ISSN 1608-7143
OECD Journal on Budgeting – Volume 4 – No. 1

Issues in Accrual Budgeting

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There would appear to be a growing consensus among OECD member countries concerning the merits of adopting accrual **accounting** in the public sector. Nearly one-third of member countries have adopted full accrual accounting and a number of other member countries have adopted accrual accounting for specific transactions – most frequently for the recording of interest on the public debt and employee pension costs (see Table 1).

There would appear to be less consensus regarding the adoption of accrual **budgeting** (accrual appropriations)[1] where views diverge widely on its desirability. Only three member countries have adopted full accrual budgeting, although several member countries have adopted accruals for specific transactions in the budget – again, most frequently for the recording of interest on the public debt and employee pension costs (see Table 2).

This paper is not designed to advocate a specific stance in regards to the adoption of accrual budgeting. Rather, it is designed to focus attention on some of the key issues involved in accrual budgeting. The adoption of accrual budgeting often offers a wide range of options for implementing many of the key issues, and the paper aims to highlight these.

The paper attempts to isolate the issues relevant to accrual budgeting specifically. For a more general discussion of accruals, see "Accrual Accounting and Budgeting: Key Issues and Recent Developments" (*OECD Journal on Budgeting,* 3:1, 2003).

Box 1. **Accruals and cash**

Accruals and cash are often portrayed as opposing end-points on a spectrum of possible bases for accounting and budgeting. The cash basis of accounting and budgeting recognises a transaction when the cash is received or when cash is paid out. The accruals basis recognises a transaction when the activity (decision) generating revenue or consuming resources takes place, regardless of when the associated cash is received or paid.

In fact, cash is an inherent feature of the accruals basis and the two work very much in tandem. Accruals records transactions **both** on an accruals basis, as described above, and on a cash basis. The operating (profit and loss) statement presents the information on an accruals basis and the cash-flow statement presents the information on a cash basis.

This paper begins by discussing the benefits of adopting accrual budgeting as highlighted by its advocates together with a discussion of the issues raised by its detractors. The paper then discusses a series of "technical" issues involved with the adoption of accruals – including the treatment of non-cash items in appropriations, cash management systems, controlling capital assets acquisitions and opening balance sheet values. All of these relate directly or indirectly with the capitalisation and depreciation of assets, which is (one of) the fundamental differences between cash and accruals bases. The paper next discusses the implications of accrual budgeting for fiscal policy setting and concludes with a discussion of its impact on the role of parliament.

1. Benefits of accrual budgeting

The advocates of accrual budgeting point to many specific benefits that accrual budgeting may bring. These can usefully be divided into the following six groups:

- First, accrual budgeting provides **improved cost information to decision makers and improved discipline for budget execution purposes.** Decisions will now be based on the total cost of producing outcomes and outputs, rather than only the immediate cash outlay. (Non-cash items are discussed in section 2 below.) Budget execution must also have regard to costs being deferred and is more constrained from undertaking activity for which the cash impact will affect later reporting periods. This is especially relevant when managers have increased autonomy to act on this improved information.

  Detractors note that for most transactions the cash and accrual numbers will be the same, as the timing difference in recording transactions only affects relatively few areas. The budget could incorporate accruals for the specific transactions where it is of significance – employee pensions, interest on the public debt, etc. Other approaches such as commitment budgeting can be employed to ensure budget discipline is maintained in a devolved managerial environment.

  Various forms of centralised funds in a cash budgeting environment could serve the same purpose – for example, a special charge for employee pensions, a special charge for office accommodations, etc. Such central funds would be on an accruals basis, so in essence this means introducing accruals to specific parts of the budget. Of course, such mechanisms have their limits and would not be appropriate for some types of transaction.

- Second, accruals will focus attention on **improving the management of capital stock**. It provides better incentives to manage assets and dispose of those no longer needed, and better incentives in planning investments, as this affects depreciation. It also provides new impetus **to manage working capital** (debtors, creditors and stocks).

Detractors note that these are all important areas but can be improved without the adoption of full accrual budgeting.

- Third, accrual budgeting **eliminates biases perceived** to exist with the recording of capital investments as a "lump sum" rather than being capitalised and depreciated over its useful life. Capital spending is said to be neglected in the traditional cash-based budget framework, with the state of infrastructure and other capital assets being unsatisfactory as a result. If an asset has a useful life of – say – 25 years, then why should its total acquisition cost be treated as a single item in one year's budget rather than being capitalised and the costs distributed over its useful life through depreciation?

  Detractors note that fiscal discipline may be undermined if it is possible to commit resources in one year with the financial impact (cost) only being recorded over a 25-year period. They note that a different "matching principle" is applicable to the public sector, one that matches the political decision to spend money with the time period when the total cost is recorded in the budget. The fundamental problem of determining depreciation – an integral part of accrual budgeting – also creates a new opportunity for elected officials to expand government programmes without having to show any costs.

- Fourth, accrual budgeting will **illuminate the long-term sustainability of public finances** by highlighting the long-term consequences of current decisions. This derives from the incorporation of a balance sheet in the accrual budgeting framework that encompasses the government's assets and liabilities.

  Detractors note that the government's greatest asset – its power to tax – and its greatest liability – the costs associated with ageing populations – do not meet the recognition criteria for assets and liabilities, respectively. As a result, accrual budgeting does not present a comprehensive picture of the sustainability of public finances.

  Detractors of accrual budgeting also note that very long-term budget forecasts (40-75 years) on a cash basis may be a superior alternative for illuminating the sustainability of public finances. This eliminates the problems associated with the recognition criteria outlined above and other technical accounting issues which are detailed in later sections of this report. It also has the virtue of being easier for elected officials and the general population to understand.

- Fifth, the adoption of accrual budgeting is **a catalyst for other management reforms** in the public sector. The introduction of accrual budgeting cannot be seen in isolation: the countries that have adopted accrual budgeting have done so in the context of wider management reforms in the public sector, *i.e.* reducing input controls, increasing flexibility, focusing on outcomes and outputs. The introduction of accrual budgeting was a key lever for changing behaviours in this context and for fostering "culture change" in government.

Detractors note that the great expectations associated with accrual budgeting, not least in terms of its impact on "culture change", are exaggerated and that relaxing input controls and focusing on outcomes and outputs can be realised without the adoption of accrual budgeting.

- Sixth, proponents claim that accrual budgeting is necessary in order **to ensure symmetry with accrual financial reporting (accounting)**. This of course applies only to countries where accrual accounting has been adopted. It is argued that the two have to be on the same basis in order to enable comparability between the budget and the actual results, making them both easier to understand and assess. This is also fundamental in terms of the government's accountability for implementing the budget as authorised.

  Detractors note that this is a "back door" argument for the adoption of accrual budgeting and as such has no merit. It could equally be stated that accrual accounting should be abandoned for the exact same reason. It should also be borne in mind that a number of member countries have explicitly rejected the linkage, whereas others have done so implicitly as evidenced by the greater acceptance of accrual accounting than accrual budgeting.

Furthermore, detractors note that accruals introduces a great deal of technical complexity into budgeting, thus making it less transparent and less understandable. Accruals also offers new opportunities for manipulation that are of a different nature than in cash budgeting (capitalising expenses, use of depreciation, valuations and revaluations, etc.). Opportunities for manipulation exist in cash budgeting as well but they mainly concern timing issues – *i.e.* delaying expenses beyond the reporting period, accelerating revenue collection from the next reporting period. Finally, the detractors of accrual budgeting note that its introduction involves significant costs in training and systems upgrades and that the benefits simply are not worth it.

The discussion below focuses on the expenditure side of the budget while Box 2 provides a brief overview of the impact of the accruals treatment of tax revenue.

2. Appropriations for non-cash items

The key difference between the accruals and the cash basis of budgeting is that accruals recognises expenses in the operating (profit and loss) statement when the activity consuming the resources takes place, and not when actual cash exchanges hands. Several accrual expenditures are however non-cash in nature – on an annual basis. These include depreciation, post-employment benefits (pensions, health care), interest payable on government debt, employee

Box 2. **Accrual tax revenue**

In a "perfect" accruals framework, tax revenue should be recorded at the time that the economic transactions which result in a subsequent taxation liability take place. It is however very difficult, if not impossible, to know when all such transactions take place.

As a result, revenue is generally recognised as accruing at the time the relevant tax law indicates the existence of a requirement to pay an amount of tax, or when a tax liability assessment is made. In short, revenue is only recognised when the taxpayer incurs an assessment to pay tax.

This generally means that the adoption of accrual budgeting requires only two changes to be made to the current cash estimates of tax revenue:

- First, an adjustment for tax receivables. This adjustment recognises revenue for which an assessment has been made but which has not yet been received, and excludes cash received which has already been accounted for in receivables (because it accrued in a previous reporting period).
- Second, an adjustment for bad and doubtful debts. This adjustment recognises the fact that some accounts receivable are never paid and are eventually written off. At the end of each financial year, tax receivables that are likely to become uncollectable are brought to account and expensed to the year just finishing. This matches the "expenditure" to the period in which it was incurred.

The issue of making provision for bad debts does not arise under cash accounting because the government only recognises receipts as they come in. Thus, the accruals treatment of tax revenue has the potential to improve the management of tax revenues (receivables).

Other possibilities exist as well. Some countries treat tax revenue essentially on a cash basis in an otherwise accruals framework. It is also possible to "time shift" the revenue backwards to the "appropriate" time period in accruals terms.

leave entitlements (annual leave, long-service leave), revaluations of assets (downward) and liabilities (upward), and payables at year end.

Questions arise about how such non-cash items should be treated under an accrual appropriations framework. In essence, there are two possible approaches that have been developed:

- Cash is appropriated for the full accrual amounts, including non-cash items such as depreciation. Agencies are expected to replenish their current assets from accumulated depreciation and they have the budget authority to do so (cash-in-hand model).

- Cash is appropriated for only the cash component of full accrual amounts (no-cash-in-hand model).

The **cash-in-hand** model is the more radical of the two. Agencies would receive cash for both the cash required during the year and for the non-cash items – depreciation.[2] Their cash appropriation would therefore reflect the full cost of operating the agency.

The proponents of this model claim that the adoption of accrual budgeting is not simply about changes in how transactions are technically recorded in the budget, but is rather about introducing fundamental changes in how government is managed. The full cost of government is now to become the focus of the operating budget, rather than the immediate cash requirement. This can only be achieved if appropriations reflect these full costs with cash. Otherwise they will not be effectively managed. It was felt that if the no-cash-in-hand model had been adopted, the desired changes in management behaviour would not have materialised, since the actual appropriations received by ministries and agencies would have been essentially the same as with the old cash-basis budgeting framework.

The cash-in-hand model is especially attractive in cases where reforms of the public sector have involved a clear purchaser-provider split, with the purchaser expected to provide "outputs" in exchange for a given "price" reflecting the full costs of the outputs.

The downside of the cash-in-hand model is that control of cash and capital acquisitions (replacements) can become ambiguous. If an agency is given cash to fund depreciation expense, there is a risk that the money may be used for purposes other than replacing capital assets in the future. This applies equally to the officials in an agency, the Ministry of Finance and to elected officials. Clear criteria are required for the use of depreciation expense, *i.e.* to replace capital assets.

Similarly, parliament may lose control over how capital assets are acquired since it will have funded them through a depreciation expense in previous years. Cash management policies and specific controls over capital acquisitions can serve to alleviate these problems. They are discussed in subsequent sections of this paper.

The **no-cash-in-hand** model would only appropriate cash for the cash requirement of agencies. Non-cash items – such as depreciation – would not receive a cash appropriation. These items would nonetheless be recognised in the budget as approved by parliament. The budget would contain both the amount of the full accrual costs and the cash required. The financial statements of agencies would report the total accrual amount as revenue on their operating statement – in the same manner that all expenses are treated on an accruals basis. The difference between the cash requirement and the total full cost appropriations would be treated as accounts receivable in the balance sheet. This would give formal recognition to these non-cash items.

The proponents of the no-cash-in-hand model see it achieving the benefits of accrual budgeting with very little changes to current cash-based appropriation arrangements. Although appropriations would continue to be on a cash basis, the total amount recorded in the budget would also include the non-cash items. It avoids any risks associated with spending cash received for non-cash items on unrelated initiatives and serves to reinforce parliament's control over capital acquisitions.

The detractors of this model note that the very fact that it will not change the current appropriation arrangements means that in effect the old "cash-based" budgeting system is being continued and the desired "culture" shift in managing resources will not take place. There may also not be total faith in agencies ever receiving their accounts receivables as recorded in the balance sheet. This provides a new opportunity to "game" the system.

3. Cash management systems

The management of cash is typically centralised in the Ministry of Finance, and this has not changed for member countries that have implemented an accrual budgeting system.

The nature of appropriations is inherently linked to the cash management systems that the government employs, and therefore the interface between cash management and appropriations differs depending on the extent of "decentralisation" of the appropriation system. The decision on which appropriation system is to be employed will be dependent on views as to which system best aids the control of public finances by the legislature and which best reflects the discretion that agencies need to perform and to be responsive.

Appropriations may be designated as being for:

- the cash expenditure made **by** agencies;
- the cash provided **to** agencies;
- the costs incurred for the production of outputs **by** agencies;
- the price paid **to** agencies for the production of outputs.

The first approach and, in some cases, the second approach represent the no-cash-in-hand model as described above. The nature of the appropriation will ensure that the agency is only allotted the cash required for its operations in a given year. The last two approaches, and sometimes the second approach, represent the cash-in-hand model where the cash management system must also manage the transfer of cash to agencies that will not need the cash resources immediately.

One option is to allocate the cash but retain control of the agency banking arrangements so that the cash is still managed in a centralised manner. Another option would be to allocate to agencies only the cash that they need to cover their cash requirements. In effect, the cash management system would be used to transform the cash-in-hand model into the no-cash-in-hand model. The non-cash items would be a notional amount in their bank accounts – *i.e.* as receivables.

In all the above cases, strong controls are kept on cash and how it is used. Centralised systems can be put into place to control capital acquisitions (replacements). As with the no-cash-in-hand model described above, the problem with this approach is that it may undermine the desired culture change, *i.e.* there may be no change in management behaviour from the traditional cash-based budgeting systems.

The other extreme would be for agencies to receive cash "in their account" for the full amount of the non-cash component of their appropriation. Agencies would have the responsibility to manage this part of their appropriation. They would be subject to general cash management arrangements such as sweeping balances in all accounts overnight. More detailed controls could vary. For example, the use of appropriations for non-cash items could be discretionary for each agency only up to a certain amount. All amounts in excess could require the approval of the Ministry of Finance. These issues are further discussed in the next section.

4. Control of capital assets acquisitions

The manner in which control of capital assets acquisitions is exercised is critical to the adoption of accrual budgeting. There are two related issues involved here. The first is a conceptual view on the role of accumulated depreciation in funding new capital assets acquisitions. The second is a practical view on how capital assets acquisitions should be conducted.

The **role of accumulated depreciation** can be characterised as either of the following:

- Accumulated depreciation expense that an agency has acquired gives it a right to capital spending in that amount.
- Accumulated depreciation expense that an agency has acquired DOES NOT give it a right to capital spending in that amount.

The first approach is based on the fact that agencies with accumulated depreciation should be allowed to spend that money on new capital acquisitions. This approach recognises that control over that capital expenditure passed to the agency when the legislature approved the depreciation expense in each previous year. This approach would be in line with the "culture change" argument and the idea of empowering agencies to manage their total expenditure.

A critique of this approach is that it may not result in optimal capital decisions since the accumulated depreciation on past assets may not be a guide to the desired allocation of future capital expenditure, *i.e.* this approach assumes that capital decisions made in the past would continue to be appropriate in the future. Under this approach, many parliamentarians also feel that they have lost control over capital acquisitions since their only involvement was to approve the depreciation expense on existing assets. Also this approach may be acceptable for minor assets, but will become increasingly risky as the expenditure relates to larger and longer lived assets.

The second approach is that accumulated depreciation gives no right to capital expenditure. Agencies would receive appropriations for non-cash items such as depreciation per the no-cash-in-hand model as described in a previous section above, but would not have any right to use it. This approach recognises that a whole-of-government review of capital requirements is more likely to result in optimal capital decisions than a system which is based on historic capital expenditure patterns. This approach also gives an overall view of assets in terms of their condition and whether their value is being maintained. It also reinforces the role of parliament in approving all expenditures, including specific capital expenditures.

The critique of this approach is that it does not empower managers and would not in effect reflect any changes from the present manner of capital acquisitions.

The second issue – **how capital assets acquisitions should be conducted** – is directly related to the above. If agencies have already received parliamentary authority for capital expenditure in the form of accumulated depreciation, then they can use that money in accordance with guidelines and the approval of the Ministry of Finance. If agencies have no such authority, they will need to seek parliamentary approval for all capital acquisitions in the form of a capital budget.

It should be recognised, however, that new capital acquisitions will often consist of using both accumulated depreciation and new funding. In general, this can either be achieved by a system of internal loans or by separate capital appropriations (equity injections) to the respective agency.

Under the former approach, the Ministry of Finance would lend to the relevant agency sufficient money to cover the cost of new capital acquisitions in excess of accumulated depreciation. This would then be repaid by the agency from future appropriations. Such a facility is most suitable for smaller capital acquisitions. Limits to this regime and effective parliamentary supervision would need to be put in place.

In other cases, it may be decided that that the level of capitalisation of an agency needs to be increased and a separate capital appropriations (equity injection) be made to the agency. This could take place in the context of a capital budget. The importance of the level of capitalisation of agencies is discussed in the next section.

Box 3. **Role of accumulated depreciation expense**

When it comes to financing new initiatives, the funds that an agency may have in accumulated depreciation can be considered a pool of fungible funds. The agency itself, the Ministry of Finance, and/or parliament may view that the mission of an agency has changed and that the funds should be used for other activities than new capital acquisitions. This raises questions about whether restrictions should be placed on the use of such funds, for example that they can only be used for new capital acquisitions.

5. Opening balance sheet values

A key challenge in accrual budgeting is to ensure that the opening balance sheet is as accurate as possible since the balance sheet provides the base information for the calculation of depreciation – and in turn future capital acquisitions (replacements).

At the time of the switch to accrual budgeting, a decision needs to be made whether the level of assets in a given agency is too low, too high, or appropriate for it to carry out its activities on a sustainable basis. It should not simply be assumed that agencies have the correct level of assets; this needs to be analysed and optimised.

Agencies may of course make proposals for an increased level of assets in future years, but the underlying assumption will generally be that agencies started out with the capital necessary to ensure sustainability of their activities. Capital injections to purchase additional assets will of course become part of the annual budget formulation process in an accruals environment, but such requests should be limited to responses to new demands and needs rather than rectifying past "mistakes".

Conversely, where there may be concerns that agencies are "asset-rich", it will be difficult to reduce the level of assets once the switch to accrual budgeting has been implemented because these excess assets represent a source of funding for the agency in the form of depreciation. Member countries that have adopted accrual budgeting have generally introduced a system of "capital charging" as well to align the goals of individual agencies with the whole-of-government perspective. Box 5 highlights a capital charging regime.

Box 4. **Registering and valuing assets**

The most basic issue, yet often the most time-consuming and difficult one, associated with the adoption of accruals is to identify and value the assets that the government owns. Governments have traditionally not kept accurate and up-to-date registers of assets, a fact noted by supporters of accruals as a good example of the advantages of adopting accruals.

Valuing assets poses special problems in the public sector as well.

First, the government owns categories of assets that are uniquely public sector in nature – military assets and heritage assets such as museums and monuments being prime examples – that can be very difficult to value. The usefulness of such valuation may be quite questionable as well.

Second, accruals offers the choice of valuing assets according to either historical cost or fair value (usually market value, but in the absence of reliable market values, replacement cost is usually used as a proxy). Both are accepted valuation methodologies under GAAP (generally accepted accounting principles). Historical cost gives the advantage that the numbers used are certain in the sense that they are based on a verifiable acquisition price of each asset and do not fluctuate. The disadvantage is that the reported amounts generally bear little relevance to the current value of the asset. Furthermore, the original acquisition price in the public sector is often unknown or at nil or nominal amounts. Market value gives the advantage that the reported amounts are in line with their current value. The disadvantages lie in the fact that professional judgments must be made in assessing their values and that their values can fluctuate sharply between reporting periods. Regardless of which method is adopted, it is of primary importance that that method be applied consistently.

6. Fiscal policy setting

To date, fiscal policy setting has been inherently a cash-based concept – measuring the flows between the budget and the economy as a whole. The accrual balance and the cash balance will – by definition – diverge. (It should be noted that some countries apply the national accounts [statistical] basis for this purpose, which incorporates elements of accruals.) Assessment of the impact of the budget on the economy is therefore more likely to be driven from the cash-flow statement than from the operating (profit and loss) statement.

Reconciliation between the cash-flow statement and the operating statement is mainly due to two factors – revaluations and depreciation/capital expenditure. **Revaluations** reflect changes to the value of assets and liabilities. These revaluations do not affect cash measures of the budget balance; they reflect changes in the value of assets and liabilities resulting from non-

Box 5. **Capital charging**

A capital charge is levied on an agency and is designed to be a substitute for interest costs and a return on capital. At a minimum, the charge should cover the government's cost of borrowing. This is the bottom line cost of government. However, the activities conducted by governments are not without risk, and it is possible to argue that some form of risk premium in addition to the government's borrowing cost is also appropriate.

A capital charge usually consists of a rate levied on an asset base. The rate will vary depending upon the way in which it is calculated and the countries in which it is operating, but will normally be in the region of 5-15%. The asset base upon which the charge is levied could be: total assets, fixed assets, total assets less current liabilities, or total assets less all liabilities.

One of the main incentives associated with a capital charge regime is that agencies may **retain savings** that they make by reducing the amount of the charge. The impact of this incentive will depend upon the extent to which agencies actually realise the benefits of such savings. In some OECD member countries, the system of legislative appropriations may mean that any additional spending has to be formally approved. Administrative mechanisms may need to be developed to address this issue and to reduce the transaction costs associated with the operation of the incentive.

Another issue which needs to be considered is whether the charge will be **fully funded** in its first year of application. If it is fully funded, then agencies' financial positions do not immediately alter. However, there is an incentive to reduce asset holdings because that will reduce the capital charge in subsequent periods.

For a more comprehensive discussion of capital charging, see "Modern Financial Management Practices" (*OECD Journal on Budgeting*, 2:2, 2002).

transactions – such as changes in market values. **Capital expenditure** is not measured on the operating statement of governments; it considers the depreciation (capital use) instead. The adjustment required here is to add capital expenditure and delete depreciation expense.

Both to aid understanding and to assist in assessing the economic impact of the budget, member countries that budget on an accruals basis report the details of these reconciliations. It may be necessary to offer sector-specific details of the adjustments/cash-flows as well.

Increasingly, fiscal policy has regard to issues of sustainability of the government's policies. The operating statement and the balance sheet provide a richer (although not complete) set of indicators that is regarded by proponents of accrual budgeting as being more useful in these regards.

In particular, a fiscal indicator or target that encapsulates the extent to which assets are being consumed or impaired, and which accounts for growing or reduced provisions in "pay-as-you-go" programmes, is more likely to accurately reflect and influence the sustainability of the government's policies than targets that do not.

7. The role of parliament

Parliament's "power of the purse" is the primary vehicle for the legislature to hold the executive to account. It is therefore of fundamental constitutional importance that parliament be fully satisfied with – and fully understand – the nature of accrual budgeting. The experience of countries that have adopted accrual budgeting demonstrates that this can be most challenging. In this respect, it needs to be recognised that budgeting is an inherently political act.

Due to its technical nature, accruals can confuse decision makers, reducing its transparency and understandability, and therefore undermine parliament's role in the budget process. It should be noted that the three OECD member countries that have adopted accruals are all Westminster countries that give pre-eminence to the executive in budgetary matters and a limited role to Parliament.

Irrespectively, accruals requires a great number of professional judgments to be made on a variety of issues. It can be fairly said that accruals opens up many opportunities for "creative" accounting, as was discussed in a previous section. The role and independence of standards-setters is therefore of primary importance, and this is very much acknowledged by proponents of accrual budgeting.

A specific concern of parliament with the adoption of accruals also has to do with the treatment of capital acquisitions/depreciation. In a sense, parliament can be said to have delegated authority over capital acquisitions to the executive through approving depreciation expenses. Parliament will not have specific controls unless a supporting regime (capital budget, for example) is put in place.

8. Conclusions

This paper discussed the views of proponents and detractors of accrual budgeting and attempted to throw light on many of the "technical issues" surrounding its implementation. The paper has also surveyed the impact on fiscal policy setting and the role of parliament.

What emerges clearly from the discussion is the wide disparity of views among the budgeting community on the desirability of accrual budgeting. The discussion has also revealed that there is a great variety of models for implementing accrual budgeting, some more radical than others. The three member countries that have implemented full accrual budgeting exemplify the differing models in many ways.

It is also important to note that none of the member countries that adopted accrual budgeting did so in isolation; it was done in the context of far-reaching reforms in other areas of government management. Accrual budgeting was therefore part of a much wider reform agenda and it is difficult to assess the role specifically played by accrual budgeting. The importance of implementing accrual budgeting in terms of achieving "culture change" is, however, emphasised by all the countries that have adopted accrual budgeting.

Whether or not to adopt accrual budgeting will likely be on the agenda of member countries for a long time to come. It is an area that is ripe for more in-depth comparative analysis.

Table 1. **Use of accrual accounting in OECD member countries**

Whole-of-government financial statements

	Cash basis	Cash, except certain transactions on accruals basis	Accruals, except for capitalisation and depreciation of assets	Accruals basis
Australia				X
Austria	X			
Belgium	X			
Canada				X
Czech Republic	X			
Denmark		X		
Finland				X
France		X		
Germany	X			
Greece	X			
Hungary	X			
Iceland			X	
Ireland	X			
Italy	X[1]			X[1]
Japan	X			
Korea		X		
Luxembourg	X			
Mexico		X		
Netherlands	X			
New Zealand				X
Norway	X			
Poland		X		
Portugal		X		
Slovak Republic	X			
Spain		X		
Sweden				X
Switzerland	X			
Turkey	X			
United Kingdom				X
United States				X

1. To be verified.
Source: OECD.

Table 2. **Use of accrual budgeting in OECD member countries**
Accrual appropriations

	Cash basis	Cash, except certain transactions on accruals basis	Accruals, except for capitalisation and depreciation of assets	Accruals basis
Australia				X
Austria	X			
Belgium	X			
Canada		X		
Czech Republic	X			
Denmark		X		
Finland			X	
France	X			
Germany	X			
Greece		X		
Hungary	X			
Iceland			X	
Ireland	X			
Italy	X[1]			X[1]
Japan	X			
Korea		X		
Luxembourg	X			
Mexico		X		
Netherlands	X			
New Zealand				X
Norway	X			
Poland	X			
Portugal		X		
Slovak Republic	X			
Spain	X			
Sweden		X		
Switzerland	X			
Turkey	X			
United Kingdom				X
United States		X		

1. To be verified.
Source: OECD.

NOTE: Methodology for classification of countries in Table 1 and Table 2

- Refers to core national governments only and does not consider the use of accruals by local/regional governments or state-owned enterprises/other commercial organisations.
- Countries are classified as "full accruals basis" irrespective of whether heritage and military assets, and non-exchange revenue (taxes), are treated on cash basis.

- Countries are classified as "full cash basis" irrespective of whether they have an obligations/commitments system in place.
- Refers to financial reporting and not to statistical reporting (GFS).

Notes

1. This paper uses the term "budget" to refer to the law or collection of laws authorising expenditures, and/or the incurrence of obligations to make expenditures, to be financed from taxes or levies. It is recognised that this term does not have a unified meaning across all member countries, especially Westminster countries.
2. The discussion here uses depreciation as the main example for the treatment of non-cash items in general.

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