983). Since the basic accounting equation is the same, funds can be accounted for by the same double-entry system of bookkeeping as the current status and past performance of businesses can be summarized by similar financial statements. For example, the balance sheet of a fund can detail the specific assets, liabilities and elements of the fund balance that underlies the accounting equation as at any point in time. A statement of revenues, expenditures and other changes in the fund balance can explain the reasons for changes in the fund balance during a specified period. A statement of cash flow can reconcile the changes in cash between the end and the beginning of a period (Lynn and Freemann, 1983).

The objectives of fund accounting are to show the financial condition, changes in the organization, the results of operations of the organization and its compliance with legal restrictions. Fund Accounting also recognizes the political, economic and legal differences that exist between the services provided and the activities carried on within public sector organization.

Fund accounting promotes control and accountability over restricted resources. Government and not-for-profits establish separate resources into multiple types of funds to ensure that they adhere to the restrictions placed upon them by legislators, grantors, donors and other outside parties.

Characteristics of fund accounting Fatimah Abd Rauf , Haslinda Yusof, Normahiran Yatim, Usha Rani Poobaalan, Saluana Che Salleh, Radiah Othman (2009) can be summarized as follows:

1. Fund accounting is the financial accounting techniques adopted and reported in terms of funds in the operating statements and balance sheets of public sector organizations.
2. Fund accounting explicitly recognizes the political, economic and legal differences that exist between the services provided and the activities carried on within public sector organization.
3. Most government bodies use fund accounting where each fund is an independent accounting entity.
4. The fund is the sum of money allocated for specific purposes.
5. Each fund has its own set of accounts with complete double-entry and financial statements.
6. It must be self balancing and autonomous (Total Assets = TotalLiabilities).

### **Current Developments of Fund Accounting**

In government accounting, the resources of the government are accounted for through funds. A fund is a separate fiscal and budgetary entity. Funds are set up to demonstrate stewardship and fiscal accountability for the resources entrusted to the government. Government types of funds are defined as those funds in which the accounting emphasis (measurement focus) is placed on spending activities. Within this group are the funds that primarily account for the receipt and disbursement of resources used to provide services (Razek & Hosch, 1995). In government accounting, the measurement basis used for the accounting system depends on the fund or funds involved and are guided by sound financial judgement (Hepworth, 2003).

In the United States of America (USA), governmental types of funds such as the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Funds use the modified accrual basis of accounting with a measurement focus on current financial resources (Governmental Accounting Standards Board, GASB, 1998). On this basis, revenues are recognized if they are measurable and available for use during the year. Expenditures are recognized in the period the liabilities are incurred if measurable, except for accrued interest on general long term debt which is recognized when payment is due to bondholders. For proprietary funds such as enterprise funds and internal service funds, the full accrual basis of accounting is used. Under this basis, revenues are recognized in the period earned and expenses are recognized in the period that the liabilities are incurred. To some extent, GAAP requires that the budget for certain funds be developed using the modified accrual accounting method for measuring and reporting purposes.

Funds are established mainly to ensure governments adhere to resource restrictions and a government fund structure rarely mirrors its organizational structure. A government should have only one general fund but it may have any number of the other types of funds. For example, a city may maintain a separate special revenue fund for each restricted revenue source, a separate capital projects fund for each major capital project and a separate debt service fund for each issue of outstanding bonds. In the USA, most general purpose governments engage in three broad categories of activities under the three different types of governmental fund with different basis of accounting and measurement focus. The following Table 1 shows the fund structure of State and Local Government in the United States of America.

**Table 1: Fund Structure of State and Local Government in the United States of America.**

Types of Fund	Government Funds	Proprietary Funds	Fiduciary Funds
Purpose	To account for and report government's operating and financial activities financed predominantly taxes and intergovernmental grants	To account for and report governments' activities that are similar to those carried out in the private sector and financed predominantly through user charges	To account for and report resources held by governments as trustees or agents for another party or parties
Basis of Accounting & Measurement Focus	Modified accrual and current financial resources	Full accrual and economic resources	Full accrual and economic resources

Examples	General fund, special revenue funds, debt service funds, capital projects funds, permanent funds (e.g. maintenance of a public park or cemetery)	Enterprise funds (e.g. electric utility) internal service funds (e.g. a centralized purchasing function or motor pool)	Trust funds (pension trusts, investment trusts and private purpose trusts) and Agency funds (taxes collected on behalf of another government)
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The Government Accounting Standards Board (GASB) is an independent organization that establishes and improves standards of accounting and financial reporting for State and Local Governments in the United States of America. The Government Accounting Standards Board in June 1999 issued GASB Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. GASB No. 34 presents a new governmental financial reporting model that for the first time requires state and local governments to present consolidated government-wide financial statements prepared on an accrual basis.

GASB 34 requires government to continue to publish governmental funds statements prepared on a modified accrual basis and government-wide statements prepared on an accrual basis. Government Funds Statements focus on a government’s fiscal accountability, budgetary compliance and short term financial health using the modified accrual accounting. Government-Wide Statements require two new financial reports: (a) statement of net assets (balance sheet) and (b) statement of activities (income statement) using accrual accounting for all of the government’s activities. The Statement of Net Assets reports not only current financial assets and liabilities as would be reported in governmental funds statements but also capital assets and long term liabilities. The Statement of Activities reports all revenues and all costs of providing government services during the year including items such as accrued interest expense and depreciation expense.

The government wide statements are consolidated and use the full accrual basis of accounting, thereby demonstrating whether current year revenues are sufficient to pay for current year services. The fund statements i.e. the present governmental funds - the activities of which are generally governed by a legally adopted budget use a modified accrual basis to facilitate budgetary comparison. The modified accrual basis is far more budget oriented than the full accrual basis in that the budgets of the government focus on either cash or cash plus selected short term financial resources. GASB 34 reaffirms that governmental funds should be accounted for on a modified accrual basis with a measurement focus on current financial resources. Current financial resources have been made operational as encompassing

expendable financial resources – cash and other items that can be expected to be transformed into cash in the normal course of operations. The “other items” include investments and receivables but not capital assets.

The new information contained in the government funds statements and the government-wide statements should permit much more meaningful comparisons among government organizations. The financial information will also be useful in developing service efforts and accomplishment measures. Citizens groups, policymakers and government officials can use the financial information to make better comparisons of performance among governments.

### **Proposed and On-Going Research Project**

Funds are established as a result of legal or statutory requirements for specific purposes. Thus, fund accounting ensures compliance of laws and regulations related to the money allocated. For all types of funds established, the funds can be discontinued should the need arise.

Developments in governmental activities in recent years have raised concerns over whether the cash basis of fund accounting is sufficient and appropriate for governmental accounting and reporting. Thus, accrual basis of fund accounting has now been seen to be an alternative for better reporting of government activities and resources with the planned adoption of accrual accounting in 2015 by Federal Government in Malaysia. Thus, the objective of this research project is to evaluate the relevance concept of fund accounting used by the Malaysian Federal Government for its consolidated trust account with its planned implementation of accrual accounting in 2015. There are six trust accounts for Federal Government in Malaysia which include development fund, housing loan fund, government trust fund, public trust fund, deposits and account payable (Zauwiyah Ahmad, Junaini Mohammad and Aziz Ahmad 2009). Therefore, this research project will investigate whether fund accounting report in terms of cash or accrual basis of accounting is still relevant for planned accrual basis of financial statements of Malaysian Federal Government in 2015. This study must be familiar with two key concepts of government accounting and reporting practices for a) fund accounting and b) the basis of accounting and measurement focus used by funds. The simple rule of thumb is that the basis of accounting determines when transactions will be recorded and the measurement focus determines what transactions will be recorded.

In evaluating the relevance concept of fund accounting for the Malaysian Federal Government in the accrual accounting environment, the methodological support of this research project would include the following to achieve the proposed objective:

1. Extensive review of literature for fund accounting based on accrual basis;

2. Expert opinion and review on fund accounting in accrual basis;
3. Content Analysis on the Audited Public Accounts of the selected consolidated trust account;
4. Interviews with the preparers of the selected consolidated trust account; and
5. Gap Analysis and Proposed Action Plans to justify the new approach and relevance concept of fund accounting of the selected consolidated trust account.

The quantitative analysis of data obtained from the content analysis of the audited public accounts and qualitative analysis of personal interviews shall provide the findings associated with the research objective. This study shall provide empirical evidence to support the revised fund accounting model in order to achieve the control mechanisms of resources management and reporting purposes for the Federal Government in Malaysia.

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# **A Guideline Framework For Recognition, Measurement And Reporting Of Malaysian Government's Property, Plant And Equipment Under Accrual Accounting**

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## **Abstract**

This paper provides a framework for recognizing, measuring and reporting of Malaysian government's non-current assets that are classified as property, plant and equipment. The framework which is mainly developed based on the International Public Sector Accounting Standard (IPSAS) 17 on Property, Plant and Equipment offers guidelines to interested parties on the appropriate accounting treatment for assets that fulfill the criteria of property, plant and equipment.

Keywords: accrual accounting, IPSAS 17, property, plant and equipment, recognition, measurement, reporting

## **INTRODUCTION**

The shifting of public sector entities' accounting basis from cash to accrual basis has taken place in a number of developed countries including New Zealand, United Kingdom, Canada, United States, Columbia and France (Dickinson, 2000, Saleh and Pendlebury, 2006). Later, the emerging economies such as Philippines and Cambodia have also gradually shifted away from cash accounting towards the accrual based accounting (Andriani, Kober and Ng, 2010). The main difference between the accrual and cash basis lies in the timing as to when the transaction is recognized. A cash based system recognizes transaction at the date of spending, whereas an accrual based system spreads the costs of investments over time (in the form of depreciation of assets) (Sanderson and Schaik, 2008).

In particular, accrual accounting which is a world-widely accepted accounting basis for the private sector is the method of recording financial transactions where the full characteristics

of those transactions are recorded in the period to which they relate. All assets owned by the organization at the end of the period and all liabilities which exist at that point is also recognized in the financial statements. In addition, revenues earned and resources consumed in a period are recorded (Cohen, Kaimenaki and Zorgios, 2007; and Andriani, Kober and Ng, 2010). In contrast, cash accounting records the cash movement effects of the transactions in the period in which they occur (Sanderson and Schaik, 2008; and Andriani, Kober and Ng, 2010).

A major limitation of using cash basis accounting is that it does not produce full information about the cost of policy implementation if certain expenditures yield benefits over a number of years, such as investment expenditure (Lally and Smith, 1997; Barton, 2009). The problem is resolved if accrual accounting is used as it produces better quality and more useful information about financial performance and position of public resources for decision making purposes, which cash accounting fails to provide (Connolly and Hyndman, 2006; Andriani, 2010). In addition, using accrual basis would allow for more accurate comparison of performance between different entities (Mohammadi, Maher, and Zare, 2012). Most importantly, in the context of the public sector, the use of accrual accounting allows greater transparency and enhances good governance and accountability of the public sector to the society at large in utilizing the public resources for implementation of public policies (Kober, Lee and Ng, 2010).

As the government of Malaysia has announced its commitment to adopt accrual basis in the public sector accounting and reporting by the year 2015 (Accrual Accounting Project Team, 2012), one of the important areas affected due to the adoption of accrual accounting is the non-current assets of the government. This is particularly because under cash accounting balance sheet which shows the position of government's non-current assets is not prepared. Hence, this present study intends to provide a framework for recognition, measurement and reporting of federal government's non-current assets particularly the property, plant and equipment based on the International Public Sector Accounting Standard (IPSAS) 17 on Property, Plant and Equipment. The unique contribution of this study is that it provides guidelines for recognizing, measuring and reporting of non-current assets of Malaysian government which is useful to various parties particularly those who involve in preparing the financial statements for the government.

The remaining of this paper is structured as follows. The next section offers description the accounting regulatory framework for government at the international level as well as in Malaysia. This is followed by a section that describes the IPSAS 17 on PPE. Then, a main section of the paper which provides a guideline framework for recognizing, measuring and reporting of PPE based on the relevant international public sector accounting standards particularly the IPSAS 17 on property, plant and equipment (IPSASB, 2011b) and IPSAS 1 (IPSASB, 2011a) on presentation of financial statements is presented. Finally, a section is provided to summarize and conclude the paper.

## ACCOUNTING REGULATORY FRAMEWORK FOR PUBLIC SECTOR

At the international level, the International Federation of Accountants (IFAC) is the global organization for the accountancy profession which aims at strengthening the profession and contributing to the development and implementation of high quality international standards (IFAC, 2012). Under the facilitation of IFAC, the International Public Sector Accounting Standard Board (IPSASB) is a standard setting body which produces international accounting standards for public sector entities (IPSASB, 2012). In addition to the responsibility to produce standards, the IPSASB also produces guidance and useful resources in assisting public sector entities worldwide to prepare government's financial statements. The main aims of the IPSASB are to establish high quality accounting standards for public sector entities, to promote the acceptance of the public sector entities worldwide to IPSASs, to furnish useful information for public sector financial management and decision making, and to provide guidance on issues and experiences in financial reporting in the public sector (IPSASB, 2012).

In ensuring high quality standards are developed, in the development process of producing standards, the IPSASB considers feedbacks from various stakeholders including preparers and users of the financial statements. In producing a standard, Exposure Draft is initially developed by a task force or project advisory panel. The ED is made publicly available for feedback and input for improvement and at the same time a Consultation Paper to further explore the subject matter is produced. The standard is finalized only with the affirmative vote of at least two-thirds of the IPSASB members (IPSASB, 2012).

One of the key agendas of the IPSASB is to converge the IPSASs with the International Financial Reporting Standards (IFRSs), which are meant for use by private sector entities. In achieving the objective of its agenda, IPSASB has developed guidelines or rules for modifying IFRSs for application by public sector entities. Since 1997, the IPSASB has published 31 public sector accrual standards and a cash basis standard for countries that are moving towards full accrual accounting.

In the Malaysian context, under the Financial Reporting Act 1997, the Malaysian Accounting Standard Board (MASB) was set up with the main role to develop accounting standard for both private and public sector entities. In addition, the MASB is also aimed at promoting high quality accounting standards to be at par with the international standards (MASB, 2012). The commitment of the Malaysian government to adopt accrual accounting by the year 2015 is one of the government's initiatives under the Economic Transformation Programme of the Malaysian New Economic Model, which was officially introduced in 2010. In materializing the agenda, MASB together with the Malaysian Institute of Accountants were given the responsibility to produce the transition to accrual accounting roadmap. At present, the MASB together with Malaysian Department of Accountants are taking pro-active efforts in preparing

to shift towards accrual accounting particularly in complying to IPSASs and also in developing public sector accounting standards that are tailor-made to the unique socio-economic and environment of the country.

## **INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD (IPSAS) 17**

IPSAS 17 on Property, Plant and Equipment was produced by the International Public Sector Accounting Standards Board (IPSASB) in December 2001. The first revision of the standard was made five years later in December 2006. Since then, there were several other revisions to IPSAS 17 due to the introduction of new IPSASs including IPSAS 27 on Agriculture and IPSAS 31 on Intangible Assets which were issued in 2009 and 2010 respectively. The latest revised version on IPSAS 17 was published in January 2011.

The issuance of IPSAS 17 aims to provide information on accounting treatment for property, plant and equipment of a government's entity based on accrual basis. The standard covers three main areas of treatment that are: 1) recognition of the PPE; 2) measurement or determination of PPE's carrying values; and 3) depreciation and impairment of the PPE. The plant, property and equipment cover by IPSAS 17 are tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes. In addition, the tangible items are also expected to be used during more than one reporting period (IPSASB, 2011b, pp: 514). According to the standard, specialist military equipment and infrastructure assets are also classified as PPE (IPSASB, 2011b, pp:512). However, biological assets related to agricultural activity and mineral rights and reserves are not covered by the standard (IPSASB, 2011b, pp:512).

## **A GUIDELINE FRAMEWORK FOR RECOGNITION, MEASUREMENT AND DISCLOSURE OF PPE ASSETS BASED ON IPSAS 17.**

The main components of the accounting treatments for PPE assets include recognition and derecognition, measurement and reporting or disclosure of information on the assets. The following sub-sections discuss on the appropriate treatment of each component.

### ***Recognition and derecognition of PPE***

In recognizing an asset as PPE, the item has to fulfill two criteria that are: 1) It is probable that future economic benefits associated with the item will flow to the entity; and 2) the cost or fair value of the item can be measured reliably (IPSASB, 2011b, pp: 514). In addition, the costs of a PPE asset include both costs incurred initially to acquire or construct and costs incurred subsequently to add to, to replace part of or to undergo major service (IPSASB, 2011b, pp: 516).

A PPE item is derecognized either when the item is disposed off or when the asset provides no future economic benefits from its use. When an item of PPE is disposed off, the difference between the net disposal proceeds and its carrying value is the gain or loss on disposal which shall be recorded as surplus or deficit (IPSASB, 2011b, pp: 527-528).

### ***Measurement of PPE***

Measurement of PPE items are made at two points; i.e., at the time of recognition and after recognition. At the point of recognition of an asset as a PPE item, the asset should be measured at cost which is the cash price equivalent of the asset. The cost of a PPE item covers its purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for it to be able to operate and the initial costs of dismantling and removing the item and restoring the site on which it is located (IPSASB, 2011b, pp: 517). However, for a PPE item which is acquired through a non-exchange transaction, the fair value at the date of acquisition is used to measure the value or cost of the item (IPSASB, 2011b, pp: 516-517).

For subsequent measurement of the PPE item (i.e. measurement after recognition), an entity can choose either to adopt the cost model or the revaluation model but the chosen model needs to be adopted to the entire assets that is in the same class of assets (IPSASB, 2011b, pp: 520). Using the cost model, the value of a PPE item is measured at its cost, less accumulated depreciation and accumulated impairment losses. On the other hand, using the revaluation model, an item of PPE whose fair value can be measured reliably shall be carried at a revalued amount less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The revaluation needs to be carried out when the fair value of the asset differs significantly from its carrying value and the recommended frequency of revaluation is every three or five years (IPSASB, 2011b, pp: 521).

### ***Treatment for PPE revaluation***

If the carrying amount of a class of assets is increased as a result of a revaluation, the increase shall be **credited directly to revaluation surplus**. However, the increase shall be recognized as surplus or deficit to the extent that it reverses a revaluation decrease of the same class of assets previously recognized in surplus or deficit. In contrast, if the carrying amount of a class of assets is decreased as a result of a revaluation, the **amount of decrease shall be recognized as surplus or deficit**. However, the decrease shall be debited directly to revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that class of assets.

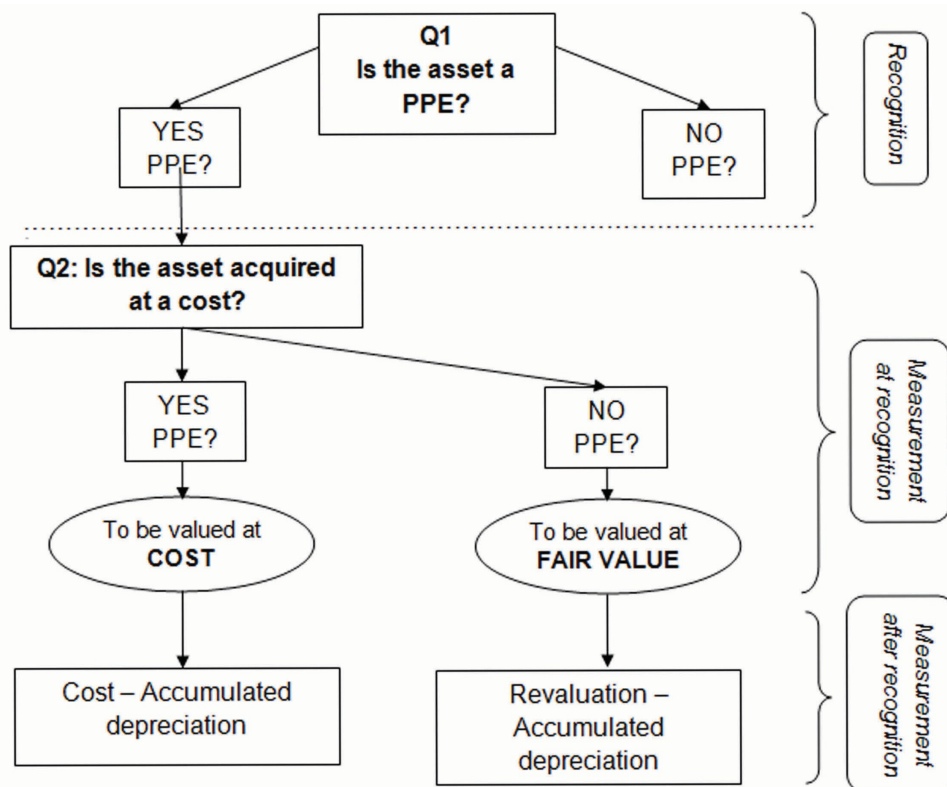
### ***Depreciation of PPE***

The depreciation of a PPE item should be allocated on a systematic basis over its useful life. Although the straight-line method, the diminishing balance method and the unit of production

method are common depreciation methods for PPE items, the appropriate method to be used is the one that reflects the patterns of the future economic benefits of the asset consumed by an entity (IPSASB, 2011b, pp: 526). The depreciation charge for each period shall be recorded in as surplus or deficit.

Based on description on IPSAS 17 in the earlier section, a framework for recognizing and measuring the government's property, plant and equipment is proposed as shown in Diagram 1. The framework offers step by step procedures in applying the standard on PPE particularly on the recognition and measurement of PPE assets. Table 1 provides interpretation to the framework in terms of qualifying criteria and necessary treatment on recognition and measurement. As shown in diagram 1, the first step is to recognize whether the asset is a PPE item. If the asset is recognized as a PPE item, it shall be treated according to the IPSAS 17, hence the focus of this framework. Upon recognition, an appropriate measurement for the asset is determined based on how the asset was initially acquired. Generally, the measurement is based either on cost or fair value as depicted in Diagram 1. For subsequent measurement, if the asset is initially measured at cost, the carrying value of the asset is the value after deducting the accumulated depreciation. On the other hand, if the asset is valued at fair value, from time to time the asset needs to be revalued and the carrying amount is based on the revalued value minus the accumulated depreciation.

**Diagram 1: Framework for Recognition and Measurement of PPE Assets**



**Table 1: Interpretation to Diagram 1 on the Framework for Recognition and Measurement of PPE Assets**

	Answer	Qualifying criteria	Treatment / outcome
Q1	YES	1. It is probable that future economic benefits associated with the item will flow to the entity; 2. The cost or fair value of the item can be measured reliably	It is a PPE item and to be treated according to IPSAS 17.
Q2	YES	It is acquired at cost	Measurement at recognition is at COST. Subsequent measurement/ Carrying value: Cost minus accumulated depreciation
	NO	It is not-acquired at cost	Measurement at recognition is at fair value Subsequent measurement/ carrying value: Revalued amount minus accumulated depreciation

### ***Reporting and Disclosure of PPE***

In general, the information on PPE is recorded in three main financial statements that are Statement of Financial Position or balance sheet, Statement of Financial Performance or known as 'Surplus and Deficit' and Statement of Changes in Net Assets (IPSASB, 2011a). In particular, in the Statement of Financial Position, information on PPE value is required to be shown in a specific line item called property, plant and equipment under the category of non-current assets as shown in **Illustration 1 below** (to insert the illustration) (IPSASB, 2011a, pp: 78).

**Illustration 1: Statement of Financial Position****Public Sector – Statement of  
Financial Position****As at December 31, 20X2**

(in thousands of currency units)

<b>ASSETS</b>	<b>20X2</b>	<b>20X1</b>
<b>Current assets</b>	X	X
Cash and cash equivalents	X	X
Receivables	X	X
Inventories	X	X
Prepayments	<u>X</u>	<u>X</u>
Other current assets	<u>X</u>	<u>X</u>
<b>Non-current assets</b>		
Receivables	X	X
Investments in associates	X	X
Other financial assets	X	X
Infrastructure, plant and equipment	X	X
Land and buildings	X	X
Intangible assets	X	X
Other non-financial assets	X	X
	<u>X</u>	<u>X</u>
<b>Total assets</b>	<u>X</u>	<u>X</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Payables	X	X
Short-term borrowings	X	X
Current portion of long-term borrowings	X	X
Short-term provisions	X	X
Employee benefits	X	X
Superannuation	X	X
	<u>X</u>	<u>X</u>

**Non-current liabilities**

Payables	X	X
Long-term borrowings	X	X
Long-term provisions	X	X
Employee benefits	X	X
Superannuation	X	X
	<u>X</u>	<u>X</u>
<b>Total liabilities</b>	<u>X</u>	<u>X</u>
<b>Net assets</b>	<u>X</u>	<u>X</u>

**NET ASSETS/EQUITY**

Capital contributed by		
Other government entities	X	X
Reserves	X	X
Accumulated surpluses/(deficits)	X	X
Minority interest	X	X
	<u>X</u>	<u>X</u>
<b>Total net assets/equity</b>	<u>X</u>	<u>X</u>

In the Statement of Financial Performance, the information relevant to PPE to be disclosed includes depreciation of PPE and impairment of PPE which are shown under different line items as depicted in **Illustration 2** (IPSASB, 2011a, pp: 80). Information to be reported in the Statement of Changes in Net Assets/Equity comprises of gain and loss on PPE revaluation. In addition, if the PPE item is derecognized (i.e. disposed off) during a particular financial period, information on gain or loss on disposal of the PPE items needs disclosure in surplus or deficit during the year (IPSASB, 2011, pp: 527).

**Illustration 2: Statement of Financial Performance****Public Sector Entity—Statement of Financial Performance for the Year Ended December 31, 20X2****(Illustrating the Classification of Expenses by Nature)**  
(in thousands of currency units)

	<b>20X2</b>	<b>20X1</b>
<b>Revenue</b>		
Taxes	X	X
Fees, fines, penalties, and licenses	X	X
Revenue from exchange transactions	X	X
Transfers from other government entities	X	X
Other revenue	X	X
<b>Total Revenue</b>	<u>X</u>	<u>X</u>
<b>Expenses</b>		
Wages, salaries, and employee benefits	(X)	(X)
Grants and other transfer payments	(X)	(X)
Supplies and consumables used	(X)	(X)
Depreciation and amortization expense	(X)	(X)
Impairment of property, plant, and equipment	(X)	(X)
Other expenses	(X)	(X)
Finance costs	(X)	(X)
<b>Total Expenses</b>	<u>(X)</u>	<u>(X)</u>
Share of surplus of associates	X	X
<b>Surplus/(deficit) for the period</b>	X	X
Attributable to:		
Owners of the controlling entity	X	X
Minority interest	X	X
	<u>X</u>	<u>X</u>

**Illustration 3** shows the format for presenting the Statement of Changes in Net Assets/ Equity and highlights information on PPE in the statement (IPSASB, 2011a, pp: 81-82).

**Illustration 3: Statement of Changes in Net Assets/ Equity**

**Public Sector Entity—Statement of Changes in Net Assets/Equity for the Year Ended December 31, 20X1**

(in thousands of currency units)	Attributable to owners of the controlling entity					Minority interest	Total net assets/ equity
	Contributed Capital	Other Reserves	Translation Reserve	Accumulated Surpluses/ (Deficits)	Total		
Balance at December 31, 20X0	X	X	(X)	X	X	X	X
Changes in accounting policy				(X)	(X)	(X)	(X)
Restated balance	X	X	(X)	X	X	X	X
<b>Changes in net assets/ equity for 20X2</b>							
Gain on property revaluation		X			X	X	X
Loss on revaluation of investments		(X)			(X)	(X)	(X)

Exchange differences on translating foreign operations		(X)		(X)	(X)	(X)
Net revenue recognized directly in net assets/equity	X	(X)		X	X	X
Surplus for the period			X	X	X	X
<b>Total recognized revenue and expense for the period</b>	X	(X)	X	X	X	X

(in thousands of currency units)	Attributable to owners of the controlling entity					Minority interest	Total net assets/equity
	Contributed Capital	Other Reserves <sup>4</sup>	Translation Reserve	Accumulated Surpluses/ (Deficits)	Total		
<b>Balance at December 31, 20X1 carried forward</b>	X	X	(X)	X	X	X	X
<b>Balance at December 31, 20X1 brought forward</b>	X	X	(X)	X	X	X	X

<b>Changes in net assets/ equity for 20X2</b>						
Loss on property revaluation	(X)		(X)	(X)	(X)	(X)
Gain on revaluation of investments	X		X	X	X	X
Exchange differences on translating foreign operations		(X)	(X)	(X)	(X)	(X)
Net revenue recognized directly in net assets/equity	(X)	(X)		(X)	(X)	(X)
Deficit for the period			(X)	(X)	(X)	(X)
<b>Total recognized revenue and expense for the period</b>	(X)	(X)	(X)	(X)	(X)	(X)
<b>Balance at December 31, 20X2</b>	X	X	(X)	X	X	X

In addition to the quantitative information on PPE reported in the relevant financial statements of the government, other important information in relation to each class of PPE assets should also be disclosed for the benefits of the users of the government's annual report. The disclosure information include the followings: 1) the measurement bases used in determining the gross carrying value; 2) the depreciation method used and depreciation amount; 3) the useful life of the assets or the depreciation rates used; 4) the gross carrying amount and the accumulated depreciation at the beginning and end of the period; 5) increases or decreases resulting from

revaluations; 6) impairment losses recognized and reversed; and 7) a reconciliation of the carrying amount at the beginning and end of the period showing additions, disposals and acquisitions through entity combinations. **Illustration 3** also depicts the format for presenting the reconciliation information. In the instances of revaluation of a class of PPE, information for disclosure includes the effective date of the revaluation, method used in valuing the PPE and the sum of all revaluation surpluses and deficits.

## SUMMARY AND CONCLUSION

The present paper provides a guideline for complying with the international public sector accounting standard specifically the IPSAS 17 on property, plant and equipment in terms of recognizing, measuring and reporting the PPE assets under accrual accounting. In summary, accounting treatments for PPE assets involve recognizing and derecognizing the assets, measurements of the PPE at recognition and after recognition as well as reporting the PPE assets in the relevant financial statements. The public sector financial statements to record PPE assets and other relevant information on PPE include the Statement of Financial Position, the Statement of Financial Performance and the Statement of Changes in Net Assets/ Equity.

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## **Perakaunan dan Pelaporan Aset Warisan, Aset Pertahanan dan Aset Infrastruktur Berasaskan Akruan**

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### **Abstract**

In line with the importance of transparency and accountability, the Government of Malaysia has implemented financial reforms under the Economic Transformation Program with which involves the transition from cash basis accounting to accrual basis which will be implemented by the Federal Government in the year 2015. This study focuses on accrual basis accounting related to heritage assets, military assets and infrastructure assets. In particular, it aims to propose an appropriate accounting and reporting of those assets in accordance with international standards and the local environment; and to determine the amendments and/or additions to the related financial acts and circulars. In order to achieve this purpose, accounting practices and standards as well as legal requirements of countries that have adopted the accrual basis of accounting in their public sector are being examined. In addition, the views of the ministries involved are also taken into account. Hopefully, the findings of this study can serve as a guideline by the Government of Malaysian to develop the public sector accounting standards and update the related existing Acts and circulars.



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### **Abstrak**

Selaras dengan kepentingan ketelusan dan akauntabiliti, Kerajaan Malaysia telah melaksanakan reformasi kewangan di bawah Program Transformasi Ekonomi yang antaranya melibatkan peralihan daripada perakaunan asas tunai kepada asas akruan di peringkat Kerajaan Persekutuan mulai tahun 2015. Kajian ini memberi tumpuan kepada perakaunan asas akruan berkaitan aset warisan, aset pertahanan dan aset infrastruktur. Secara khusus, ia bertujuan untuk mencadangkan kaedah perakaunan dan pelaporan yang sesuai diaplikasikan oleh Kerajaan Malaysia selaras dengan peruntukan piawaian antarabangsa dan persekitaran tempatan serta menentukan setakat mana pindaan atau tambahan yang diperlukan ke atas akta dan pekeliling kewangan yang berkaitan. Bagi mencapai tujuan ini, amalan dan piawai perakaunan serta akta bagi negara-negara yang telah mengamalkan perakaunan asas akruan dalam sektor awam dikaji. Selain itu, pandangan pihak kementerian yang terlibat juga diambil kira. Dapatan kajian diharap boleh dijadikan garis panduan oleh pihak kerajaan untuk membangunkan piawaian perakaunan serta mengemaskini akta dan pekeliling kewangan sedia ada.

**Katakunci:** Perakaunan asas akruan, aset warisan, aset pertahanan, aset infrastruktur

### **Pengenalan**

Perakaunan asas akruan telah diiktiraf mampu memberi gambaran yang lebih terperinci dan lengkap mengenai prestasi dan kedudukan kewangan awam (MAPEN 2010; MIA 2011) dan seterusnya membantu sesebuah organisasi awam untuk meningkatkan akauntabiliti (Allen 2002; Groot & Budding, 2008; Ouda 2010). Sebagai prinsip asas demokrasi, akauntabiliti amat dititikberatkan dalam pengurusan kewangan awam (Bergmann, 2011). Selaras dengan kepentingan ketelusan dan akauntabiliti, Kerajaan Malaysia dalam Rancangan Malaysia Ke-10 (RMK 10), telah melaksanakan reformasi kewangan di bawah Program Transformasi Ekonomi yang antaranya melibatkan peralihan daripada perakaunan asas tunai kepada asas akruan yang akan dilaksanakan di peringkat Kerajaan Persekutuan mulai tahun 2015. Usaha

ini dilihat sebagai satu landasan kearah pelaporan kewangan kerajaan yang lebih baik yang berupaya bertindak sebagai salah satu medium untuk menjelaskan ketelusan dan akauntabiliti kerajaan kepada pihak berkepentingan. Walau bagaimanapun, berdasarkan pengalaman negara-negara yang telah melaksanakan perakaunan asas akruan, peralihan kepada asas ini telah menimbulkan beberapa isu perakaunan yang antaranya ialah isu berkaitan perakaunan aset warisan, aset pertahanan dan aset infrastruktur awam.

Menurut Christiaens, Rommel, Barton & Everaert (2008), tidak seperti kebanyakan aset fizikal kerajaan, masih terdapat persoalan dan perdebatan dari segi pelaporan kewangan aset warisan dan pertahanan. Begitu juga dengan aset infrastuktur awam seperti jalanraya, jambatan dan terusan yang mempunyai nilai yang tinggi dan jangka hayat yang panjang sehingga menimbulkan persoalan tentang bagaimana hendak menentukan kos perolehan/pembinaan serta susutnilai aset berkenaan (Wynne, 2004).

Berdasarkan pengalaman negara-negara yang telah melaksanakan perakaunan asas akruan, masih tidak terdapat keseragaman berkaitan perakaunan dan pelaporan aset warisan, aset pertahanan dan aset infrastruktur awam. Penyelesaian kepada persoalan berkaitan pengiktirafan aset-aset berkenaan adalah bergantung kepada ciri aset tersebut sepertimana yang ditakrifkan dan juga bergantung kepada pertimbangan negara yang terlibat. Isu berkaitan perakaunan dan pelaporan aset warisan, aset pertahanan dan aset infrastruktur awam ini juga berkemungkinan dihadapi oleh Kerajaan Malaysia apabila peralihan kepada perakaunan asas akruan dilaksanakan.

Menurut Khan dan Mayes (2009), salah satu perkara penting yang perlu ditangani oleh kerajaan yang akan beralih kepada perakaunan asas akruan adalah pemilihan dan pelaksanaan polisi perakaunan yang tepat yang selari dengan piawaian perakaunan berkaitan.

Kajian yang dicadangkan ini adalah satu usaha untuk membantu kerajaan dalam pembangunan piawaian perakaunan sektor awam berkaitan aset khususnya aset warisan, aset pertahanan dan aset infrastruktur serta membantu dalam menentukan setakat mana akta dan pekeliling kewangan berkaitan perlu dikemaskini. Hasil kajian yang dicadangkan ini kelak diharapkan boleh dijadikan sebagai satu garis panduan. Bahagian seterusnya akan membincangkan tentang kajian lepas serta piawaian antarabangsa berkaitan aset warisan, pertahanan dan infrastruktur serta. Selepas sorotan kajian lepas, objektif kajian diperincikan. Bahagian seterusnya membincangkan bagaimana kajian yang dicadangkan ini akan dilaksanakan. Akhir sekali, kepentingan atau implikasi kajian dibincangkan.

## Sorotan Kajian Lepas dan Piawaian Perakaunan Berkaitan

Berdasarkan pengalaman negara-negara yang telah melaksanakan perakaunan asas akrual dalam sektor awam mereka, kajian lepas telah membincangkan tentang isu perakaunan dan pelaporan aset-aset berkenaan seperti berikut.

### ***Aset Warisan***

Sehingga kini, tiada definisi spesifik mengenai aset warisan. Walau bagaimanapun, IPSAS 17 merujuk aset warisan sebagai aset yang mempunyai kepentingan kebudayaan, persekitaran maupun kepentingan sejarah. Sebagai contoh, bangunan yang mempunyai nilai sejarah, monumen, tapak arkeologi, artifak dan koleksi kerja kesenian. Menurut kajian oleh Blondal (2003), isu berkaitan aset warisan timbul berdasarkan hakikat bahawa nilai aset ini lebih kepada satu nilai budaya yang sukar dinilai dengan nilai wang, jangka hayatnya adalah sangat panjang sehingga menjangkau ratusan tahun dan kos perolehan aset tersebut (*acquisition cost*) biasanya tidak diketahui dan ia tiada nilai pasaran kerana kebiasaannya dilindungi oleh undang-undang daripada dijual. Justeru, aset warisan ini tidak mempunyai nilai gantian (*replacement value*). Artifek yang dipamerkan di museum dan galeri seni misalnya merupakan aset warisan yang mana penilaian aset tersebut didapati berbeza antara negara-negara yang telah melaksanakan perakaunan asas akrual. Negara seperti New Zealand menilai aset warisan yang didapati di museum dan galeri seni mengikut nilai pasaran yang dikeluarkan oleh organisasi lelongan antarabangsa (*international auction house*). Namun begitu, sebahagian negara *Organisation for Economic Co-operation and Development* (OECD) menilai aset warisan tersebut pada harga pasaran hanya bagi aset yang baru diperolehi selepas peralihan kepada asas akrual, dan tidak kepada aset warisan yang sedia ada tersimpan di museum atau galeri seni. Bagi bangunan bersejarah yang sebahagiannya dijadikan pejabat kerajaan, persoalannya ialah adakah keseluruhan bangunan diiktiraf sebagai aset warisan atau hanya aset yang digunakan sebagai pejabat kerajaan sahaja diiktiraf sebagai aset bangunan biasa. Kesukaran dan persoalan tentang penilaian dan penentuan susutnilai aset warisan ini juga ditimbulkan dalam kajian Khan dan Mayes (2009).

### ***Aset Pertahanan***

Aset pertahanan merujuk kepada senjata atau peralatan pengeluaran senjata atau lain-lain peranti atau peralatan yang digunakan bagi tujuan pertahanan negara. Pengiktirafan aset pertahanan juga didapati berbeza antara negara-negara yang telah melaksanakan perakaunan asas akrual (Blondal, 2003). Berdasarkan kajian Blondal, di Amerika, aset pertahanan di kelaskan kepada aset pertahanan bagi kegunaan umum (*general purpose military assets*), contohnya kenderaan pengangkutan pertahanan, dan aset pertahanan khusus (*specific military assets*), contohnya jet pejuang. Aset pertahanan

untuk kegunaan umum dipermodalkan (*capitalized*) dan disusutnilaikan (*depreciated*). Manakala aset pertahanan khusus tidak dipermodal dan tidak disusutnilaikan sebaliknya dibelanjakan (*expensed*). Alasannya ialah aset pertahanan khusus ini terdedah kepada kemusnahan sepenuhnya sebelum jangka hayat aset berkenaan (*premature destruction*) apabila digunakan dalam peperangan. Walau bagaimanapun, kajian Blondal (2003) mendapati dikebanyakan negara yang telah melaksanakan perakaunan asas akrual, kesemua aset pertahanan dipermodal dan disusutnilaikan. Jika dipermodalkan, persoalan yang timbul ialah tentang apakah asas susutnilai yang digunakan dan jangka hayat yang sesuai bagi aset berkenaan (Wynne, 2004).

### **Aset Infrastruktur**

Aset infrastruktur awam seperti jalanraya, jambatan dan terusan mempunyai nilai yang sangat tinggi dan jangka hayat yang sangat panjang. Persoalan yang timbul ialah tentang bagaimanakah aset ini dinilai. Adalah sukar untuk menentukan kos perolehan/pembinaan aset berkenaan jika asas kos sejarah hendak digunakan. Begitu juga kesukaran dihadapi apabila nilai saksama digunakan disebabkan kesukaran menentukan nilai semasanya. Persoalan lain yang timbul adalah samada tanah dan struktur diatasnya perlu dinilai secara berasingan atau dinilai secara bersama (Wynne, 2004).

Selain itu, jangka hayat yang panjang pula akan menyukarkan penentuan kadar susutnilai aset berkenaan (Blondal, 2003; Wynne, 2004). Berdasarkan kajian Blondal (2003), terdapat juga negara-negara yang telah melaksanakan perakaunan asas akrual tidak menyusutnilaikan aset infrastruktur ini, sebaliknya memastikan penyelenggaraan (*maintenance*) berterusan dibuat ke atas berkenaan di sepanjang jangka hayatnya yang diandaikan 'infiniti', dan mengiktiraf kos penyelenggaraan tersebut sebagai belanja. Walau bagaimanapun, tahap keadaan (*condition level*) aset infrastruktur tersebut juga dilaporkan. Sekiranya susutnilai diiktiraf, persoalan lain yang timbul ialah samada pelarasan perlu dibuat ke atas susutnilai tersebut jika penyelenggaraan diabaikan bagi memastikan aset tersebut dapat digunakan dalam jangka masa yang panjang (Wynne, 2004).

Bagi Christiaens et al. (2008), aset fizikal yang mempunyai ciri aset awam (*public goods attributes*) tidak perlu dipermodalkan. Dari segi pelaporan pula, Rowles, Hutton dan Bellamy (1998), mencadangkan bahawa semua aset kerajaan samada memenuhi atau tidak memenuhi kriteria pengiktirafan aset, perlu dilaporkan. Di Amerika Syarikat, berdasarkan peruntukan *American Accounting Standards* bagi kerajaan persekutuan yang dikeluarkan oleh *Federal Accounting Standards Advisory Board (FASAB)*, aset fizikal kerajaan - hartanah, loji dan peralatan (*property, plant and equipment – PPE*) yang dikelaskan kepada *business-like PPE*, diakaun dan dilaporkan sebagai aset. Manakala,

aset bagi tujuan awam (*PPE for societal purpose*), tidak diakaunkan sebagai aset tetapi perlu dilaporkan dalam pelaporan tambahan iaitu *supplementary stewardship reporting*.

Senario yang diutarakan di atas menunjukkan bahawa tidak terdapat keseragaman berkaitan perakaunan dan pelaporan aset fizikal khususnya aset warisan, aset pertahanan dan aset infrastruktur awam di kalangan negara-negara yang telah melaksanakan perakaunan asas akrual. Persoalan-persoalan seperti yang dibincangkan berkaitan aset warisan, aset pertahanan dan aset infrastruktur awam ini juga berkemungkinan dihadapi oleh Kerajaan Malaysia apabila peralihan kepada perakaunan asas akrual dilaksanakan.

### ***Piawaian Perakaunan Antarabangsa Sektor Awam (International Public Sector Accounting Standard – IPSAS)***

Pada masa kini, *International Federation of Accountants* (IFAC) telah mengeluarkan piawaian (*standard*) perakaunan antarabangsa khusus untuk organisasi sektor awam yang melaksanakan perakaunan asas akrual iaitu *the International Public Sector Accounting Standards (IPSAS)- Accrual Basis*. IPSAS 17 (IFAC, 2011) merupakan piawaian bagi perakaunan dan pendedahan (*disclosure*) aset Hartanah, Loji dan Peralatan (*Property, Plant and Equipment - PPE*). Piawaian ini (IPSAS 17) juga digunapakai untuk perakaunan dan pelaporan aset warisan, pertahanan dan infrastruktur. Menurut IPSAS 17, aset warisan tidak diiktiraf sebagai aset kecuali menepati kriteria pengiktirafan bagi aset Hartanah, Loji dan Peralatan (PPE) iaitu kos aset ini perlu diiktiraf jika, dan hanya jika (a) berkemungkinan (*probable*) manfaat ekonomi atau perkhidmatan berkaitan dengannya pada masa depan dapat dijana oleh entiti terlibat; dan (b) kos atau nilai saksama aset berkenaan boleh diukur dengan pasti. Walau bagaimanapun, IPSAS 17 tidak mencadangkan (*prescribe*) tentang unit ukuran (*unit of measure*) bagi pengiktirafan aset berkenaan (*i.e. what constitutes an item of PPE*). Dalam hal ini, IPSAS 17 mencadangkan bahawa pertimbangan (*judgment*) diperlukan dalam mengaplikasikan kriteria pengiktirafan berdasarkan kepada situasi spesifik entiti terlibat (*entity's specific circumstances*).

Bagi aset pertahanan dan infrastruktur, IPSAS 17 memperuntukkan pengiktirafan aset-aset berkenaan. Walau bagaimanapun, bagi aset infrastruktur, IPSAS 17 menyatakan bahawa tidak terdapat definisi aset infrastruktur yang diterima secara *universal*. Bagi penentuan susutnilai, aset-aset berkenaan, IPSAS 17 menyatakan bahawa amaun susutnilai perlu diperuntukkan mengikut asas yang sistematik di sepanjang usiaguna aset berkenaan. Walau bagaimanapun, menurut IPSAS 17, anggaran usiaguna perlu melibatkan pertimbangan dan ianya bergantung kepada pengalaman entiti berkenaan.

Persoalan berkaitan pengiktirafan aset-aset ini seperti yang telah dibincangkan di atas adalah penting untuk diberi perhatian kerana ia melibatkan pertimbangan dan kemahiran teknikal yang terdedah kepada risiko kesilapan (*errors*) dan salahnyataan (*mis-statements*) yang kesannya akan merendahkan kualiti pelaporan kewangan yang dihasilkan. Rendahnya kualiti pelaporan kewangan ini akan membantutkan hasrat untuk menjadikan pelaporan kewangan sebagai satu medium dalam menjelaskan ketelusan dan akauntabiliti kerajaan.

Bagi mengurangkan risiko ini, polisi dan piawaian perakaunan tempatan dan antarabangsa yang berkaitan adalah sangat diperlukan (Khan dan Mayes, 2009). Menurut Khan dan Mayes (2009), salah satu perkara penting yang perlu ditangani oleh kerajaan yang akan beralih kepada perakaunan asas akruan adalah pemilihan dan pelaksanaan polisi perakaunan yang tepat dan selari dengan piawaian perakaunan berkaitan. Menurut Ouda (2010) pula, negara yang akan beralih kepada perakaunan asas akruan mempunyai beberapa pilihan iaitu (a) menerima pakai terus piawaian perakaunan antarabangsa IPSAS; (b) mencontohi amalan negara-negara yang telah melaksanakan perakaunan asas akruan atau (c) menerima alternatif (a) dan (b) tetapi disesuaikan dengan keperluan tempatan.

Bagi tujuan kajian ini, pilihan (c) yang disarankan oleh Ouda (2010) didapati lebih sesuai dilaksanakan di Malaysia. Ini adalah kerana setiap negara dipengaruhi oleh sejarah, budaya, perlembagaan dan sistem pentadbirannya yang tersendiri dalam melaksanakan perubahan atau peralihan seperti perakaunan asas akruan (Hepworth, 2003; Chan, 2003; Caperchione, 2006). Kenyataan ini juga selari dengan Christiaens (2004) yang menyatakan bahawa sesuatu sistem perakaunan kerajaan perlu sesuai dengan persekitaran operasi dan keperluan maklumat yang berbeza.

Justeru, kami juga berpendapat, dalam konteks kerajaan Malaysia, perlu adanya satu piawaian perakaunan, polisi, akta dan peraturan berkaitan yang selari dengan peruntukan piawaian antarabangsa dan mengambilkira persekitaran serta keperluan tempatan.

Kajian yang dicadangkan ini merupakan satu usaha untuk membantu kerajaan dalam pembangunan piawaian perakaunan sektor awam berkaitan aset khususnya aset warisan, aset pertahanan dan aset infrastruktur serta membantu mengemaskini akta dan pekeliling kewangan berkaitan. Oleh itu, adalah diharapkan dapatan kajian yang dicadangkan ini kelak boleh dijadikan sebagai satu garis panduan.

## **Objektif Kajian**

Secara khusus, objektif kajian adalah;

1. Untuk mencadangkan kaedah perakaunan dan pelaporan sesuai diaplikasikan oleh Kerajaan Malaysia bagi aset warisan, aset pertahanan dan aset infrastruktur,

selaras dengan peruntukan piawaian antarabangsa dan persekitaran serta keperluan tempatan.

2. Untuk menentukan setakat mana akta dan pekeliling kewangan sedia ada berkaitan aset warisan, aset pertahanan dan aset infrastruktur perlu dikemaskini.

## Kaedah Kajian

Proses kajian melibatkan tiga fasa:

### Fasa 1

Fasa ini akan melibatkan aktiviti berikut:

1. Mengkaji amalan perakaunan dan pelaporan berkaitan aset warisan, aset pertahanan dan aset infrastruktur negara-negara terkehadapan (*frontrunners*, contohnya New Zealand, Canada dan UK) dalam perakaunan asas akrual berdasarkan sorotan ekstensif (*extensive review*) kajian-kajian lepas yang berkaitan.
2. Temubual bersemuka (*face-to-face interview*) – Untuk mendapatkan penerangan/ penjelasan terperinci tentang aset warisan, aset pertahanan dan aset infrastruktur, termasuk amalan perakaunan dan pelaporannya daripada kementerian/jabatan yang berkaitan seperti Kementerian Pertahanan, Kementerian Kerjaraya, Kementerian Pelancongan (Jabatan Warisan) dan Kementerian Penerangan, Kebudayaan dan Komunikasi.
3. Menganalisis kandungan (*content analysis*) peruntukan IPSAS - *accrual basis* dan Piawaian Perakaunan negara-negara yang telah mengamalkan perakaunan asas akrual berkaitan perakaunan dan pelaporan aset warisan, aset pertahanan dan aset infrastruktur.
4. Membentuk satu draf cadangan tentang perakaunan dan pelaporan aset warisan, aset pertahanan dan aset infrastruktur, yang meliputi perkara-perkara berikut:
  - Definisi dan klasifikasi aset warisan, aset pertahanan dan aset infrastruktur.
  - Pengiktirafan aset berkenaan – pengukuran kos bagi pengiktirafan.
  - Penentuan kaedah susutnilai
  - Penentuan usia guna aset berkenaan bagi pengiraan susutnilai.
  - Penentuan nilai bawaan (*carrying amount*) aset berkenaan.
  - Penentuan item/perkara yang perlu dilaporkan serta format pelaporan.

## Fasa 2

Aktiviti berikut akan dilaksanakan dalam Fasa 2:

1. Menyemak akta dan pekeliling kewangan sedia ada yang berkaitan, dengan membuat *gap analysis* (membuat perbandingan antara peruntukan dalam akta dan pekeliling kewangan berkaitan dengan item/perkara dalam draf cadangan (dari aktiviti Fasa 1), untuk mengenalpasti kecukupan perundangan yang mendasarinya.
2. Menyenaraikan akta dan pekeliling kewangan sedia ada yang perlu dipinda atau ditambah dan pindaan atau tambahan yang perlu dibuat.

## Fasa 3

Fasa ini akan melibatkan temubual bersemuka (*face-to-face interview*) dengan wakil-wakil dari Jabatan Akauntan Negara – *Government Accounting Standard Advisory Committee* (GASAC), Perbendaharaan Malaysia, Persatuan Akauntan Awam Malaysia, *Malaysian Institute of Accountants* (MIA), *Malaysian Accounting Standard Board* (MASB), Jabatan Audit Negara, akauntan sektor awam dan penasihat undang-undang kerajaan.

Tujuan temubual ini adalah;

1. Untuk mendapatkan maklumbalas dan pengesahan tentang draf cadangan perakaunan dan pelaporan aset warisan, aset pertahanan dan aset infrastruktur (hasil daripada aktiviti Fasa 2).
2. Untuk mendapatkan maklumbalas dan pengesahan tentang cadangan akta dan pekeliling kewangan yang perlu dipinda atau ditambah serta pindaan atau tambahan yang perlu dilakukan (hasil dari aktiviti Fasa 2).

## **Output Kajian**

Setelah melalui ketiga-tiga fasa proses kajian, output yang dijangkakan dari kajian ini kelak ialah;

1. Cadangan perakaunan dan pelaporan aset warisan, aset pertahanan dan aset infrastruktur.
2. Cadangan akta dan pekeliling kewangan sedia ada yang perlu dipinda atau ditambah serta pindaan atau tambahan yang perlu dilakukan.

## Implikasi Kajian

Cadangan yang dikemukakan di akhir kajian ini diharap boleh digunakan sebagai garis panduan kepada pihak kerajaan bagi;

1. Membangunkan piawaian perakaunan sektor awam berkaitan perakaunan dan pelaporan aset warisan, aset pertahanan dan aset infrastruktur.
2. Mengenalpasti kecukupan akta dan pekeliling kewangan sedia ada berkaitan aset dan seterusnya membuat pindaan dan/atau tambahan kepada akta dan pekeliling kewangan yang berkaitan.

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## Accrual Accounting: Change And Managing Change

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### Abstract

The Malaysian government has decided to adopt accrual accounting to enhance financial accountability and to have a better asset-liability management. Based on experiences of other countries such as Australia and New Zealand, the change process has to be properly managed to ensure successful implementation of the new accounting system. Employees' commitment to change has been identified as a critical factor in organisational change. Commitment to change model as proposed by Herscovitch and Meyer consists of three components: affective (want to change), normative (ought to change) and continuance (have to change). Hence it is very important for public sector organisations to identify and manage organisational and individual factors influencing commitment to change. The literature has identified factors including organisational support (ICT and human resource), top management support or leadership, communication channel and flow, attitude towards change, employee participation or involvement, are pivotal to successful implementation of accrual accounting. Thus, a study will be conducted to investigate whether the Malaysian government is ready to embrace the change or otherwise.

Keywords: accrual accounting; governmental accounting; managing change; commitment to change; organisational readiness.

### 1.0 Introduction

Public sector transformation has been identified as one of the eight strategic reform initiatives (SRIs) under the New Economic Model (NEM) for Malaysia. Accrual accounting has been identified as one of the policy measures for Public Sector Transformation with the main focus to facilitate asset-liability management in public sector. Under the current modified cash-based accounting system, very limited information on assets and liabilities are recorded in the financial reports, thus give rise to concerns related to risk associated with inattention to asset-liability management. In addition, accrual accounting is argued to provide a better picture of government financial position as under accrual accounting, government assets and liabilities will be disclosed in financial reports. Good asset-liability management is critical for public finance sustainability as many of the assets or liabilities are long term in nature and of very significant amount. Accrual-based reporting is argued to reflect full cost service provision and enhance performance measurement and accountability (Saleh and Pendlebury, 2006).

However, it should be noted that benefits of accrual-based reporting are yielded only to the extent that people make use of the information. There are costs associated with the change in accounting system for the public sector. Difficulties in changing the system include resistance from accounting staff, compiling records, asset measurement, determining the valuation basis and dealing with the complexity of the public sector organisation in general. Huge resources are necessary to implement the new system, including the cost of training and employing people with the right qualifications.

Countries that have fully applied accrual accounting include Australia, New Zealand and United Kingdom. The rate of full adoption between these countries differ as each country has to deal with issues such as required changes in the rules and legislation as well as acceptance of the policy makers and implementers. Relative to Australia and New Zealand, the United Kingdom took more than 10 years to fully adopt accrual accounting. In the UK, accrual accounting has been implemented successfully at various levels of their government organisations. The success was not an easy achievement but a sum of hard work a huge budget – proper management, guidance, frequent and consistent communication and support from the top have been proven as among the factors contributing towards this success (Abu Hasan, 2012). Developing countries including South Africa, India and Jamaica have started the process to adopt accrual accounting while others such as Argentina, Albania and Pakistan have expressed intention to adopt accrual accounting but are still taking the ‘wait and see’ approach.

The objective of this paper is to give an overview of factors influencing change. This paper is organised as follows. The first section presents an overview of the development of accrual accounting adoption by the Malaysian government. This is followed by a discussion on managing change. Section 2.3 continues with a discussion on commitment to change and section 2.4 provides factors influencing commitment to change.

## **2.1 Moving Towards Accrual Accounting**

Cash basis has been used to account for financial transactions of the federal government since Malaysia gained its independence. Subsequently, modified cash based accounting was adopted in 1974 to cater for the need to have full cost information under the programme and performance budgeting system. However, as size and activities of the government expanded, and economic resources became limited, there was concern about financial accountability as well as efficiency and effectiveness of government service provisions. Information provided by the cash based accounting was not sufficient to assess financial performance of the government. This led to the consideration for adoption of accrual accounting which is argued to provide better financial reporting, reflect financial position and full cost of service provision (Saleh and Pendlebury, 2006).

Efforts to adopt accrual accounting for the Malaysian federal government started in the 1990s. A group of personnel from the Accountant General's Department (AGD) visited the Australian government to learn from its experience in implementing accrual accounting. However, after the visit, the idea to adopt accrual accounting was not pushed forward. Later in the early 2000, as part of business reengineering process and information technology strategic plan, once

again the need to adopt accrual accounting was deliberated. The AGD put forward an accrual accounting migration conceptual plan to be implemented in 2008 (AGD Circular, Issue No. 1, 2003). Although the AGD obtained a system known as Government Financial Management Accounting System (GFMAS) that can cater for accrual accounting, the new basis of accounting was not being implemented. According to Saleh (2002), accounting change is difficult to occur because the structural variables, the societal (professional accounting bodies), political (support from politicians) and administrative (Treasury and AGD), were not favorable to accounting innovation. In addition, lack of qualified professional staff was also found to be a barrier to implementation.

In an analysis of the stimuli for change in the Malaysian governmental accounting, Saleh (2002, p. 208) concludes that "in order for Malaysia to be most favourable to major changes in governmental accounting, there is a need for a strong influence from the professional bodies, preferably with advisory responsibilities and accountants with knowledge of private sector accounting". The decision to adopt accrual accounting in 2010 came about after involvement of professional stakeholders in government strategic plan, whereby, in 2009, the government appointed economist, business leaders and corporate adviser to be members of the National Advisory Economic Council (NEAC) to advise the government on a new national economic model. One of the issues highlighted in the NEM report is the need to have a good asset-liability management which will enhance government accountability and critical for public finance sustainability. The current cash based accounting does not capture information on assets and liabilities thus, it was decided that the government should adopt accrual accounting. Consequently, migration to accrual accounting is stipulated as one of the policy measures to stimulate reforms in the public sector (NEAC, 2010). Thus, the Malaysian government finally decided to embrace change in the accounting system as a result of strong professional influence.

As stated earlier, adoption of accrual accounting is very costly. Thus, the change must be managed properly to ensure successful implementation of accrual accounting. Since several countries have already adopted accrual accounting in the public sector, the Malaysian government could learn from these countries' experiences. In the case of New Zealand (International Federation of Accountants (IFAC), 1994), the key factor in the successful implementation of the new financial management regime was attributed to support from leaders in the public sector as well as effective risk management. The government employed intensive communication strategy to ensure change message reached the intended targets and the reforms are fully understood and embraced by individuals affected by adoption of accrual accounting.

In a study conducted for the Treasury Board of Canada, lessons to be learned from the Government of New South Wales, Australia and organisations that have fully implemented accrual accounting in Canada among others include the following:

- The need to first analyse the various options for implementation, followed by a strategic plan for introducing the selected option with full costs.
- As part of preparation for conversion, the government should identify the accounting principles as well as introduce organisational and procedural changes that will take place.

- The need to manage resistance to change. According to the study, “changes not only involve implementing new systems but also a significant cultural change in the ways managers understand and use financial information and in how financial transactions are handled.” (Treasury Board of Canada, 1997)
- The need to ensure that everyone is involved and committed which require strong leadership.

Learning from the experiences of other countries in implementing accrual accounting, it is evident that the Malaysian government has to ensure the change process is properly managed to achieve its intended objectives. The next section discusses issues related to managing change.

## 2.2 Managing Change

Change is conceptualised by Damanpour (1987) and Daft and Becker (1978) as the extent of changes adopted in a given period or as the extent to which changes are integrated into the operations (Downs and Mohr, 1976). Carnall (1986) defines organisational change as an attempt or series of attempts to modify organisational structure, goals, technology or work task. According to Armenakis et al., (1999), the process of organisational change typically consists of three phases: readiness, adoption, and institutionalisation. The first phase, readiness, involves the process of preparing organisational members for the change. During the second phase, adoption, the change is implemented and employees need to adopt and adjust to the new systems. During the third phase, the change is maintained and reinforced until it is internalised and becomes a norm.

In the context of public sector organisations, managing organisational change is among the greatest challenges to politicians and officials. In embracing change, the designers of the new system must ensure that elements in change must be understood and aligned (Halachmie and Bouckaert, 1996). Those elements include objectives for change, measurement items, targeted levels in an organisation, who would be responsible, what kind of information is expected and who would need the information must be clear and agreed upon.

For most organisations either private or public, change can be hindered by lack of top management support, lack of infrastructure support, employee resistance, poor communication, lack of readiness and lack of expertise. Organisational change initiatives often fall short of expectation or abandoned halfway through due to lack of skills among contemporary leaders in handling the changes rather than flaws innate in the change initiative itself (Choi, 2011; Armenakis and Harris, 2002).

Change may also cause problems to productivity if applied or implemented incorrectly (Gabris, 1986). The author outlines several traps in introducing or implementing new system or making changes in it as time goes by:

- i. Process Burden: the implementation and maintenance of procedural and control

requirements for the measurement system that distracts employees from their actual responsibilities (Gabris, 1986, p. 6);

- ii. Georgia Giant Syndrome: management techniques that work only under comprehensive supervision and control conditions. The expected and potential of the technique will not be achieved if control conditions are not met (Gabris, 1986, p. 8);
- iii. Internal Incapacity: the result of superimposing a technique on an organisation that lacks the in-house capacity to implement and monitor the technique beyond its initial phases (Gabris, 1986, p.10); and
- iv. Credibility Anxiety: many management techniques piled on top of one another, although they do not work well. New techniques are expected to produce dramatic and quick results; when results do not materialize after a short time, top-level appointed and elected officials deem the techniques' application a failure and responded to it by trying a different set of techniques (Gabris, 1986, p. 13).

The traps mentioned above would affect employees and organisation in terms of productivity, motivation and morale.

Most theorists acknowledge the significance of structural stability for organisations commissioning change. Managing for change as discussed widely in the literature emphasized the importance of ensuring proper structure are in place for organisations to have successful change and permits organisation to evolve (Schwarz and Shulman, 2007). A properly managed and smooth change process can facilitate and persuade people to embrace change (Edmonds, 2011). In relation to this, the literature has identified that one of the most critical challenges organisations need to address is limited structural change (Hannan and Freeman, 1977). Limited structural change refers to "a resistance to change rooted in the size, complexity, and inter-dependence in the organisation's structures..." (Tushman and O'Reilly, 1996, p.18). Structural change literature presented five reasons why limited change structural come about. First, limited structural change occurs due to a default homeostasis position or the tendency among organisations to maintain existing structure (Schwarz, 2006). As a result, change in an organisation is limited or slow because of lack of alterations made to the existing structure. Thus, to facilitate change, significant alternations must be made to current structure to reflect proposed change.

Second reason is lack of critical reflexiveness i.e. people do not consciously monitor the ongoing need for change and therefore lack of motive or intent to change (Giddens, 1984). The next reason for limited structural change is when organisational members only allow their personalized experience and anchor their previous experiences; expectations and habits which somewhat limit the overall change to take place (Ocasio, 1997). This reason views organisational members involved in change as part of the organisations' structure. Limited structural change also said to be due to limited implementation within organisations (Carlopio, 2003). What works best is widespread implementation across the organisation permits successful change and prohibit artificial internal barrier to change. The final reason that restricts change is regulative, normative and cultural institutional pillars (Scott, 2001). According to Mizruchi and Fein (1999), this reason is a powerful constraint contributing to limited structural change

in organisations.

In view of the importance of change initiatives in achieving organisational objectives as well as the significant amount of resources involved in implementing the changes, identifying the factors contributing to the success of change programs is paramount. This renders discussion on factors that influence organisational readiness to embrace change or employees commitment to change.

### **2.3 Commitment to Change**

Commitment to change has been argued to be one of the most important success factors for any change initiatives and organisational effectiveness (Isa et al., 2011). Often times change efforts fail due to unwillingness of employees to support or participate in the change initiatives. As a change process is usually difficult and demands adjustments from employees, they often feel threatened and insecure. Thus, it is pivotal for organisations to identify factors that will help organisations to garner support and commitment from their employees.

Commitment to change is described as “the glue that provides the vital bond between people and change goals” Conner (1992, p. 147). According to Herscovitch and Meyer (2002, p. 475), commitment to change refers to “a mindset that binds an individual to a course of action deemed necessary for the successful implementation of a change initiative”. Herscovitch and Meyer (2002) developed a model of commitment to change which proposes three components of organisational commitment to change: Affective, Normative and Continuance commitment to change. Affective commitment to change refers to “a desire to provide support for the change based on a belief on its inherent benefit” (Herscovitch and Meyer, 2002) or ‘want to change’ (Rashid, 2008). Normative commitment to change reflects the “sense of obligation to provide support for the change” (Herscovitch and Meyer, 2002) or ‘ought to change’ (Rashid, 2008). Continuance commitment to change is based on “recognition that there are costs associated with failure to provide support for the change” (Herscovitch and Meyer, 2002) or ‘have to change’ (Rashid, 2008).

### **2.4 Organisational and Individual Factors Influencing Commitment to Change**

It has been argued that organisational and behavioral factors such as organisational support, leadership, effectiveness of change message and information flow, attitude towards change, and employee participation are pertinent in enhancing commitment to change. According to Choi (2011), many researchers have argued that organisational change can only be successful and sustainable over long term if the organisation is able to alter the on-job behaviour of its employees appropriately. In other words, it is believed that employees are at the centre of organisational change. As accrual accounting represents change in a system, both organisational and individual factors influencing change must be identified and effectively managed to ensure successful implementation of the change program.

Having adequate and efficient organisational support which include information systems and

human resource is one of the most critical factors in successful change programs. The implementation of accrual accounting will require certain modifications to the current information and communication technologies (ICT) to support additional information needs under the new system. In addition, organisations need to ensure that they have adequate number of well trained staff. Staff who are directly involved in the implementation of the change programs must be well informed through relevant information channels and training programs. It has been argued that understanding of the needs, efficacy, appropriateness, and top management support for the change, as well as the impact of the change on the employee, will “shape an individual’s motivations, positive (readiness and support) or negative (resistance), toward the change” (Armenakis and Harris, 2002, p. 170)

In addition, it is relevant to note that leadership is significant for organisation in adopting any reforms, and leaders have to support their subordinates in embracing the reforms. Leaders and their leadership style are important during transformation time. Reforms are normally made through top down exercise, which requires strong leadership. Based on Leader-member exchange (LMX) theory, Scott and Bruce (1994) argue that high quality relationship between supervisor and subordinate, which allows greater autonomy and decision latitude to subordinates, is related to greater acceptance to change. Thus, leadership and staff participation are two vital factors in ensuring successful reforms in the public sector.

Leaders are normally expected to provide supervisory feedback to subordinates: positive feedback for commendable performance and negative feedback for unacceptable performance. This reward and punishment system is viewed as a transactional leadership style (MacKenzie et al, 2001). Several researchers have promoted a transformational leadership style over other traditional forms of leadership (i.e. transactional) as best suited to achieve organisational goals (Awamleh, 1999; Conger, 1999; Dubinsky et al, 1995). Transactional and transformational leadership are common in providing clarity of desired outcomes, recognizing accomplishments, and rewarding high performance but differ in process and behaviour (MacKenzie et al, 2001). The transformational leadership style requires adaptation of values, goals, and aspirations to be consistent with subordinates, implements change through communicating vision, clarifying performance expectations, promoting acceptance of group goals, providing individualized support and intellectual stimulation.

Change initiatives often fail to achieve the targeted goals due to lack of employee commitment and poor communication between the various departments affected by the change program (Conner and Patterson, 1982). Researchers have proposed several ways for reducing and overcoming people’s resistance to change. For example, Argyris and Kaplan (1994) have stressed the importance of communicating the proposed change to the people in the organisation. Since communication is an instrument to pass information regarding the change, it can increase the recipients’ knowledge about the change. Good communication about the change process or effective change message to all employees is paramount. Employees need to be well informed about the change initiatives in order for them to be committed. It is difficult to gain support from employees if they do not know what specific changes are going to take place, how the changes are going to affect them and how they will benefit from the change process. Thus, through communication, people’s attitude and perception toward the proposed change become more optimistic (Jermias, 2001).

Through effective flow of information, employees are informed about the change initiatives and their opinion or belief will be affected by the effectiveness of the change messages, which will be part of the process of deciding whether to support or resist the change. In essence, effective change message forms the backbone for successful change implementation (Armenakis et al., 2007). Change messages are usually transmitted between the various levels of organisations by the various change agents (top leaders, supervisors) as well as other individuals such as peers of change recipients. Furthermore research has shown that improved communication leads to employee job satisfaction and commitment which later result in benefits to organisations (Hargie and Tourish, 1996).

Another way of overcoming resistance to change is by allowing people to participate in the change process, which can induce their initial commitment to the new initiatives. Change also requires active commitment of staff through team-working, increased communication and consultation besides employees compliance and conformity (Walton, 1985). Staff participation and involvement has been widely recognized as key to successful modernization and reform in public administration system (Powls and McDougall, 1984). Allen et al. (1997) defines participation as the degree to which a person participates or continually engages in organisational activities. Employee involvement and participation are recognized ways to increased organisational adaptability, reduce resistance to change among employees, and enhances employees' support for workplace changes (Delaney and Sockell, 1990). Literatures suggest that employee active participation in organisational change process contributes in at least one of these three aspects:

- i. Participation in the change process will increase employee commitment to change and reduce resistance towards change;
- ii. Involvement in the change process will unveil the creative potential of workers, allowing the organisation to identify ways of changing that can enhance organisational performance;
- iii. Participation in the change process also works as control mechanism that reinforces change, thus reducing the need for monitoring of organisational changes afterwards.

In addition, attitude towards change may also influence success of a change program (Dunham et al., 1989; Isa, 2007). Attitudes toward change generally consist of a person's cognitions about change, affective reactions to change, and behavioral tendency toward change (Dunham et al., 1989). Elizur and Guttman (1976) also provided similar classification of individuals' or groups' response to the introduction of organisational change. They classified the response into three types. Affective responses are a greater or lesser feeling of being linked to, satisfied with, or anxious about change. Cognitive responses are the opinion one has about the advantages and disadvantages, usefulness, necessity, and about the knowledge required to handle the change. Instrumental responses are the actions already taken or which will be taken in the future for or against the change. Responses to a particular change may vary from one individual to another.

Different individuals may react differently to a particular change. For some, change may result in satisfaction, joy and advantages, while for others the same change may bring pain,

stress, and disadvantages (Yousef, 2000a; 2000b). Individuals with positive attitude towards change are more receptive to changes while those with negative attitude may be resistant to changes. The level of attitude towards change of accountants or the financial controller who are involved in the implementation of change programs such as the implementation of accrual accounting will influence the level of commitment to change. Those who are more receptive to change would be more likely to initiate changes and ensuring the changes are effectively implemented (Isa et al., 2005).

### 3.0 Conclusion

The implementation of accrual accounting involves significant cost to the government. Thus, critical factors for success including infrastructure support, human capital as well as organisational and behavioural factors influencing change must be assessed to gauge the level of readiness to the change and to devise appropriate strategies in managing these efforts carefully to ensure its success. Many public sector studies have forwarded evidence of the critical role that public managers play in bringing about organisational change (e.g. Abramson and Lawrence, 2001; Bingham and Wise, 1996; Borins, 2000; Hennessey, 1998). Therefore, it is pertinent to obtain awareness and perceptions of policy makers and implementers regarding organisational readiness to adopt accrual accounting. The development of accounting information system and adequate skilled personnel involved in implementing accrual accounting, in particular, warrants explanation.

Based on the discussions forwarded above, the main question that arises is whether the Malaysian government is ready to embrace change or otherwise. This includes organisational readiness in terms of structure and operational, adequate infrastructure particularly accounting information system and individual readiness which include appropriate knowledge and skills. Specifically, the following questions should be addressed to explore the possibilities of successful embracement of change for Malaysian government:

- i. What is the current organisational readiness to change towards accrual accounting?
- ii. What is the current level of individual awareness and commitment to change towards accrual accounting?
- iii. What are the factors influencing commitment to change towards accrual accounting?
- iv. How should the government organisation be structured to successfully embrace change towards accrual accounting?
- v. How operations of a government organisation should be arranged to ensure change towards accrual is successful?
- vi. What should be an appropriate information system of a government organisation in successfully embracing change to accrual?
- vii. What are the appropriate level of knowledge and skills of government employees to guarantee change towards accrual accounting is successful?

Hence, to feed into the above questions, a research is worth conducting to assess and measure factors that contribute toward commitment to change and the level of readiness to change among policy makers and implementers of accrual accounting in the Malaysian federal government. Additionally, the research could also be extended to investigate the role of organisational (structure, operations and system) and individual (knowledge and skills) factors in enhancing commitment to change will also be investigated.

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## Conceptual Understanding In Managing Change Towards Accrual Based Accounting In Malaysian Public Sector

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### Abstract

A change management from cash to accrual method of accounting is important because it enables more efficient and effective fiscal management where accrual accounting will facilitate the costing of resources, which is essential to the effectiveness of Outcome Based Budgeting in promoting the sustainability of fiscal policies (Becker, Defond, Jiambalvo and Subramanyam 1998). In cash basis accounting systems, expenses are not recorded on the financial statements until they have been paid. Due to unpaid bills cannot be shown on the books, it is extremely difficult to accumulate cash reserves to pay them because of the current tax laws. Malaysian government has announced the need to change to International Public Sector Accounting Standards (IPSAS) accrual-based accounting by 2015. Thus, it is important for Accountants General Department Malaysia (AG) to change management from cash method to accrual method due to the information contained in reports prepared on an accrual basis is useful both for accountability and decision-making. Therefore, the objective of this study is to review the concepts, theories and previous research on the change management towards accrual based accounting from customers and employees perspectives.

Keywords: Change Management, Accrual Accounting Basis, Cash Accounting Basis.

### Introduction

Malaysian government has raised concerns over whether the cash basis of accounting is adequate for governmental accounting and reporting especially in the recent development of governmental activities (Saleh, 2007). Previously, accrual accounting was seen to be an alternative for a better reporting of government activities and it was considered to be only appropriate in the private sector (Ellwood and Newberry, 2007). Meanwhile, the use of cash versus accrual accounting has been debated continuously by previous researcher; yet, accrual accounting has been adopted in the governments of several countries including United Kingdom (Ball and Shivakumar, 2004), Australia (Carlin and Guthrie, 2003), and Netherland (Peter Van Der, 2005).

Blöndal (2003) states that transition to an accrual based accounting and budgeting systems is an integral part of overall fiscal reforms and wider public sector governance reforms. While Wynne (2004) highlights the complexity in accrual accounting which requires greater use of judgment than cash accounting and its adoption requires new systems and considerable training. This is much needed paradigm shift that will help push the nation's desired transition to a developed nation and high income economy.

Dechow (1994) mentioned the important to change management from cash method to accrual method of accounting where the information contained in reports prepared on an accrual basis is useful both for accountability and decision-making. Meanwhile Fourie (2006) states that financial reports prepared on an accrual basis allow users to: (1) assess the accountability for all resources the entity controls and the deployment of those resources, (2) assess the performance, financial position and cash flows of the entity, and (3) make decisions about providing resources to, or doing business with the entity.

At more detailed level, Hodges and Mellett (2003) state that reporting on an accrual basis shows how a government financed its activities and met its cash requirements. It will also allow users to evaluate a government's ongoing ability to finance its activities and to meet its liabilities and commitments. Meanwhile, Nasi and Steccolini (2008) mentioned that accrual method of accounting is useful in evaluating a government's performance in terms of its service costs, efficiency and accomplishments. Furthermore, it shows the financial position of a government and changes in financial position and provides a government with the opportunity to demonstrate successful management of its resources (Onumah and Simpson, 2008).

Moreover, accrual accounting provides information on an entity's overall financial position and current stock of assets and liabilities (Mussa, 2007). Therefore, governments need this information to make decisions about the feasibility of financing the services they wish to provide and to demonstrate accountability to the public for their management of assets and liabilities. In addition, this information is recognized in the financial statements and governments can plan for future requirements of asset maintenance and replacement. With this information, government can also plan for the repayment of, or satisfaction of, existing liabilities and also manage their cash position and financing requirements.

Another important view is that accrual accounting requires organizations to maintain complete records of assets and liabilities (Chan, 2003). Thus, it facilitates better management of assets, including better maintenance, more appropriate replacement policies, identification and disposal of surplus assets, and better management of risks such as loss due to theft or damage. The identification of assets and the recognition of depreciation help managers to understand the impact of using fixed assets in the delivery of services, and encourage

managers to consider alternative ways of managing costs and delivering services (Wooldridge, Garvin and Miller, 2001).

### **Problem Statement**

According to the Internal Revenue Code, a taxpayer may compute taxable income by: (1) the cash receipts and disbursements method; (2) an accrual method; (3) any other method permitted by the chapter; or (4) any combination of the foregoing methods permitted under regulations prescribed by the Secretary of the Treasury. In general, a tax payer must compute taxable income using the same accounting method he/she uses to compute income in keeping his/her books. Meanwhile, the taxpayer must maintain a consistent method of accounting from year to year. Should he/she change from the cash basis to the accrual basis (or vice versa), he/she must notify and secure the consent of the Secretary.

Another example, when a company sells a radio to a customer who uses a credit card, cash and accrual methods will view the event differently. The revenue generated by the sale of the radio will only be recognized by the cash method when the money is received by the company. If the radio is sold on credit, this revenue might not be recognized until next month or next year. However, accrual accounting, shows that the cash method isn't accurate because it is likely, if not certain, that the company will receive the cash at some point in the future because the sale has been made. Therefore, the accrual accounting method instead recognizes the radio sale at the point at which the customer takes ownership of the radio. Even though cash isn't yet in the bank, the sale is booked to an account known as "accounts receivable". This will increase the seller's revenue.

Normally, the federal law required all taxpayers to use the cash basis accounting. However, many business used the accrual basis, as most generally accepted accounting principles ("GAAP") were based thereon, and objected to the new law. Only after 1913 Revenue Act, the Internal Revenue Service allowed the use of the accrual basis for deductions all taxpayers to use the cash basis accounting.

Meanwhile, Accountant General Department Malaysia (AG), has initiated a transformation in the Government Transfer Programme (GTP) in preparing the State Government Financial Statement from cash method of accounting to accrual basis. The four areas to be focused in this transformation are (1) building the standard accounting of state government; (2) review analysis on the acts and circular regarding the financial statements; (3) the needs on development of accounting system; and (4) the need of change management to develop the human capital capability. This transformation is to improve and to explain further the transparency and government accountability on the fiscal management of the country that is on the income and expenses management.

Furthermore, in any change initiatives, especially ones that involve the work systems, it is impossible to involve every employee (Iversen and Ngwenyama, 2006). On the other hands, it is also important to involve all stakeholders, process owners, and employees who will feel the impact of the changes, as much as possible, in the learning, planning, decisions, and implementation of the change (Davison and Martisons, 2002). If the employees are left behind, at any stage of the process, the organization would open the door in the change process, for misunderstanding, resistance, and failure. Jones and Levy (2007) indicated that organizational change is the process by which organizations move from their current state to some desired future state to increase their effectiveness. Due to the problems in managing cash accounting method, this paper is to review and understand the concepts, theories of change management towards accrual based accounting.

## LITERATURE REVIEW

According to Larcker, Richardson and Tuna (2007), accrual accounting is a method used in accounting that measures the performance and position of a company by recognizing economic events regardless of when cash transactions occur. Thus, the economic events are recognized by matching revenues to expenses at the time in which the transactions occurs rather than when payment is made or received. This method allows the current cash inflows/outflows to be combined with future expected cash inflows/outflows to give a more accurate picture of a company's current financial condition (Dutta and Reichelstein, 2005).

Meanwhile, accrual accounting is considered to be the standard accounting practice for most companies, with the exception of very small operations (Reichelstein, 2000). This is the opposite of cash accounting, which recognizes transactions only when there is an exchange of cash, but this method is relative complex which makes it more expensive to implement. Due to the complexity of business transaction in the company's current condition, more accurate financial information is required. Selling on credit and projects that provide revenue streams over a long period of time affect the company's financial condition at the point of the transaction (Zhang, 2005). Therefore, it makes sense that such events should also be reflected on the financial statements during the same reporting period that these transactions occur.

### From Cash to Accrual Basis Accounting

Dechow (1998) investigates circumstances under which accruals are predicted to improve earnings' ability to measure firm performance, as reflected in stock returns. Dechow (1998) hypothesised the importance of accruals may increase (i) the shorter the performance measurement interval, (ii) the greater the volatility of the firm's working capital requirements, and (iii) the longer the firm's operating cycle. Under each of these situations, Dechow found

that cash flows are predicted to suffer more severely from timing and matching problems that reduce their ability to reflect firm performance. The results of empirical tests are consistent with the predictions.

Another study by Guthrie (1998) presents a contextual, historical analysis of accrual accounting developments in the Australian public sector. Considering international trends in the adoption of accrual accounting to the public sector (Shand, 1995; OECD, 1993; and Olson, Guthrie and Humphrey, 1997), Guthrie suggest that it should noted that New Zealand and the governments of various Australian jurisdictions stand out as leading proponents of the adoption of accrual accounting. Meanwhile, several other nations have discussed the reforms but few have attempted to actually enact the reforms, to the extent of the Australian and New Zealand precedent (Ball, 1994; and Birch, 1995). Despite the visibility of these changes, Guthrie (1998) noted that accrual accounting reforms constitute only part of a wider number of public sector accounting-based reforms. Olson, Guthrie and Humphrey (1997) in an international comparative study of financial management reforms in eleven OECD countries identified ten accounting reforms of which the accrual accounting reforms were only one.

In addition, Peter Van Der (2005) focuses on the Dutch experience with the shift from cash-based accounting and budgeting systems to an accrual-based system. Traditionally, they found that the Dutch governments used to deploy input-based budgeting systems and cash-based accounting system. However these systems do not provide the information that is necessary for a government to operate efficiently and effectively. Peter (2005) found that a growing number of countries have already shifted or are planning to shift from cash-based to some form of accrual accounting in the public sector. Usually, the implementation of some accrual-based is linked to wider financial management reforms including performance management requiring information on cost.

## **THEORIES IN CHANGE MANAGEMENT**

An early model of change management developed by Kurt Lewin in 1951 described change as a three-stage process (Burnes, 2004).

- The first stage he called “*unfreezing*”. It involved overcoming inertia and dismantling the existing “mind set”. Defense mechanisms have to be bypassed.
- In the second stage the change occurs. This is typically a period of confusion. We are aware that the old ways are being challenged but we do not have a clear picture to replace them with yet.
- The third and final stage he called “*refreezing*”. The new mind set is crystallizing and

one's comfort level is returning to previous levels.

This study refers to Management of Change Model where there are eight (8) steps for leading changes introduced by John Kotter (1995), a world-reowned change expert. Figure 1 presents the eight steps.

**Figure 1: John Kotter Management of Change Model**



**Source: Kotter, 1995**

Step 1 is to create urgency where Kotter suggests developing this around the need for change. This will help the management if they really want to change and may help to spark the initial motivation to get things moving. Step 2 is to form a powerful coalition, where it is necessary to convince people that need to change. This often takes strong leadership and visible support from key people within the organization. Step 3 is to create a vision for change, where there will probably be many great ideas and solutions floating around. Thus a clear vision can help everyone to understand why they have to do something for change. These three steps are considered as a climate for change.

The next three steps are to enable the management to communicate the vision (step 4), where the message will probably have strong competition from other day-to-day communications within the company, so they need to communicate it frequently and powerfully. Step 5, is to remove the obstacles where the management needs to talk about the vision and building buy-in from all levels of the management. They have to put in place the structure for change, and continually check for barriers to it. Removing obstacles can empower the people that need to execute the vision that can help the change move forward. Step 6 is to create short-term wins, where the management must have results that the staff can see in within a short time frame.

Without this, critics and negative thinkers might hurt the progress in change management.

The next two steps are to implement and sustain the change. Kotter argues that many change projects fail because victory is declared too early. He states that real change runs deep. Quick wins are only the beginning of what needs to be done to achieve long-term change. Therefore, step 7 is to build on the change where each success provides an opportunity to build on what went right and identifies what the management can approve. Finally, step 8 is to make any change stick or anchor the changes in corporate culture. The management has to make continuous efforts to ensure that the change is seen in every aspect of the organization.

In addition, Kotter also states that when leaders or managers are planning to manage change, there are five key principles that need to be kept in mind, that are:

- i. Different people react differently to change
- ii. Everyone has fundamental needs they have to meet
- iii. Change often involves a risk, and people may go through the “loss curve”
- iv. Expectations need to be managed realistically
- v. Fears have to be dealt with emotions.

Therefore, in change management theories, the issue of how well the change is implemented can be the ultimate driving factor of success in the organizational change.

## **CONCEPTUAL FRAMEWORK**

Organizational change management is the process of developing a well-planned approach to implement new systems in an organization (Fernandez and Rainey, 2006). Typically the objective of new endeavor is to maximize the collective benefits for all people involved in the change and minimize the risk of failure of implementing the change. The attitudes towards change results from a complex interplay of emotions and cognitive processes (Peters, Burraston and Mertz, 2004). Because of this complexity the organization can expect everyone either the employee or the customer would reacts to change differently. Meanwhile, Kirkman and Shapiro, (2001), state that employee perception can be seen to affect most of the other factors influencing change management. They also mentioned that employee perception will lead to either resistance or acceptance of change. It also determines the level of teamwork, the type of corporate culture that will be created, and how allocated resources will be utilized as well as the success of the organizational leadership. Furthermore, Newstrom (2007) states that perception towards change is any alteration occurring in the work environment that

affects the way in which employees must act. These changes may be planned or unplanned, catastrophic or evolutionary, positive or negative, strong or weak, slow or rapid and stimulated either internally or externally. Regardless of its source, nature, origin, pace, or strength, change can have profound effects on its recipient.

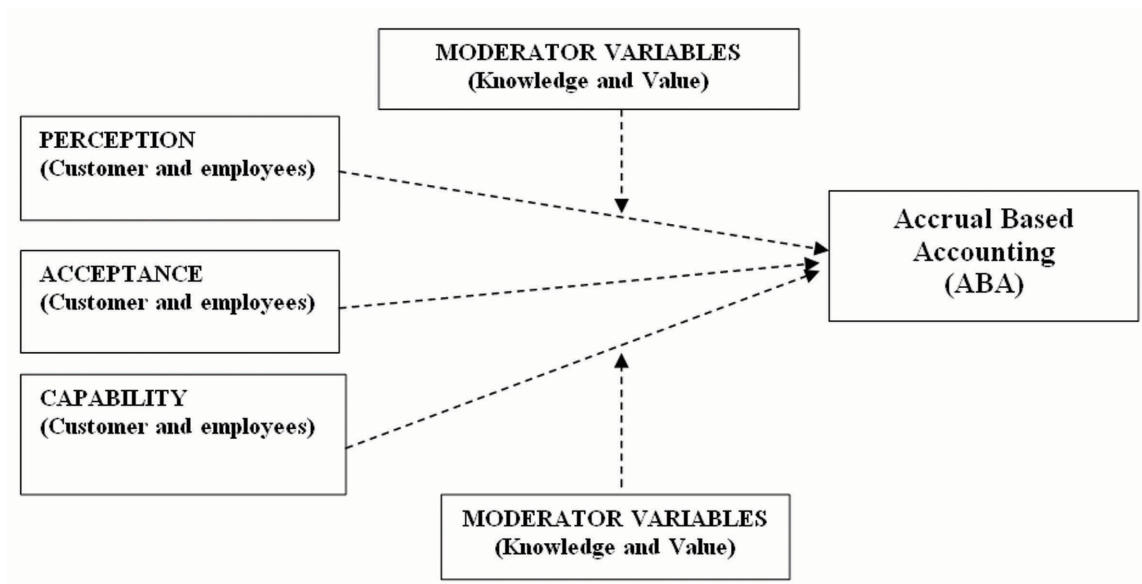
Mintzberg and Westley (1992) state that acceptance to real change behavior which comes from internalizing the problem and accepting responsibility for doing something about it. Accepting the change does not mean that it will subsequently be approved by the organization. Meanwhile, Schenk, Hunziker and Kienast (2007) studied on factors that could determine people acceptance is depending on how they are affected by the change activities, agree with, or at least understand, the need for change, and have a chance to decide how the change will be managed, and to be involved in the planning and implementation of the change. They suggested that it is merely an indication which is sufficiently justified to be given further consideration and people need to feel that they have control and committed to achieve the change objectives. If it is taken away from them and there will be a resistance. Therefore, people need to be involves in the planning and implementation of the change. While participation will open people up to the exciting possibilities contained within the change and they will become a driving force in creating the new bright future.

Collis and Montgomery (1995) in their study found that many organizations have struggled to truly build change management capabilities and competencies, even when they have been successful at applying change management on particular initiatives. They also found that in an environment where change has truly become the norm, it is important to build a capability, before the organization can institutionalized the new system more efficiently and effectively. The common change management processes and tools are consistently applied, developing individual competencies, providing the required infrastructure and engaging the relevant network and linkages has become a strategic capability.

In addition, a given variable may be said to function as moderator to the extent that it accounts for the relation between the predictor and the criterion. A moderator variable will affect the direction and/or strength of the relation between the independent and dependent variables. The moderator variables may also alter the strength the causal relationship (Margaret and Goodstein, 2001). Thus, a moderator analysis is an exercise of external validity in that the question is how universal is the causal effect. The key part of moderation in this study is the perception, acceptance and capability of the customer and employees in the change management towards accrual based accounting causal relationship for different knowledge and value. Therefore, the conceptual framework for capturing the moderator variable is

possible by using path diagram which is presented in Figure 1 below.

**Figure 1: The Relationship between Customer and Government Servants In Change Management Towards Accrual Based Accounting**



## METHODOLOGY

This section will presents the methodology that the research will be conducted in the future which employs primary and secondary data approaches where the data will be collected from the customers and employees involved with account management and transactions at government department and statutory bodies including cash and accrual based accounting management. Verschuren (2003) suggested that there are three conditions under which an appropriate strategy is adopted by the researcher; (a) the form of research question, (b) the extent of control a researcher has over behavioral events, and (c) the degree to focus on contemporary as opposed to historical events. With most of the research questions reframed in the 'what?', 'how?', and 'why?' order, it is important that this research would adopt two approaches. The two approaches assumed that the whole is different from the sum of its parts, and hence, any serious outcome of a phenomenon can happen only if its contexts of occurrence are carefully described and studied (Cohn and Turyn, 1984). This research will survey the customer and government servants who involved with the the cash and accrual transaction. This study will use the purposive sampling technique to identify designated

perception, acceptance and capability of the respondents towards the change management in accrual based accounting.

Sampling can be defined as the process of selecting a sufficient number of elements (a sample) from the population (Thomson and Collins, 2002; Sekaran, 2003). Meanwhile, a population is seen to be a complete group of people that constitute a community, a society, an organization, or anything that may have some common characteristics or criteria defined by the researcher. Therefore, the selected participants that will involve in this study are the customer of those who involve with the government transactions such as taxpayer, bills payer, etc. Also, the government servants involves in cash and accrual accounts in their daily transactions services.

As this research intends to examine into the causality effects, the fundamental research concern is with establishing causal connections between the independent variables and dependent variables. The independent variable are those which have a causal impact on the dependent variables (Levine and Loayza, 2000), whereas the dependent variable is normally of primary interest to the researcher (March and Sutton, 1997), or the variables that the researcher wishes to explain (LaVeist, 1994).

Correlation analysis will be conducted in this study which consists of 2 stages. In stage 1, a correlation analysis will be conducted between the groups of independent variables and dependent variables. The analysis is to examine the correlation between all the variables mentioned in the framework (refer Figure 1). In all stages of analysis, the correlation analysis is conducted using the Pearson's Product Moment Correlation ( $r$ ). This analysis is to establish the direction and strength of the relationships between the variables. The range in value is between -1.00 and +1.00. If there is no relationship at all, the correlation will indicate 0. A correlation of 1.00 indicates a perfect positive correlation and a correlation of -1.00 indicates a perfect negative correlation (Cohen and Natoli, 2003).

A multiple regression analysis will be conducted in this study to explore and predict an object's value on a criterion variable, given its value on one independent variable. Other than determining the relationships, this analysis explored the possibility whether all variables (perception, acceptance, capability) are predictors to change towards accrual based accounting (ABA). Thus, the multiple regression analysis explains the relationships and assess the degree of accuracy of description or prediction achieved by the regressions equation using a mathematical equation. The multiple linear regression models for this study are mathematically described as follows:

$$Y = \beta_0 + \beta_1 \text{Pecp} + \beta_2 \text{Acpt} + \beta_3 \text{Cap} + \varepsilon \quad (\text{Equation 1})$$

where:

Y = Accrual Based Accounting

$\beta_0$  = Parameter of the model

$\beta_0 - \beta_4$  = Estimates (Regression Coefficient)

Pecp = Perceptions

Acpt = Acceptance

Cap = Capability

$\varepsilon$  = The error term associated with the model.

As indicated earlier, this study employs a moderating variables to test the effects of knowledge and value in between the independent variables and dependents variables of this study. Moderating variables have played an important role in the social science research and practice. Aguinis (2004) states that the researchers are interested (a) to determine whether a causal law in general, (b) to improve the fit of their models, (c) to provide information on the boundary conditions for the relationship of interest in order to advance a theory, and (d) to reduce errors in prediction of their research models. The primary objective of a moderating variable in this study is to explain changes in the nature of the X to Y effect, and to explain “when” or under “what conditions” X causes Y (Frone, 1999). Thus, this study attempted to examine whether knowledge and value provide any moderating effects on accrual based accounting. All the moderating variables consist of two categories or levels (binary). The Moderated Multiple Regression (MMR) analysis is described as an inferential procedure which consists of comparing two different least-squares regression equations (Aguinis, 2004). By conducting MMR analysis the researchers can form inferences as to whether a moderating effect is present in the population based on sample data.

## CONCLUSION

This paper explains the concepts, theories and methods in the change management towards accrual based accounting from the customers and employees perspectives. Therefore, the step-by-step of the methodology, scientific research design and research process of this study is necessary to evaluate and determine the relationships between all relevant variables.

Further investigation in this study required the use of hypothethic-deductive methods where hypothesis are developed later and to be tested to describe and explain the nature of relationships between the variables stated in the conceptual framework.

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Include a separate title page with the title of the manuscript, author's name, affiliation, address, phone number, fax number and email. All correspondence will be directed only to the first author.

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An abstract of 150 to 200 words outlines the purpose, scope and conclusions of the manuscript as well as five selected keywords. If the manuscript is written in Bahasa Malaysia, an abstract in English should be provided.

### Figures and Tables

All figures (charts, graphs, drawings etc) and tables should be titled and numbered. Figures and Tables should supplement the text and not duplicate it. Here are some examples:

Figure 2.5 Evolution of Training's Role

Source: Noe, RA 2005, *Employee Training and Development*, p.41.

Table 6.20 Fit Indices for Hypothesised Structural Model

### Appendices

Use a separate page for appendices (if required). Provide each appendix with a title.

### Reference Citations

Use author-date method. Here are some examples:

*If one author:*

Laker (1990) proposed .....

*If two authors:*

Broad and Newstrom (1992) also noted that .....

*If two or more works cited at the end of the text:*

Transfer of training is generally defined as the degree to which trainees apply the knowledge, skills and attitudes gained in training to their job (Ford & Weissbein 1997; Tannenbaum & Yulk 1992; Wexley & Latham 1991).

*If more than two authors and their work is again cited in the text, use 'et al.'. For example,*

*First citation in text:*

For instance, Tziner, Haccoun and Kadish (1991) noted that the fundamental purpose of training is to help people develop skills and abilities which, when applied at work, will enhance their average job performance in their current job.

*Subsequent citation in text:*

The definition provided by Tziner et al. (1991) links the acquisition of knowledge and skills gained through training to an application in the workplace.

## Reference List

All references in the reference list must be cited in text and should be arranged in an alphabetical order. Here are some examples:

### Books

Cohen, JW 1988, *Statistical power analysis for the behavioural sciences*, 2<sup>nd</sup> edn, Lawrence Erlbaum Associates, Hillsdale, NJ.

Cormier, SM & Hagman, J 1987, *Transfer of learning: contemporary research and applications*, Academic Press Inc, London.

### Book Chapters

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