

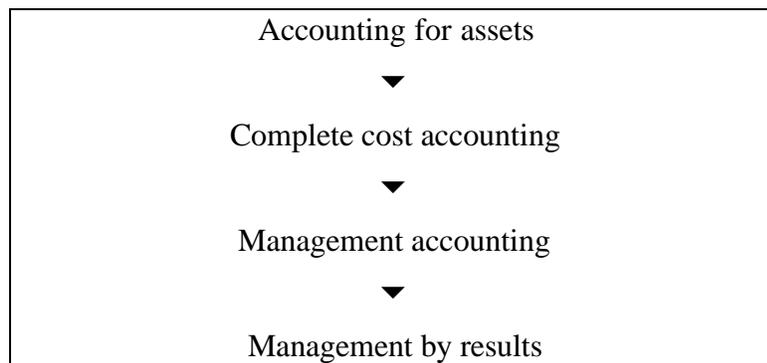
7 Why was accrual accounting implemented?

The main reason for implementing accrual accounting in Sweden was to facilitate the implementation of management by results.

Accrual accounting focuses on revenue, cost, assets, liabilities and equity – instead of cash flows only. The capitalisation of assets, such as computers and machines, makes it possible to calculate depreciations and account for them in each period during which the machine is used. Consequently complete cost accounting is made possible, especially in combination with the implementation of the system for interest allocation.

With complete cost accounting it is possible to distribute cost to various products or activities. This is sometimes referred to as management accounting. In this way the consumption of resources - not the payments - is weighed against the performance of an entity or agency. The measurement of the results of an agency's different programmes and activities forms the basis for implementing management by results.

Therefore the implementation of a new accounting model was a precondition for implementing management by results.



Accrual accounting greatly improves information on assets. The information can be used partly as a basis to allocate resources and costs, and partly to keep track of government property. In Sweden the former is regarded as very important, and consequently assets are valued at acquisition value. Of course, it is also important to keep track of government property. But that has not been a great problem since, at the time accrual accounting was implemented, government agencies already had adequate asset registers for most types of assets.

In general terms accrual accounting is also a way to increase financial awareness. However, it must be said that accrual accounting cannot replace the follow-up of cash accounts, since it is still important to monitor the government cash situation. Finally, the new accounting model also resulted in accounting methods similar to those applied in the private sector. There are many advantages with this, for instance when recruiting and training personnel. It also facilitates the use of standard accounting systems.

Excerpt from 'Accrual Accounting in Swedish Central Government'

Report is available at:

http://www.esv.se/download/18.8698810098c1192a8000751/Accrual_accounting+in+Swedish+central+government.pdf