CIPFA
The Chartered Institute of
Public Finance & Accountancy

stepping stones to accrual accounting

The transition from cash
to accrual accounting

KEYSTONES
for public financial management

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\ foreword

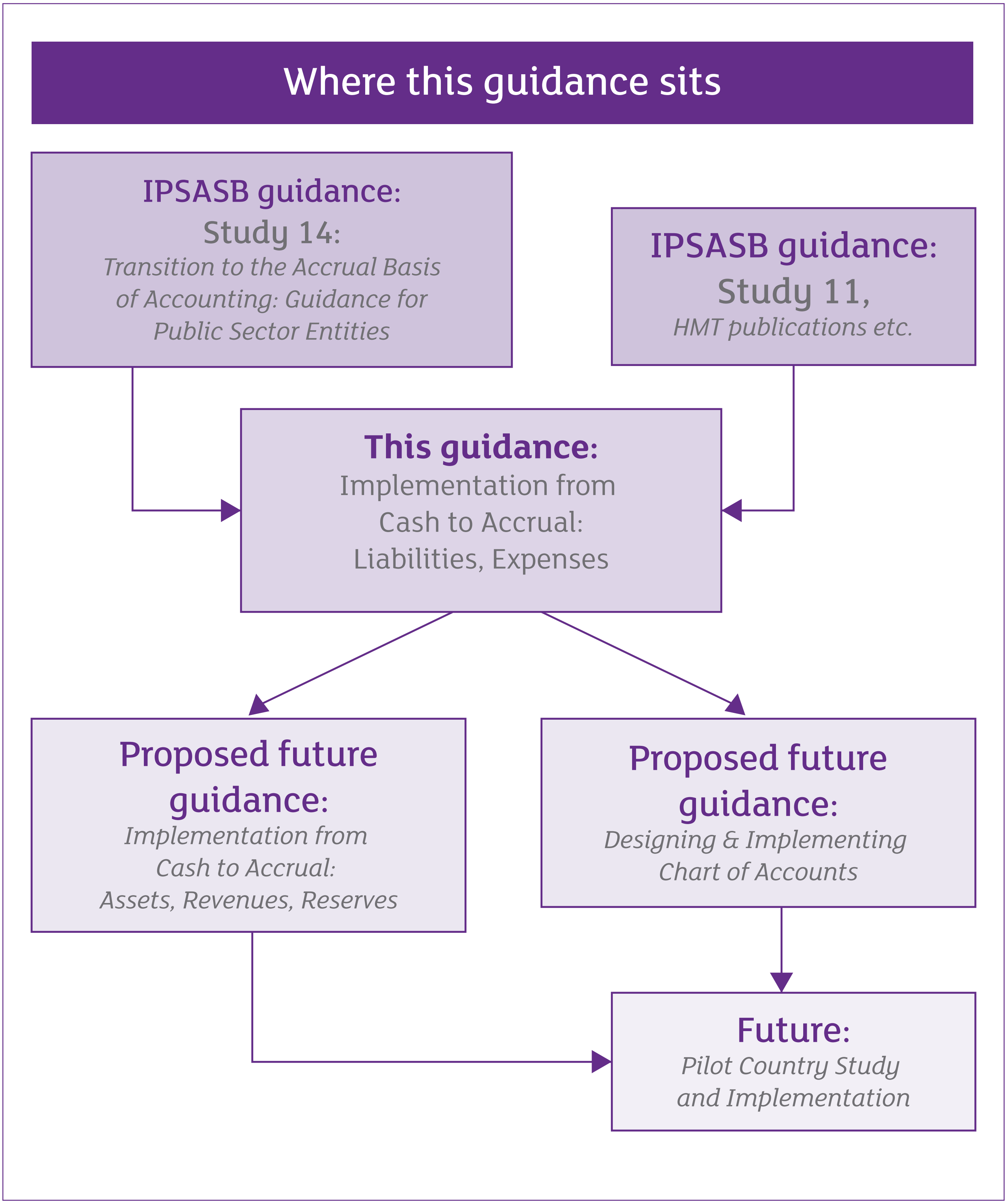
The transition from cash to accrual accounting is a key part of strengthening Public Financial Management. Although the International Public Sector Accounting Standards (IPSASs) form a virtually complete reporting framework and the IPSASB Study 14 provides an overview of the processes involved, there is little by way of practical 'hands on' guidance to help practitioners implement this crucial reform successfully.

'Stepping Stones' fills this gap in the area of liabilities and expenses by setting out a series of milestones for the transition from cash to accrual accounting.

For each milestone there is a discussion of the issues involved, links to other relevant guidance including Study 14, and examples with potential solutions.

A generic implementation plan and sample rollout chart are also included. The 'Stepping Stones' guide therefore gives practitioners a structured approach to thinking through the issues and risks involved in the cash to accrual transition and the tools to develop practical implementation plans tailored to their own organisations.

Contents


Where this guidance sits
IPSASB guidance:
Study 14:
Transition to the Accrual Basis of Accounting: Guidance for Public Sector Entities
IPSASB guidance:
Study 11,
HMT publications etc.
This guidance:
Implementation from Cash to Accrual: Liabilities, Expenses
Proposed future guidance:
Implementation from Cash to Accrual: Assets, Revenues, Reserves
Proposed future guidance:
Designing & Implementing Chart of Accounts
Future:
Pilot Country Study and Implementation

Introduction

IN1.1 Guidance Overview

The International Federation of Accountants (IFAC) through the International Public Sector Accounting Standards Board (IPSASB) have recently released an updated Study 14: Transition to the Accrual Basis of Accounting: Guidance for Public Sector Entities (Third Edition). Study 14 provides valuable guidance on the many complex issues which an entity may face before and after a decision is made to move to accrual accounting. This guidance is intended to complement the topics raised in Study 14 by setting out a practical plan of how an entity might commence the transition process, and suggesting a path towards full IPSAS implementation. In doing so, the document outlines the types of issues to be resolved and tasks to be undertaken while moving through a series of milestones to reach full accrual accounting. The guidance does not attempt to re-write material which has already been published. Instead, any relevant information and background knowledge for a particular topic, contained in Study 14 and other publications, are highlighted to direct the reader to the relevant existing document.

IN1.2 Focus on Liabilities

This document uses liabilities as examples to set out how an entity ***might*** transition to accrual accounting. The liabilities featured as examples in this guidance include:

- Short, medium and long term creditors
- Short and long term loans
- Leases
- Advance receipts
- Accrued expenses
- Provisions

This is not a complete list of all liabilities which may occur as a result of the operations of an entity. However, the liabilities covered are those which entities would normally encounter in their day to day operations and which therefore provide a good starting point when considering and developing an implementation plan.

Liabilities not addressed include those liabilities associated with

- non exchange expenses e.g. social benefits
- employee pension schemes
- the more complex financial instruments e.g. hedging

These liabilities may well be significant but consideration of these liabilities might be included in a future implementation programme once day to day liability accrual accounting is functioning smoothly.

Although this document uses various liabilities to illustrate the transition process, it is not suggested that liabilities should be undertaken first or in isolation to other accounting functions. For example, it may be practicable for a sub project to research, document and value fixed assets as the same time as liabilities are being transitioned. Many of the principles behind this guidance can also be applied to other transaction types such as assets. Further guidance on assets and revenues may be issued at a later date.

IN1.3 Milestones

In this practical implementation guidance, the transition process is based around a series of Milestones, with each successive Milestone building on the results of the prior Milestone. For example, the results achieved in Milestone 1 – documenting the types of transactions an entity undertakes – are then used in Milestone 2 in determining which of those transaction types to transition. Similarly, Milestone 3 – identifying and quantifying balances for the opening Statement of Financial Position – will utilise the results of Milestone 2 to provide an opening position for those functions and transactions chosen to transition in the prior Milestone. Throughout this guidance, references will be made to Study 14 which will give readers an essential insight into considerations associated with each of the Milestones.

IN1.4 A Suggested Framework

Given the myriad different systems and reporting practices of different countries, this guidance is not intended to provide a complete solution for all entities. For example, some entities may undertake full cash accounting, whereas other entities may already undertake cash accounting along with some form of accrual accounting in certain functions. Accordingly, this guidance is not intended to be a directive to which entities must fully adhere. Instead, the guidance is meant as a starting template which entities might adjust and develop to suit their own circumstances.

The guidance gives suggested timeframes over which functions might transition to accrual accounting and the associated considerations at each point. Some entities will wish to implement the move to accrual accounting over a longer period having regard to their particular circumstances. However, the path to full accrual and the associated milestones to achieve this as set out in this guidance should still be relevant, even if an entity extends the time to complete the implementation.

The document does not attempt to provide a solution for all issues which different entities might encounter. Instead it attempts to provide a framework and road map which entities can adopt when choosing their own transition path. Where appropriate, references to other guidance are made which will provide greater depth on the more complex issues surrounding transition.

IN1.5 Benefits of Accrual Accounting

Study 14 sets out a discussion of the benefits of Accrual Accounting in the following reference:

Study 14: - Sections 1.16 to 1.28
- Chapter 1 References

IN1.6 Successful Transition

Study 14 lists some successful transition criteria in the following section:

Study 14: - Sections 2.37 to 2.50

Study 14 also provides references to the documented experiences of certain governments in transitioning to accrual accounting

Study 14: - Chapter 2 References

Khan, A., Mayes, S., Transition to Accrual Accounting 2009: - Section V Preconditions for a Move to Accrual Accounting

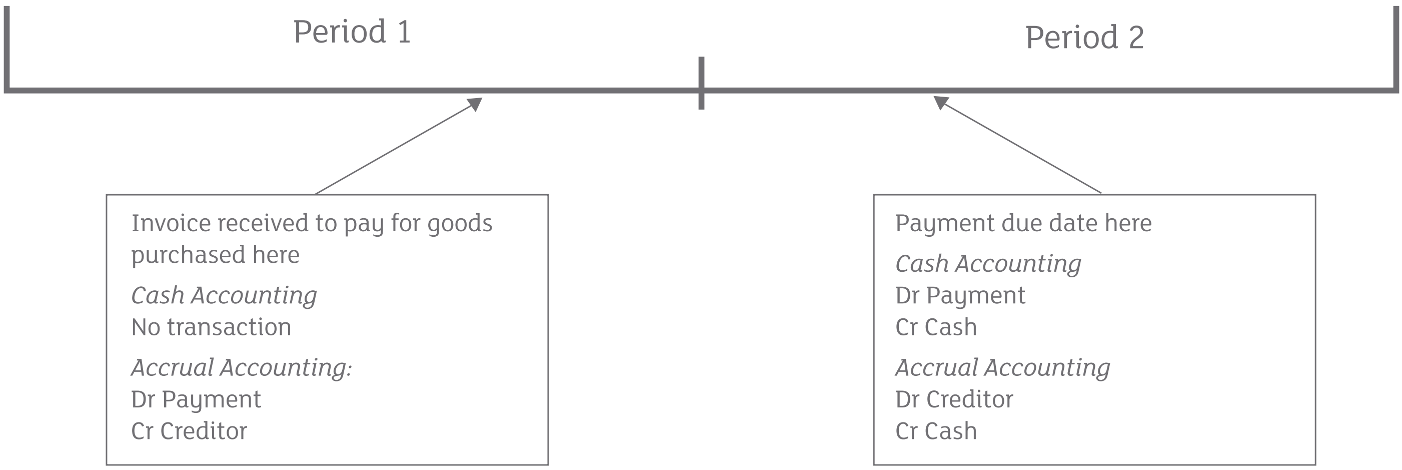
IN1.7 Characteristics of Cash Accounting and Accrual Accounting

The move from cash accounting to accrual accounting will involve:

- Accounting for revenues and expenses in addition to receipts and payments.
- The use and presentation of three main financial statements, Statement of Financial Performance, Statement of Financial Position and Statement of Cash Flows. In cash accounting only one main statement, the Statement of Receipts and Payments is presented.
- The establishment of balances as part of an opening Statement of Financial Position.
- Processing transactions in a different way and sometimes at a different time.

Accrual accounting is based around the premise thatincome, expenses and related asset and liability accounting reflect the underlying transactions or economic events, rather than being recorded at the time of the receipt or payment of cash.

Example:



A comparison of cash and accrual in this example shows:

- The payment and expense are recorded in different periods
- A creditor exists at the end of period 1 under accrual accounting
- The outflow of cash is recognised at the same time under both cash and accrual accounting
- The expense will form part of the Statement of Financial Performance under accrual accounting
- The cash payment will form part of the Statement of Receipts & Payments under cash accounting and the Statement of Cash Flows under accrual accounting.

Under accrual accounting, the Statement of Financial Position includes balances pertaining to

- Assets: items of value which the entity owns or controls and amounts owing from others to the entity
- Liabilities: amounts owing by the entity to others and obligations which will probably require settlement
- Equity: the accumulated reserves of the entity

In the above example, the amount of creditors owing at the end of Period 1 will form part of the liabilities total on the Statement of Financial Position. This amount is subsequently cleared in Period 2 when the creditor is paid. Under full cash accounting, assets and liabilities are not an integral part of the financial statements although supplemental information on assets and liabilities may be provided. Hence, the move to accrual accounting will involve different processes, recognition of different transactions at different points, and different reporting.

Study 14 gives examples of the types of information required to identify the recognition point for expenses:

Study 14: Section 8.15

IN1.8 Implementation Timeframes

Study 14 discusses the nature and speed of transition in the following section:

Study 14: - Section 2.2 to 2.32

Khan, A., Mayes, S., Transition to Accrual Accounting 2009: - Section VI Sequencing of Reform Steps

The transition to accrual accounting requires careful planning and preparation. The speed with which the transition can occur will depend on many factors including:

The level of resource available to take the project forward

The level of skill of the relevant staff

The level of complexity of the entity's operations

The availability, accuracy and comprehensiveness of documentation surrounding current processes

In practice, many entities find it easier to adopt a staged approach to the implementation rather than attempting to fully implement at the one time. It is the decision of the entity to assess what transaction types should be transitioned first and the timing of the associated transition.

Table Intro 1 outlines a Staged Approach and sets out the implications and activities which might occur in the periods leading up to “Go Live” and the periods after “Go Live”. The approach sets out a natural progression towards full accrual accounting, incorporating alignment with International Public Sector Accounting Standards (IPSAS). Under this staged approach it may be a number of periods before an entity reaches a point where it is fully compliant with IPSAS.

For the purposes of this document, the following definitions apply:

Year	Definition
Year -2	Two years preceding the Go Live year
Year -1	The year immediately prior to the Go Live year
Year 0	The Go Live year
Year 1	The year after the Go Live year
Year 2	The second year after the Go Live year

Although this document uses five years as an example transition period, income, expenses and related asset and liability accounting reflect the underlying transactions or economic events, rather than being recorded at the time of entities, can either expand or contract the time frame to suit their particular circumstances. A staged approach will, often, mean that an entity has a period(s) of producing neither full cash nor full accrual accounts. During this interim “hybrid” period, the guidance provides some examples of how the financial statements might look and suggests some good practice measures which might be adopted. The hybrid approach is not recommended as a permanent solution. Entities are strongly encouraged to continue moving down the path to full accrual accounting and IPSAS adoption with a view that the “hybrid” period should be a relatively short term solution only.

Staged Approach

Table Intro 1

Period prior (Year -1/Year -2) **Cash Accounting**	Year 0 **Hybrid Accounting**	Year 1 **Accrual Accounting**	Year 2 →
Cash Accounting as normal *Commence preparation for Accrual accounting* *(Period can be 1 or 2 yrs)*	*Commence accrual accounting for all transactions whether relevant to this year or last* *Suggest 1 year period*	*Full accrual accounting*	
Year -1 / Year -2 ■ ***The accounts will reflect correct cash accounting*** ■ This period(s) is a preparation period to ready the entity for the switch to accrual accounting. ■ Cash accounting will continue as normal during this phase. ■ The entity assesses the operations to determine what types of transactions they have ■ The entries to be included in year 0 opening Statement of Financial Position will be calculated as at the last day of year -1. ■ Any transactions that have been cash accounted for this year but have an impact on next year will not be adjusted on the opening Statement of Financial Position ■ Any transactions cash accounted for this year and relating to the year after next, ie. Year 1, will be recognised in the opening Statement of Financial Position	**Year 0** ■ ***Statement of Financial Performance may reflect a mix of:*** ■ ***accrual accounting for all new transactions in Year 0*** ■ ***The omission of expenses relating to Year 0 which were cash accounted in Year -1*** ■ ***The inclusion of expense in Year 0 which related to Year -1*** ■ ***Statement of Financial Position may have some omissions depending on accuracy of opening entries*** ■ From this point on, all transactions are accounted for an accrual accounting basis. ■ The entity will use both Statement of Financial Performance and Statement of Financial Position from this point. ■ The opening Statement of Financial Position will be populated with best estimates of Statement of Financial Position items ■ Any transactions relating to prior year, will be accounted for this year without adjustment of prior year results	**Year 1** ■ ***The accounts will reflect accrual accounting but not necessarily 100% conformity with IPSAS*** ■ ***Statement of Financial Position may continue to have some omissions or be incomplete*** ■ All transactions are accounted for on an accrual accounting basis	**Year 2 →** ■ ***Accounts will reflect a closer alignment with IPSAS*** ■ Further implementation of the “finer points” of IPSAS ■ Review for any other material liabilities not previously recognised

Period(s) Prior: During Year -1 and Year -2

MILESTONE 0:

Mobilisation

M0.1 Effective Project Management

Study 14 discusses the importance of good project management in delivering the change from cash to accrual accounting:

Study 14:- Section 2.43

M0.2 Suggested Implementation Timeframe

The gant chart at Appendix C provides a suggested roll out timeframe which the transition project might follow. This plan is offered as a high level suggestion only. Entities will want to customise the plan to suit their own circumstances.

M0.3 Other References

The following references may also assist in the initial stages prior to undertaking the transition project:

1. ***CIPFA Publication:*** Application of International Standards in Africa – Annex 10: Successful Transition
2. ***Fédération des Experts Comptables Européens:*** Adoption of Accrual Accounting and Budgeting by Governments
   http://www.fee.be/fileupload/upload/Adoption%20of%20accrual%20accounting%20and%20budgeting%20by%20governments%20030716%20WEB1532005161540.pdf
3. ***The World Bank;*** Public Sector Accounting: A Comparison to International Standards Assessment of the Public Sector Accounting Environment; Diagnostic Tool
   http://siteresources.worldbank.org/SOUTHASIAEXT/Resources/223546-1192413140459/4281804-1209417227555/GAPframework2009.pdf
4. ***IFAC:*** Study 11 - Government Financial Reporting: Accounting Issues and Practices
   http://web.ifac.org/publications/international-public-sector-accounting-standards-board/studies-and-research-reports
5. ***Caroline Aggestam:*** A Project Management Perspective on the Adoption of Accrual Based IPSAS
   http://www.scribd.com/doc/44646375/Aggestam-a-Project-Management-Perspective-on-the-Adoption-of-Accrual-Based-IPSAS

MILESTONE 1:

Assess the Operations

What types of transactions does the entity have? Where does this data come from?

M1.1 Rationale and Procedure

Rationale: Understanding the entity's operations and the types of transactions which flow through an entity is key to understanding the potential impact of accrual accounting. By determining the types of transactions inherent in the entity along with the associated data flows, policies and processes to account for those transactions on an accrual basis can be drawn up and integrated into the entity's financial management and reporting procedures. This information also highlights those areas where, perhaps, significant change will be required and gives some idea of the impact of that change. Based on this information, an entity can assess the impact of transition and decide which functions to transition and when this might occur.

Procedure: When transitioning liabilities, an entity should consider the following common liabilities to ascertain if these are relevant to their operations:

Type of Liability	Description	Documentation to include:
Trade Creditors of short duration	Where the entity purchases goods or services from a supplier and payment is made within one to three months after the purchase	■ As these will probably be numerous, it is not necessary to document each instance but to be aware that under accrual accounting these may be transacted using a different process. ■ Particular consideration may need to be given to Payroll creditors. See Appendix B for a discussion of issues relating to Payroll.
Creditors of medium duration	Where the entity purchases goods or services from a supplier and payment is made within one year after the purchase	■ The creditor name, nature of the purchase and the timing when the purchase and payment are usually undertaken. ■ These will usually be less common than short term creditors
Creditors of long duration > 1year	Where the entity purchases goods or services from a supplier and payment is made more than one year after the purchase	■ The creditor name, nature of the purchase and the timing when the purchase and payment are usually undertaken.
Short Term Loans	Where the entity has taken out a loan which will be repaid within 12 months	■ The body which gave the loan ■ The term of the loan ■ What value of repayments ■ The frequency of the payments ■ Any interest that might be applied to the outstanding balance

Type of Liability	Description	Documentation to include:
Long Term Loans	Where the entity has taken out a loan which will be repaid after 12 months	■ The body which gave the loan ■ The term of the loan ■ What value of repayments have already been made ■ The frequency of the payments ■ The calculation of any interest on the outstanding balance
Leases	What leases does the entity have and over what term?	■ The lessor's details ■ The term of the lease ■ What value of lease repayments have already been made ■ The frequency of the payments ■ Any interest that might be applied to the outstanding balance ■ An assessment of whether the lease should be catagorised as a finance or operating lease
Advance Receipts	Does the entity receive receipts / funds in advance for a particular service	■ The nature of the receipts ■ The timing of the receipts
Accrued Expense	Does the entity incur regular costs but the payment is made in a future period? E.g. salaries paid the month after they are incurred	■ The nature of the payments ■ The timing of the payment versus the timing of the cost being incurred

M1.2 Provisions

A discussion of Provisions is contained in the following Study 14 Reference:

Study 14: - Section 7.51 to 7.58

Rationale: Provisions are liabilities of uncertain timing or amount. To recognise a provision, an obligation must have been incurred as a result of past events, it must be probable that the obligation will need to be settled, and it must be possible to reliably estimate the settlement amount. Accounting for a provision involves a debit expense to the Statement of Financial Performance and an associated credit to the specified provision which sits as a liability on the Statement of Financial Position.

Under full cash accounting, provisions are generally not recognised. When transitioning to accrual accounting, entities need to consider what particular organisational activities may give rise to provisions. Refer to IPSAS19 Provisions, Contingent Liabilities and Contingent Assets for additional information regarding provisions.

Examples:

Type of Provision	Description	Documentation to include:
Provision for Legal Settlement	This provision sets aside funds to offset the estimated payout of a known court case	■ Details of why the court case has occurred ■ An estimate of the amount which the entity realistically expects to pay to settle the obligation
Provision for Rehabilitation of Land	This provision sets aside funds to restore land to its original state after its use in some other way. E.g. if land is being mined and it is a requirement to return the land to natural vegetation after mining is completed.	■ The length of time over which the land will be mined ■ The estimated cost to convert the mined land back to its natural state ■ The rationale of how the provision expense will be calculated each year e.g. a set amount each year, or some other method of calculation

Further examples of Provisions are set out in the Implementation Guidance which accompanies IPSAS 19.

M1.3 Liabilities

Study 14 offers considerable guidance when considering the impact of transitioning liabilities

Study 14: - Chapter 7
- Chapter 14

M1.4 Accounting Policy Issues

Study 14 provides guidance on the definition and development of Accounting Policy Issues:

Study 14: - Chapter 4
- Chapter 4 Appendix A
- Chapter 4 Appendix B

Period(s) Prior: During Year -1 and Year -2

MILESTONE 2:

Decide which types of transactions to transition to Accrual Accounting *and* when those transaction types will transition

M2.1 Rationale and Procedure

Rationale: An entity may choose to undertake a staged approach to transition. In order to decide what transition plan to undertake, entities will need to decide which transaction types to transition and when and how this might occur. To assist entities, Sections M2.2 to M2.8 detail some of the considerations and scenarios which may influence a transition plan.

Interdependencies: Milestone 1 determined the nature of transactions undertaken by the entity. Milestone 2 requires the entity to consider each of the relevant types of transactions identified in Milestone 1 and, with reference to Sections M2.2 to M2.8, determine what impacts the change to accrual accounting may have, given the current approach and systems in place within the entity.

Procedure: For each transaction type set out in M2.2 to M2.8, several scenarios are listed which may describe the current state. For each of these possibilities, the impact of the adoption of accrual accounting will be different. To assist in forming a decision, the different impacts are rated by $ symbols. One $ represents minimal impact and is accordingly, an easy change to implement. Five $$$$$ represents a major change with a subsequent high level of impact and difficulty. This rating should assist in determining which transaction types will require the most resource input to transition and may influence the timing of the transition.

For additional assistance:

- Table M2.9 sets out a comparison of transactions under cash and accrual accounting
- Section 2.10 provides some guidance on how each liability component may be transacted in an electronic accounting system. In some instances, this may not be very different from what is currently occurring. In other instances, it may be significantly different.

The degree of change required along with the associated difficulty and impact will influence the decisions of an entity when formulating a transition plan. A sound risk assessment may also assist in determining those areas where additional attention and resource may be required.

Study 14 refers to Step by Step Implementation in the following reference:

Study 14:- Sections 2.25 to 2.27

This reference includes a further reference to a document produced by Khan and Mayes 2009 which discusses possibilities for a staged approach.

Khan, A., Mayes, S., Transition to Accrual Accounting, Technical Note, International Monetary Fund, Fiscal Affairs Department, September 2009

http://www.imf.org/external/pubs/ft/tnm/2009/tnm0902.pdf

M2.2 Creditors – Short, Medium and Long Term

Objective: The entity needs to accurately record creditors and expenses, including enough detail to facilitate subsequent accounting for payments, returns and other adjustments.

For some simple entities which make very few payments, creditor recording can be processed through the general ledger. However, if the volume of payments is significant, then a separate creditors subsidiary ledger is desirable. This contains creditor details, and will account correctly for advance payments, creditor balances arising from purchases, settlement through payment, and adjustment which arise, for example, where goods purchased are subsequently returned. Within the general ledger, one control account exists which reflects the total outstanding balance of all the creditors within the subsidiary ledger.

Consider: What is the current process?

Does the Integrated Financial Management Information System (IFMIS) have an integrated creditors system?

If so, is that integrated creditors system currently used?

If Short term creditors are to be accounted for on an accrual basis effectively, it is highly desirable that an accounting system have an integrated creditors sub ledger.

Reference: Table M2.9 (a) & (b); M2.10.1

Possibilities	Extent of Change	Change / Difficulty Rating
There is no integrated creditors system	Consider the feasibility of purchasing a module. This will involve ■ an outlay of expenditure ■ additional lead time until the system is implemented and tested ■ additional time for training of personnel ■ Consideration of how this would fit with the longer term IT strategy	$$$$
IFMIS has an integrated creditors system and it is not used	■ Creditors will need to be set up in the master file ■ Some testing to ensure sub module works correctly ■ Training in new processes	$$
IFMIS has an integrated creditors system and it is used	■ Review of input processes to ensure data is captured in correct period	$

Study 14 lists the advantages of a well structured payment system:

Study 14: Section 8.21

M2.3 Short Term Loans – payable within one year

Objective: Going forward, the entity needs to record the loan so that it appears as a liability on the Statement of Financial Position until it is paid and the liability extinguishes.

Due to the short term nature of this liability which will be extinguished within one year, it is suggested that for transition purposes, the repayments be accounted for on a cash basis prior to going "live". After going live, the receipt of the loan and subsequent repayments should be accounted for on an accrual basis.

Reference: 2.9 (c) & (d); M2.10.2

M2.4 Long Term Loans – payable after one year

Objective: The entity needs to record the outstanding amount owing on the loan so that it appears as a liability on the Statement of Financial Position. Any repayment of the loan will reduce the liability.

Consider: Are full details of the loan readily available e.g.

- Amount borrowed
- Term of the loan
- Regularity and amount of the repayments?

If repayments consist of both principal and interest can the repayment be easily split into the two components?

Is the loan a "soft loan" ie. A loan with a below market rate of interest? If so, then special accounting requirements may apply. Refer IPSAS 29.

Reference: Table M2.9 (e) & (f); M2.10.2

Possibilities	Extent of Change	Change / Difficulty Rating
Loan details are fully documented and known	■ The loan schedule will need to be reviewed to assess how many repayments have been made and how many are still to be made. ■ The total repayments still to be made will feature as a liability on the opening Statement of Financial Position	$
Loan details are incomplete	■ The impact of the change will depend on the level of difficulty in deriving the number and amount of outstanding payments so that this total can inform the liability balance on the Statement of Financial Position ■ Adjustment to processes to reflect the difference in how the repayments are treated ■ Additional training for staff	$$$

M2.5 Leases

Objective: For a finance lease, the principal outstanding amount owing on the lease liability will be reflected as a liability on the Statement of Financial Position. The interest component of the repayment needs to be recorded separately to the principal reduction. The value of the item under lease is reflected as an asset and depreciated over the term of the lease.

For an operating lease, the expense is recognised on a straight line basis over the lease term unless another basis is representative of the time pattern of the user's benefit. Refer to IPSAS 13 for definitions and a determination of finance and operating leases.

Consider: Are full details of the lease readily available e.g.

- Term of the lease
- Regularity and amount of the repayments
- Principal and interest components of the individual lease repayments
- Fair value of the lease property

Is the lease categorised as a finance lease or an operating lease?

- Categorisation criteria are contained in IPSAS 13.

What is the timing of the final lease payments?

Are these benefits in establishing the lease liability and the lease asset at the same time?

Reference: Table M2.9 (g) (h) (i) (j) (k) (l); M2.10.3

Possibilities	Extent of Change	Change / Difficulty Rating
Operating Lease		
– same payment each period – time pattern and payment amount reflects the pattern of benefit to the entity	■ Account for payments on a normal cash basis as an expense	Nil
– time pattern and payment amount does not reflect the pattern of benefit to the entity	■ Entity should consider raising an expense and creditor during the time period which reflects the pattern of benefit rather than the expense being reflected when the payment is made	$
Finance Lease		
The final payment is prior to Year 0	■ Account for on normal cash basis	Nil

Possibilities	Extent of Change	Change / Difficulty Rating
If final payment is after Year 0: Full documentation of the lease is available including the principal and interest components of the individual lease repayments	■ In conformity with IPSAS 13, the lease asset and lease liability need to be established on the opening Statement of Financial Position. ■ This will require the principal component of the remaining lease payments to become the lease liability balance. ■ The lease asset will be the fair value of the lease property less accumulated depreciation and will equal the lease liability total ■ A standard journal for lease depreciation expense needs to be developed ■ The account coding split of the repayment has to change to reflect the liability reduction including the interest payment	$$
Documentation of the lease is available but the split between principal and interest components of the individual lease repayments is unknown	■ The two components of the lease have to be calculated for the remainder of the repayments ■ IPSAS 13 provides guidance on how to do this ■ Plus impact described above	$$$
Details of the lease are incomplete	■ Documentation will need to be assembled surrounding the term, regularity and amount of repayments (this may have been documented as part of the process of Milestone 1) ■ Plus impact described above	$$$$

M2.6 Advance Receipts

Objective: Revenue is recognised when earned irrespective of when the cash is received.

Consider: Does the entity have cash received in advance of a service being delivered e.g. rent receipts paid in advance, say quarterly, by a tenant?

How far in advance are the receipts received?

What is the nature of the receipt and how many periods does the receipt cover?

Reference: Table M2.9 (m) & (n); M2.10.4

Possibilities	Extent of Change	Change / Difficulty Rating
Instances of receipts being paid in advance to the entity are well documented and circumstances known	■ The initial receipt of cash is directed to the Advance Receipts Liability account on the Statement of Financial Position ■ Each period, the Advance Receipts liability is reduced and revenue is recognised in the Statement of Financial Performance. ■ A standard journal with the relevant account codes can be established for this	$
Instances of receipts being paid to the entity in advance occur unevenly with and no documentation	■ Attempts should be made to regularise the receipts ■ Documentation needs to be in place ■ Plus change impact as above	$$

Since an Advance Receipt liability occurs when cash is received in advance of the associated revenue being earned, entities should consider transitioning this liability at the same time as transitioning revenues. Entities should be aware that correct identification and recording of Advance Receipts will require the entity to develop revenue policies. M1.4 provides references which discuss the implications of identifying and implementing accounting policies.

M2.7 Accrued Expenses

Objective: To record the expense associated with a liability in the period in which it is incurred, rather than the period in which it is paid. For example, the electricity charge for an office building incurred in Month 1 may not be paid until the beginning of Month 2. In this case, the electricity expense should be accrued in Month 1 so that Month 1 reports include this information.

Consider: The types of expenses incurred during a period but no invoice has yet been received from a third party for payment e.g. rent expense; salaries expense; interest expense

Reference: Table M2.8 (o) & (p); M2.10.5

Possibilities	Extent of Change	Change / Difficulty Rating
The types and timing of different expenses being paid are well documented and circumstances known	■ A standard journal with the relevant account codes needs to be developed ■ Each period, the accrued expense is either : a) reversed if the accrual is no longer required because the amount has been picked up through the creditors system for payment; or b) left in Accrued Expenses awaiting processing through the creditors system ■ Process to be documented and training developed	$

Possibilities	Extent of Change	Change / Difficulty Rating
The types of different expenses being paid are unclear and the timing of expenses is unknown	■ Review and analysis of expense patterns to ascertain standard accruals to be set up. (this information may have been documented as part of the process of Milestone 1) ■ Plus change impact as above	$$

M2.8 Provisions

Objective: The entity needs to record sums of expenses which can be reliably estimated and which will be required to settle a future liability.

Consider: What particular circumstances might exist which require a sum of money to be set aside so that a future liability can be settled. These sums may accumulate or change over time e.g. Restoration of land

Reference: Table M2.9 (q) & (r); M2.10.6

Possibilities	Extent of Change	Change / Difficulty Rating
The identification and quantification of the provision can be readily ascertained by reference to existing data and documentation	■ Opening Statement of Financial Position journal entry required ■ Standard journal developed to pick up any periodic expense and increase in liability ■ Training in the process required	$
Calculation of a provision is possible although there is incomplete documentation	■ Further analysis of the circumstances surrounding the necessity for the provision and the likely duration that the provision may be required. ■ Plus change impact as above	$$
Limited documentation held and no data to assist in quantifying or identifying possible provisions	■ Consider the examples given in the implementation guidance accompanying IPSAS 19 ■ Assess the relevance of these examples to the entity's circumstances ■ Once potential need for provisions identified, attempt to document and develop an approach to estimating the liability ■ Plus change impact as above	$$$$

M2.9 How to Accrual Account – Manual Transactions

Cash Accounting vs Accrual Accounting Table M2.9

	Cash Accounting		Accrual Accounting	
Type of Liability	**Rationale**	**Transaction**	**Rationale**	**Transaction**
M2.9.1 Creditors				
(a) Set Up	No creditor is established and there is no Statement of Financial Position		A creditor is recognised when the expense falls due rather than when it is paid and the expense will impact on the Statement of Financial Performance. The expense item should be reflective of the type of expense so that the categorisation is meaningful.	Dr Expense Cr Creditor
(b) Payment	When paid, the payment will be recorded on the Statement of Cash Receipts and Payments	Dr Payment Cr Cash	When paid, there is no impact on the Statement of Financial Performance, instead there is a decrease in liability and a decrease in cash – both Statement of Financial Position items.	Dr Creditor Cr Cash
M2.9.2 Short Term (ST) Loan				
(c) Initial receipt	The loan is recorded when the cash is received The cash received is included in the Statement of Cash Receipts and Payments	Dr Cash Cr Loan Received	The loan is recorded when the cash is received. The loan is established as a liability on the Statement of Financial Position	Dr Cash Cr ST Loans Payable
d) Subsequent repayments	When paid, the repayments will be recorded on the Statement of Cash Receipts	Dr Loan Payments Cr Cash	The repayments reduce the loans payable liability	Dr ST Loans Payable Cr Cash
M2.9.3 Long Term Loan				
(e) Initial receipt	The loan is recorded when the cash is received The loan received is included in the Statement of Cash Receipts and Payments	Dr Cash Cr Loan Received	The loan is recorded when the cash is received. The loan is established as a liability on the Statement of Financial Position	Dr Cash Cr LT Loans Payable
(f) Subsequent repayments	When paid, the repayments will be recorded on the Statement of Cash Receipts and Payments	Dr Loan Payments Cr Cash	The repayments reduce the loans payable liability leaving a balance outstanding on the Statement of Financial Position	Dr LT Loans Payable Cr Cash

	Cash Accounting		Accrual Accounting	
Type of Liability	**Rationale**	**Transaction**	**Rationale**	**Transaction**
M2.9.4 Operating Lease				
(g) Payment (payment and time pattern reflect benefit pattern)		Dr Payment Cr Cash	The expense is picked up in the period in which it is due and is paid in this period or a future period	Dr Expense Cr Creditor Dr Creditor Cr Cash
(h) Payment (payment and time pattern are materially different from the benefit pattern)		Dr Payment Cr Cash	The expense should be picked up in the same proportion and same period in which the benefit is derived	Dr Lease Expense Cr Lease Creditor (for the expense) Dr Lease Creditor Cr Cash (for the cash payment which will be a different amount)
M2.9.5 Finance Leases – Simple (where payment stream is even and closely matches interest accrual. For more complex leases refer IPSAS 13)				
(i) Initial set up	Assets and liabilities are not recognised. The concept does not exist in pure cash accounting		An asset and liability are set up for the contract value of the lease. The lease payment total is split into principal and interest components	Dr Lease Asset Cr Lease Liability
(j) Payments	Lease payments impact on the cash payments in the Statement of Cash Receipts and Payments	Dr Lease payments Cr Cash	On payment: the lease liability is reduced by the principal component of the payment and the interest component is charged as an expense	Dr Lease Liability Dr Interest Expense Cr Cash
(k) Other – depreciate lease asset	Assets and liabilities are not recognised in pure cash accounting		The leased asset is depreciated over the life of the lease	Dr Lease Depreciation Expense Cr Provision for Depreciation
(l) Disposal	Disposal proceeds are picked up as part of cash receipts	Dr Cash Cr Proceeds from disposal	The lease liability should be nil. The asset and Provision for depreciation are written back	Dr Cash Dr Provision for Depreciation Cr Lease Asset Dr / Cr Gain or loss on sale

	Cash Accounting		Accrual Accounting	
Type of Liability	**Rationale**	**Transaction**	**Rationale**	**Transaction**
M2.9.6 Advance Receipts				
(m) On receipt	Receipt is recorded when cash received regardless of whether it has been earned	Dr Cash Cr Receipt	Revenue is recorded when earned regardless of when received	Dr Cash Cr Advance Receipts Liability
(n) When earned	Revenue is recorded and impacts on the Statement of Financial Performance		Revenue is recorded and impacts on the Statement of Financial Performance	Dr Advance Receipts Liability Cr Revenue
M2.9.7 Accrued Expenses				
(o) Initial establishment	The concept is generally not applied in cash accounting		This arises when an expense has been incurred but has not been paid	Dr Expense Cr Accrued Expenses
(p) Reversal / drawdown	The concept is generally not applied in cash accounting. When the invoice is received, the payment is made as normal	Dr Payment Cr Cash	When payment is made in a subsequent period, an entity can a) reverse the accrual and recognise an expense or b) drawdown the accrual	a) Dr Accrued Expense Cr Expense Dr Expense Cr Creditor Dr Creditor Cr Cash b) Dr Accrued Expense Cr Cash
M2.9.8 Provisions				
(q) Providing	Liabilities are not recognised in pure cash accounting		Expenses are “provided for” over a number of periods to settle a commitment in a future period. E.g. land restoration	Dr Expense Cr Provision
(r) Utilisation	To pay for expenses incurred	Dr Payment Cr Cash	When the liability is to be settled, the provision is utilised	Dr Provision Cr Cash

M2.10 How to Accrual Account – Electronic Systems

Medium & Large Accounting Packages / IFMIS

Manual journal entries to accrual account for the various liability components are set out in Table M2.9. However, in a large number of entities, the processing of transactions will be undertaken within an accounting package or IFMIS. The following sets out the types of activities and processes which may be required to convert to accrual accounting in an electronic environment.

M2.10.1 Creditors

Rationale: In accrual accounting, processing of invoices involves:

a) recording the purchase invoice and creditor

b) the subsequent payment or payments

Set Up: The system will probably require a creditor file to be established for each individual creditor in the creditors system. This will act as the master file for the creditor and may incorporate standard data regarding the creditor such as:

- The creditor address
- The creditor bank account details (if electronic banking applies)
- The terms of payment (due dates etc)

Record the Invoice: The creditors system will contain screens allowing users to input invoices for payment. Pieces of information required for input will generally be:

- The invoice date
- The due date for payment
- The relevant expense code / account code to which the invoice relates
- Confirmation of the amount to be paid against each account code

System Processing: Once the invoice is recorded in the system, the creditors system will automatically process the accounting entries as set out in Table M2.9 (a).

Payment: At certain prescribed intervals, any invoices due for payment can be processed in one batch or individually. The system will generally highlight invoices due for payment and the user selects and authorises the appropriate invoices.

System Processing: Once this process is confirmed, the creditors system will automatically process the accounting entries as set out in Table M2.9 (b). Depending on the nature of the entity, the system will generate either an electronic payment file or a list of cheques to be written.

Creditors Control Account: The creditors system will integrate summarised information into the general ledger, generally, in the form of a creditors control account which reflects the total balance of creditors outstanding. The creditors system (subsidiary ledger) provides the detailed back up for the control account.

M2.10.2 Short Term & Long Term Loans

Rationale: A short term loan (less than 1 year) may be processed in a similar way as that undertaken for Creditors. A long term loan exists over a longer period and generally consists of an advance of cash from an external source requiring multiple future repayments to be made. Therefore, the accounting is slightly different.

Input: Once the cash for the loan is received, a journal entry is required to establish the loan. Refer Table M2.9 (c) & (e). Alternatively, in more sophisticated systems, this transaction may be picked up as part of the automatic bank reconciliation function which allows users to assign account codes for posting of reconciling items. The account code should be a Loans Payable liability account.

Payment: The loan contract will state the due date for any loan repayments.

Options:

- If the loan is from a bank, the repayment may automatically be deducted from the entity's bank account. This payment can then be picked up as part of the bank reconciliation with the payment being directed to the Loan Payable liability account and any associated interest being expensed in the correct period.
- If the loan repayment is to an individual / entity, then the payment can be established as a creditor as set out in a) above. In this case, instead of an expense code being assigned to the creditor, the account code will be the Loans Payable account.
- Alternatively a journal entry can be made to achieve the same result. Refer Table M2.9 (d) & (f).

M2.10.3 Leases

Set Up New Lease: When a new lease is entered into and this is classified as a finance lease, a journal needs to be prepared to set up the Lease Asset and Lease Liability. Refer Table M2.9(i) for journal entries. At the same time, the lease payments need to be split between principal and interest. IPSAS 13 explains how to do this. If the new lease is classified as an operating lease, there is no set up requirement.

Input: Input the general journal and instruct the system to process the journal.

System Processing: Once the journal is authorised, the general ledger will automatically process the accounting entries as set out in Table M2.9 (i).

Set Up Lease Creditor & Payments: The payment owing to the lessor can be set up as a creditor as in M2.10.1 above. There will be two account codes attached to the creditor: - one for the Lease Liability account and one for the interest expense account.

Input: The lease payment will feature with other highlighted invoices due for payment.

System Processing: Once this process is confirmed, the creditors system will automatically process the payment as set out in Table M2.9 (b).

Set Up Leased Asset Depreciation: There is generally a facility in computerised accounting packages, to establish what are sometimes called "standard", "standing", or "recurring" journals. These journals are templates which can be established to automatically post any of: the same amount, the same accounts and the same timing e.g. monthly. If the system permits, set up can also include the option to schedule the automatic posting of the journal based on a regular cycle e.g. monthly, quarterly etc.

A standard journal can be established with the relevant account codes for depreciation expense and provision for depreciation. The system may offer the facility to schedule standard journals based on a regular cycle e.g. monthly, quarterly etc.

Input: When the due date for the standard journal is highlighted either via a system notice or an offline reminder, select the function to process the journal.

System Processing: Once the journal is authorised, the general ledger will automatically process the accounting entries as set out in M2.9 (k).

M2.10.4 Advance Receipts

Set Up: The cash received will be picked up as part of the cash receipts function and credited to the Advance Receipts liability account. If the revenue earned is the same amount during each period, then a standard journal with the relevant account codes can be established for this. If the revenue earned is non standard in amount and timing, then a journal needs to be undertaken in line with Table M2.9 (n).

Input: When the due date for the standard journal or general journal is highlighted either via a system notice or an offline reminder, instruct the system to process the journal.

System Processing: Once the journal is authorised, the general ledger will automatically process the accounting entries as set out in Table M2.9 (n).

M2.10.5 Accrued Expenses

Set Up: If the expense to be accrued is the same amount each month, then a standard journal with the relevant account codes can be established. If the expense to be accrued is non standard, then a journal needs to be undertaken in line with Table M2.9 (o).

Input: When the due date for the standard journal or general journal is highlighted either via a system notice or an offline reminder, instruct the system to process the journal.

System Processing: Once the journal is authorised, the general ledger will automatically process the accounting entries as set out in Table M2.9 (p).

M2.10.6 Provisions

Set Up: In many instances, provision expenses can be similar or even the same amount each month as the amounts are incurred on a straight line basis. If this is the case, then it is a simple process to establish a standard template journal with the relevant account codes for debiting the expense and crediting the Provision liability.

Input: When the due date for the standard journal is highlighted either via a system notice or an offline reminder, select the function to process the journal.

System Processing: Once the journal is authorised, the general ledger will automatically process the accounting entries as set out in Table M2.9 (q).

MILESTONE 3:

Assess what liabilities/amounts should be included on the opening Statement of Financial Position

M3.1 Assessment of Liabilities

Interdependencies: Once identification and documentation of the types of transactions occurring in the entity has been finalised as per Milestone 1 and the transition approach has been decided as per Milestone 2, the entity can utilise this information to assess what amounts, if any, need to be included as part of the opening Statement of Financial Position. Entities will need to base their assessment on the "Go Live" date.

For the purposes of this exercise:

Year	Definition
Year -2	The year two years preceeding the Go Live year
Year -1	The year immediately prior to the Go Live year. The Year 0 opening Statement of Financial Position will reflect accrual balances at the end of Year -1.
Year 0	The Go Live year. The opening Statement of Financial Position will reflect accrual balances at the beginning of the Go Live year
Year 1	The year after the Go Live year
Year 2	The second year after the Go Live year

The general principles for inclusion on the opening Statement of Financial Position are:

Principle #1: If a prior period payment (made Year -1 or before) which in accrual terms relates in some part up to and including Year 0, then ignore

Principle #2: If a prior period payment (made Year -1 or before) which in accrual terms relates in some part to Year 1, Year 2 or future years, then pick up the remaining amount outstanding at end of Year -1 on the opening Statement of Financial Position

Refer to Table M3.3 for a pictorial representation of assessing balances which should be on the opening Statement of Financial Position.

To assist in undertaking the calculation to quantify each liability which needs to form part of the opening Statement of Financial Position, refer to Table M3.4. This also gives the relevant journal entries required to effect the transactions.

M3.2 Application of Materiality

Study 14 offers advice on considering and determining the concept of materiality in relation to a transition project.

Study 14:- Sections 2.52 to 2.55

M3.3 Analysis of Liability for Opening Balance

Type of Liability	Type of Occurrence	Treatment
Trade Creditors of short duration	If any creditors were paid in Year -1 and relate partly to Year 0	Ignore (Principle #1)
Creditors of medium duration < 1 year	If any creditors were paid in Year -1 and relate to a significant part of Year 0	Ignore (Principle #1)
Creditors of long duration > 1 year	If any creditors were paid in Year -2 and relate to all of Year -1 and part of Year 0	Ignore (Principle #1)
	If any creditors were paid in Year -1 and relate to Year 0 and Year 1 and any future years	Pick up the balance outstanding at the end of Year -1 on the opening Statement of Financial Position (Principle #2)
	If any creditors were paid in Year -2 and relate to Year 0, Year 1, Year 2 and beyond	Pick up the balance outstanding at the end of Year -1 on the opening Statement of Financial Position (Principle #2)
Short Term Loans	Where the loan will be cleared within 12 months, and the repayments will not fall beyond the end of Year 0	Ignore (Principle #1)
Long Term Loans	Where the loan will not be cleared before the end of Year 0	Pick up the balance outstanding at the end of Year -1 on the opening Statement of Financial Position. (Principle #2)
Leases	Where the lease is classified as an operating lease	Ignore (Principle #1)
	Where the lease payments will continue beyond Year 0 into Year 1 and the lease is classified as a finance lease,	Pick up the balance outstanding at the end of Year -1 on the opening Statement of Financial Position. (Principle #2)
	Where the lease payments will cease before the end of Year 0	Ignore (Principle #1)
Advance Receipts	Where the revenue received in advance relates to periods beyond the end of Year 0	Pick up the balance outstanding at the end of Year -1 on the opening Statement of Financial Position. (Principle #2).
	Revenue received in advance relates to a period before the end of Year 0	Ignore (Principle #1)
Accrued Expense	By their nature, accrued expenses are, in most cases, short term and therefore it is unlikely that these should extend beyond Year 0	Ignore (Principle #1)
Provisions	These can be provisions for settlement of a legal case, rehabilitation of land etc. IPSAS19 provides further information regarding Provisions. It is likely that the liability for these will extend beyond Year 0	Pick up each on the opening Statement of Financial Position with the amount which would be required to settle the liability at the end of Year -1. (Principle #2)

Assess transactions which should be on opening Statement of Financial Position

Table M3.3

Transaction	Test		Outcome
Trade creditors of short duration } Creditors of medium duration < 1year }	No impact on Year 1 or future years		Ignore
Creditors of long duration > 1 year	Will transactions impact Year 1 & beyond	Yes	Opening Entry*
		No	Ignore
Short term loans	No impact on Year 1 or future years		Ignore
Long term loans	Will transactions impact Year 1 & beyond	Yes	Opening Entry*
		No	Ignore
Leases	Will transactions impact Year 1 & beyond	Yes	Opening Entry
		No	Ignore
Advance Receipts	Will transactions impact Year 1 & beyond	Yes	Opening Entry
		No	Ignore
Accrued Expenses	No impact on Year 1 or future years		Ignore
Provisions	Will obligation extend beyond Year 1	Yes	Opening Entry
		No	Ignore

*Note: any long term creditors or long term loans which exist at year -1 will necessarily need to be included because they will affect Year 1 and beyond

M3.4 Impact on Opening Statement of Financial Position

Table M3.4

Types of Transactions	Calculation	Opening Statement of Financial Position Impact Accounting Entries	Comments
Trade creditors of short duration – approx. 1 – 3 months	N/A	Nil	No requirement as no impact on Year 1 and beyond
Creditors of medium duration - < 1 year	N/A	Nil	No requirement as no impact on Year 1 and beyond
Creditors of long duration > 1year	Calculate current outstanding balance of creditor and either a) perform journal entry or b) establish system creditor	Dr Accumulated funds Cr Creditor	Only required if the loan impacts on Year 1 and beyond
Short Term Loans	N/A	Nil	No requirement as no impact on Year 1 or beyond
Long Term Loans	Calculate current outstanding balance of loan and perform journal entry	Dr Accumulated funds Cr Loan Payable	Only required if the transaction impacts on Year 1 and beyond
Leases	If classified as a finance lease, calculate the principal and interest components of the lease payments still to be made. Accumulate the remaining principal payments to ascertain the outstanding liability balance.	Dr Asset Cr lease Liability	Only required if lease payments extend into Year 1 and beyond
Advance Receipts	If revenues received > 1 year in advance, calculate the value of the remaining benefit	Dr Accumulated funds Cr Advance Receipts	Only required if the transaction impacts on Year 1 and beyond
Accrued Expenses	N/A	Nil	No requirement as no impact on Year 1 or beyond
Provisions		Dr Accumulated funds Cr Provisions	Assess whether circumstances are such that require a provision. See M2.8 for explanation of when provisions are required.

MILESTONE 4:
System Readiness

Interdependencies: Any system modifications and the timing of those modifications will be dictated by the findings in Milestone 2 where an entity assesses which transaction types to transition and the associated timing of these. System modification will also be impacted by how entities continue to meet reporting requirements during the "Hybrid" period.

M4.1 Systems

To undertake accrual accounting, there must be a robust system properly specified to transact and report on an accrual basis.

Study 14 offers sound background information in the following references:

Study 14:- Sections 2.44 to 2.46
Section 7.30
Sections 8.19 to 8.22

M4.2 Identify Interfaces Required

In all probability, entities will capture financial data from a variety of sources and systems. For example, raw data may come from:

- A subsidiary integrated ledger
- A spreadsheet
- An electronic file from an external source
- Another electronic system
- Paper returns and advices

When designing an amended or new system, it is essential to determine in advance, the source of each piece of information which will need to be entered in some way into the system.

For example: an invoice processed centrally will in all likelihood be input directly into the system, either via an integrated creditors application or some other form of input.

However, it is not unusual for data to originate from a regional office who:

- have no central system access
- prepare cheques for payments locally
- may advise central office via a paper return of all cheques written.

In these instances, this information must in some way be input into the central system.

When determining what interfaces may be required, the following questions should be considered:

- Is financial information received regularly from e.g., a regional office?
- In what form is this information received – paper, spreadsheet, direct input into central system?
- Is data held on numerous systems which are all different?
- How will this data be incorporated into the main system?

All of these sources must be formatted to transmit data into the accounting system in an efficient manner.

M4.3 Develop Interfaces

The development of an appropriate interface to suit the requirements of the entity will depend on a number of variables:

- Whether any of the circumstances listed in M4.2 above exist
- In what format any of these are received
- The system capabilities and constraints
- The most practical and efficient way of developing the interface
- The number of sources who in effect provide the same type of information

Example:

In a situation where a regional office has the responsibility to make payments on behalf of a central office, a number of different scenarios may exist.

Example scenarios:

a) The regional office has no computer facilities, cheques are written manually and central office advised of the details by a paper return

b) The regional office has computer facilities, cheques are written manually and central office advised of the details by a paper return

c) The regional office has computer facilities, cheques are written manually and central office advised of the details by emailing an electronic return

d) The regional office has computer facilities, some cheques written manually, some payments made electronically and office system is integrated with central office system

Possible interface solutions for these scenarios would be dependent upon the type of system in existence at the central office, either, small / medium accounting system or large database.

However, for each of these scenarios, some possible solutions at central office might be:

Example solutions:

Scenario a:

- the paper returns for all regional offices are collated into an input file and automatically extracted and processed into the central system

Scenario b:

- Central office can develop a spreadsheet template for the regional offices to complete. On receipt all templates can be electronically combined into one file for easier input or, if the system permits, the file can be automatically extracted and processed into the central system (database)

- Note: when developing this interface, training, guidance and process documentation, and data integrity controls also need to be considered

Scenario c:

- As in scenario b, provided all the electronic returns are a standard format, then these can be easily combined by the central office for efficient input.
- Note: in this case, the training element at the regional level would not be applicable as the process is currently occurring. Some training might be required at central office to ensure returns are efficiently collated and combined ready for electronic input.

Scenario d:

- As this is an integrated approach, no interface is required as the regional office inputs all data into the system. The manual writing of cheques does not affect any input of data.

It is impossible to list out all scenarios and all solutions for every circumstance due to the large number of variables. Regardless of the interface developed, there should be full reconciliation to ensure that the data from one source is input in complete state into the central system. Check totals and batch totals are a good way of ensuring this.

Entities need to consider the appropriate balance between systems which are quick and affordable in the short term, e.g. a spreadsheet, as opposed to those which may prove to be more robust, maintainable and possess greater control in the long term.

M4.4 Chart of Accounts

For entities to meet their reporting requirements and to gain access to relevant financial information in an efficient manner, development of systems is of paramount importance. Underlying this is the chart of accounts which plays a crucial role in delivering the financial information requirements of an entity.

Study 14 provides good advice on developing a chart of accounts.

Study 14:- Sections 2.79 to 2.100
- Chapter 18

Entities should look to the future when designing a chart of accounts. The chart of accounts must be sufficiently flexible to not only deliver what is currently required, but be sufficiently robust to deliver future requirements. Implementation and project plans should be reviewed to capture all instances which may have an impact on chart of accounts design.

In particular, plans for IPSAS adoption need to be considered. For example; IPSAS 18 Segment Reporting should be considered in any chart of accounts development so that information for segment reports can be easily extracted. Similarly when developing codings for a creditors system, entities should consider how inter government balances might easily be identified so that they can be eliminated on consolidation in conformity with IPSAS 6 Consolidated and Separate Financial Statements.

Adoption of both of these IPSAS may be currently set aside for implementation some years into the future. However, the chart of accounts design should consider the requirements to produce the information for these IPSAS at a very early stage. Refer also M4.5.2.

In the transition to accrual accounting, the importance of developing a robust and sound chart of accounts cannot be over emphasised. Transacting and reporting efficiently in an accrual system will only be possible if the chart of accounts is developed and established to correctly address the entity's requirements. If the chart of accounts is not adequately scoped and implemented, entities will find that accessing and reporting on their required financial information will not be time or cost effective. Therefore it cannot be stressed too strongly that sufficient time, resource and skills must be devoted to scoping the output requirements of the system and subsequently translating these requirements into the input codes which form part of the chart of accounts.

M4.5 Reporting During the “Hybrid” Period

Entities will need to carefully consider their reporting requirements during the period when the system may not be delivering either full cash or full accrual accounting. In circumstances where they continue to be required to deliver some form of cash accounts, for example, a cash appropriation account for Parliament, it will be necessary that systems continue to be able to deliver this. Some accounting systems may be sufficiently sophisticated to be able to produce cash and accrual reports. For instances where this is not possible, two other solutions for this issue may be:

M4.5.1 Run Parallel Systems

If entities have introduced a new system for accrual accounting, then it may be possible to continue using the old system to produce cash reports.

Advantages of running a parallel system

- The reports continue to be produced in the format which is familiar and acceptable to the recipient body
- The entity continues to have a consistent reporting format which allows for comparisons between periods
- Analysis of the accounts continues on a sound basis until the new system becomes more fully accrual accounting

Disadvantages of running a parallel system

- There is a high likelihood that this will involve double keying of entries unless an electronic feed can be implemented from new system to old system
- Increased cost due to additional resource required to run and maintain two systems
- Potentially complex reconciliations between the two systems to ensure they are synchronised

M4.5.2 Produce Cash Reports from the new system

Depending on the type of information required, it may be possible to configure the new system to produce specified reports on a cash basis, similar to the way in which a cash flow statement is system generated. To achieve this, very careful consideration is required in relation to the chart of accounts as this can only be delivered if the chart of accounts is sufficiently detailed to deliver the output.

For example: the entity is required to report how much cash is paid to Entity A for grants during a specified period. In accrual terms, the grant expense for the period is 20,000; Entity A creditor had an outstanding balance of 1,000 at the beginning of the period and 700 at the end of the period.

By adjusting the expense of 20,000 by the reduction in creditor, 300, it can be calculated that the cash paid is 20,300.

It is within the capacity of most high level accounting systems to be able to undertake and report this information automatically, provided the system is set up correctly. The key requirement for this to occur, is based on the correct account codes being established and used correctly so that the required pieces of information can be stored, manipulated and reported.

Advantages of producing cash reports from an accrual system

- Only one system required to be maintained
- Reports being generated from one data set
- No complex reconciliations between systems

Disadvantages of producing cash reports from an accrual system

- Considerable thought, consideration and testing devoted to ensuring the reports are accurate
- Chart of accounts may be quite detailed to capture information

Entities will need to carefully consider which option is the most efficient, cost effective and realistic given their particular circumstances.

Period(s) Prior: During Year -1 and Year -2

MILESTONE 5:

Develop and Deliver Training

Interdependencies: The development and delivery of training will by determined by any system modifications, Milestone 4, and changes to process and procedures identified in Milestone 2.

M5.1 Skills Assessment and Training

Study 14 offers the following helpful advice

Study 14:- Chapter 3

During Year 0

MILESTONE 6:

“Go Live” Year

M6.1 The “Hybrid” Period

From the beginning of Year 0 this document proposes that every expense and liability transaction be accounted for on an accrual basis. However, Year 0 results will not include those transactions processed in Year -1 and Year -2 and further back which would impact on Year 0 under an accrual basis, but have been ignored in accordance with M3.1. Accordingly, Year 0 will be a combination of cash and accrual transactions.

M6.2 IPSAS 1: Presentation of Financial Statements Statement of Financial Position & Statement of Financial Performance

At this point, systems should be in place to transact and report on an accrual accounting basis. It follows that a system generated standard report could be established which replicates the Statement of Financial Performance and Statement of Financial Position exampled in IPSAS 1. Accordingly, it is imperative that the chart of accounts is set up so that the information to derive these reports can be easily retrieved. Although the data behind these statements would not be fully on an accrual basis, it should be possible to populate most lines of the reports with accrual data for the types of accounts which have transitioned.

For example, if an entity has followed the implementation plan in accordance with this guidance, the liabilities section of the Statement of Financial Position would predominantly represent the liabilities on an accrual basis. Conversely, the Asset section may only contain a balance for Cash, as Asset transactions have not yet transitioned. On the Statement of Financial Performance, the expenses side may be close to full accrual accounting but the revenue side may be cash based. This statement however, would still be populated with numbers against each line.

A summary of how these statements might look is:

Statement of Financial Performance	Year 0 Representation	Year -1 Representation (comparative)
Total Revenue*	Cash	Cash
Mostly Accrual	Total Expense	Cash
Surplus / Deficit	Hybrid / Mixed	Cash

*Revenue number will be based on cash receipts

Statement of Financial Position		
Assets Cash Other	 Cash N/A	 Cash N/A
Liabilities Current Non Current	 Accrual Accrual	 N/A N/A
Net Equity Reserves Accumulated Surplus: Opening Bal Accumulated Surplus: YTD surplus	 N/A Some Accrual Hybrid / Mixed	 N/A N/A N/A

*Revenue number will be based on cash receipts

M6.3 IPSAS 2: Cash Flow Statement

Although the accounts may present on a mixed accrual basis, it is possible to derive part of the Cash Flow Statement and disclosures along the lines exampled in IPSAS 2. If an entity were transitioning liabilities only, this would incorporate only the Cash Flows From Operating Activities Section but would provide some form of comparative for Year -1 cash results. The Cash Flows from Financing Activities section could be completed for Year 0 but it would be difficult to provide comparison year data.

Example:

	Year 0	Year -1
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts *		
Taxation	X	X
Sales of goods and services	X	X
Grants	X	X
Interest received	X	X
Other receipts	X	X
Payments *		
Employee costs	(X)	(X)
Superannuation	(X)	(X)
Suppliers	(X)	(X)
Interest paid	(X)	(X)
Other payments	(X)	(X)
Net cash flows from operating activities	X	X

The receipts reflected in the cash flow statement would in fact come straight from the accounts as these have not yet transitioned to accrual and continue to be accounted for on a cash basis. The expenses have been accounted for on an accrual basis and would therefore require the non cash elements to be reversed out.

CASH FLOWS FROM INVESTING ACTIVITIES
Purchase of plant and equipment
Proceeds from sale of plant and equipment
Proceeds from sale of investments
Purchase of foreign currency securities
Net cash flows from investing activities

Under accrual accounting these lines are calculated and derived from Asset accounts recorded on the Statement of Financial Position. However, during the "Hybrid" period, an entity may be able to populate this information from accounts existing in their general ledger.

CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from borrowings	X
Repayment of borrowings	(X)
Distribution / dividend to government	(X)
Net cash flows from financing activities	X

It should be possible to derive the cash flows from financing activities from the movement in the relevant liabilities on the Statement of Financial Position.

Notes to the Cash Flow Statement

(a) Cash and Cash Equivalents
Cash and cash equivalents consist of cash on hand and balances with banks and investments in money market instruments. Cash and cash equivalents included in the cash flow statement comprise the following statement of financial position amounts:

	Year 0	**Year -1**
Cash on hand and balances with banks	X	X
Short-term investments	X	X
	X	X

(b) Reconciliation of Net Cash Flows from Operating Activities to Net Surplus/(Deficit)

Surplus/(deficit) from ordinary activities	X	X
Non-cash movements		
Depreciation	0	0
Amortisation	0	0
Increase in provision for doubtful debts	0	0
Increase in payables	X	X
Increase in borrowings	X	X
Increase in provisions relating to employee costs	X	X
Net cash flows from operating activities	X	X

Although the reports and disclosures above will not be fully in accordance with examples from IPSAS1 and IPSAS 2, these represent a good step forward towards full compliance with these standards. It also has the advantage of allowing users of the information to become familiar with the new reports in a gradual way. As more transaction types are transitioned to accrual accounting, the reports can be further populated and expanded until they are consistent with the examples set out in the standards.

Transitioning from cash accounting to accrual accounting in no way diminishes the importance of cash. In fact, the reverse holds true. Accrual accounting provides more comprehensive information on current and projected cash flows and therefore can result in better cash management and improved preparation of more accurate cash budgets.

M6.4 Good Practice Examples of Disclosures

The following examples are suggested disclosures which may enhance the ability of a reader to understand the financial position of the entity during the transition period:

1. Basis of Preparation
   - The basis on which the accounts have been prepared e.g. some accrual (expense and liabilities) and some cash (revenue and assets)
2. Transition to Accrual Accounting
   - What transition path an entity has adopted and why it has chosen to transition some functions first rather than other functions
   - the progress it has made towards achieving full accrual accounting and compliance with IPSAS
3. Staged Adoption of IPSAS
   - those IPSAS which are fully compliant versus those where compliance is some way in the future
   - the reasons why compliance is greater with some IPSAS than others
4. Opening Statement of Financial Position
   - the policies adopted in preparing the opening Statement of Financial Position
5. Formulation of Accounting Policies
   - the formulation of new accounting policies

M6.5 Audit Implications during the "Hybrid" Period

Study 14 discusses possible options regarding audit requirements during the transitional period:

Study 14:- Section 2.33 to 2.34

It is good practice for entities to include input from, and feedback to, their auditors at all stages of the transition. The planned approach should be discussed and agreed with auditors at an early stage so that the audit approach can be developed.

This also has the added advantage of:

- sharing expertise with audit bodies
- strengthening the entity's project planning as it incorporates an agreed audit approach, checkpoints and milestones with the Finance Ministry
- allowing auditors to be involved with overall implementation planning

Auditors will need to understand the reporting framework and the effect this will have on the audit opinion. Auditors may undertake a form of audit review whereby they assess the achievements of an entity against a specified transition plan with milestones and trigger points.

As mentioned in M4.5, it is possible that some cash reports and statements might still need to be prepared to meet legal or other reporting obligations during the Hybrid period. An entity will need to discuss and agree the planned approach with auditors so that these requirements can continue to be met.

Auditors will also experience significant challenges during the transition as they assimilate an understanding of new systems and a new format of financial statements. Accordingly, transition to accrual accounting will be a learning process for auditors and the entity.

M6.6 Possible IPSAS for Implementation in Year 0

Table M6.6

IPSAS #	IPSAS Title	Possible Implementation in Year 0
1	Presentation of Financial Statements	■ The Statements would present in accordance with M6.2. ■ Outline form of the statements can be produced. If following this guidance, only liabilities would be disclosed on the Statement of Financial Position which may make the statement of limited value. ■ Comparative information not required for first adoption
2	Cash Flow Statements	Most parts of the statement could be populated in accordance with M6.3
3	Accounting Policies, Changes in Accounting Estimates and Errors	■ Some accounting policies could be disclosed ■ This would include what options are available under the standard adopted and the method chosen by the entity.
4	The Effects of Changes in Foreign Currency Rates	■ Foreign currency payments could be converted at the spot/average rate on recognition. ■ Liabilities could be revalued at the closing rate at the end of the period.
5	Borrowing Costs	This standard relates to assets which are not addressed by this guidance.
6	Consolidated and Separate Financial Statements	It is suggested that this IPSAS be implemented in a future period.
7	Investments in Associates	This standard relates to assets which are not addressed by this guidance.
8	Interests in Joint Ventures	This standard relates to assets which are not addressed by this guidance.
9	Revenue from Exchange Transactions	This standard relates to revenue which is not addressed by this guidance.
10	Financial Reporting in Hyperinflationary Economies	It is suggested that this IPSAS be considered in a future period.
11	Construction Contracts	Entities can consider if this standard is applicable however, most government bodies are unlikely to be construction providers.
12	Inventories	This standard relates to assets which are not addressed by this guidance.
13	Leases	Operating Leases There is little difference between accounting for operating lease payments under cash and accrual accounting Finance Leases ■ Compliance with the standard should be possible for the more straight forward finance leases provided: ■ the entity has the necessary information to split between principal and interest and ■ Entity's are able to determine the balance outstanding for the opening position.

IPSAS #	IPSAS Title	Possible Implementation in Year 0
14	Events After the Reporting Date	■ Entity to develop a communication system to capture these events Adjusting events: if ■ a) the communication system is sufficient to determine events after reporting date and ■ b) the event pertains to a liability then the entity can conform to great extent with the standard. Non adjusting events: ■ if the communication system is sufficient to determine events after reporting date then the entity can disclose most non adjusting events, and not just those pertaining to liabilities.
15	Financial Instruments: Disclosure and Presentation	This standard has been superceded by IPSAS 28, 29 and 30 which apply for periods after January 1, 2013. Entities may wish to consider this standard, however, IPSAS 28 to 30 provide more comprehensive information.
16	Investment Property	This standard relates to assets which are not addressed by this guidance.
17	Property Plant & Equipment	■ This standard relates to assets which are not addressed by this guidance. ■ The standard contains a transition provision which allows an entity to recognise assets within 5 years of adoption of accrual accounting
18	Segment Reporting	■ Entities should have undertaken an assessment of what may comprise a meaningful activity or geographical group as a segment as part of the Chart of Accounts formulation. Refer M4.4 ■ Although it would be possible to populate some of the illustrative example in IPSAS 18 with accrual information, it may be that this would not provide much meaningful information if the reports contained only expense and liability information.
19	Provisions, Contingent Liabilities and Contingent Assets	■ It is possible that the majority of provisions and contingent liabilities could be identified and accounted for in the "Go Live" year. ■ Under the standard it is not necessary to provide comparative information but if this is not provided, then disclosure is required.
20	Related Party Disclosures	It may be possible to: ■ list all the controlled entities of an entity ■ disclose the aggregate remuneration of key management personnel and the number of persons included in the aggregate
21	Impairment of Non Cash Generating Assets	This standard relates to assets which are not addressed by this guidance.
22	Disclosure of Information about the General Government Sector	This standard is only mandatory for those entities that elect to present information about the general government sector in their consolidated financial statements.

IPSAS #	IPSAS Title	Possible Implementation in Year 0
23	Revenue from Non Exchange Transactions	■ This standard relates to revenues which are not addressed by this guidance. ■ Taxation revenues can be implemented within 5 years and other revenues within 3 years
24	Presentation of Budget Information in Financial Statements	This standard applies if approved budgets are made publicly available. Entities can assess what budget information they have to include in the financial statements.
25	Employee Benefits	Some assessment of the standard regarding what is relevant to the entity may be undertaken
26	Impairment of Cash Generating Assets	This standard relates to assets which are not addressed by this guidance.
27	Agriculture	This standard relates to assets which are not addressed by this guidance.
28	Financial Instruments: Presentation	Some assessment of the standard regarding what is relevant to the entity may be undertaken
29	Financial Instruments: Recognition & Measurement	Some assessment of the standard regarding what is relevant to the entity may be undertaken
30	Financial Instruments: Disclosures	Some assessment of the standard regarding what is relevant to the entity may be undertaken
31	Intangible Assets	This standard relates to assets which are not addressed by this guidance.

MILESTONE 7:

Possible Further IPSAS Implementation

IPSAS #	IPSAS Title	What could further transition in Year 1?
1	Presentation of Financial Statements	■ The Statements would present in accordance with M6.2. ■ Outline form of the statements can be produced and as further functions transition (assets, revenue) the Statement of Financial Position becomes more meaningful and useable.
2	Cash Flow Statements	Most parts of the statement could be populated in accordance with M6.3
3	Accounting Policies, Changes in Accounting Estimates and Errors	Further accounting policies could be disclosed as IPSAS adoption increases.
4	The Effects of Changes in Foreign Currency Rates	■ Foreign currency payments could be converted at the spot/average rate on recognition. ■ Liabilities could be revalued at the closing rate at the end of the period.
5	Borrowing Costs	■ This standard relates to assets. ■ If there is a planned asset implementation, consider for those purposes.
6	Consolidated and Separate Financial Statements	This is probably best undertaken when there is: ■ a full accrual Statement of Financial Position ■ the ability to identify inter entity transactions and balances ■ a separate project team to advance the project
7	Investments in Associates	■ This standard relates to assets. ■ If there is a planned asset implementation, consider for those purposes.
8	Interests in Joint Ventures	■ This standard relates to assets. ■ If there is a planned asset implementation, consider for those purposes.
9	Revenue from Exchange Transactions	■ This standard relates to revenue. ■ If there is a planned revenue implementation, consider for those purposes.
10	Financial Reporting in Hyperinflationary Economies	Entities may consider whether this IPSAS is relevant to their circumstances.
11	Construction Contracts	Entities can consider if this standard is applicable however, most government bodies are unlikely to be construction providers.

IPSAS #	IPSAS Title	What could further transition in Year 1?
12	Inventories	■ This standard relates to assets. ■ If there is a planned asset implementation, consider for those purposes.
13	Leases	Operating Leases ■ There is little difference between accounting for operating lease payments under cash and accrual accounting Finance Leases ■ Compliance with the standard should be possible for the more straight forward finance leases provided: ■ the entity has the necessary information to split between principal and interest and ■ Entity's are able to determine the balance outstanding for the opening position.
14	Events After the Reporting Date	■ Further improvements to the communication system to capture these events ■ If asset / revenue implementation planned, consider how to capture of these events Adjusting events: if ■ a) the communication system is sufficient to determine events after reporting date and ■ b) the event pertains to a liability then the entity can conform to great extent with the standard. Non adjusting events: ■ if the communication system is sufficient to determine events after reporting date then the entity can disclose most non adjusting events, and not just those pertaining to liabilities.
15	Financial Instruments: Disclosure and Presentation	■ This standard has been superceded by IPSAS 28, 29 and 30 which apply for periods after January 1, 2013.
16	Investment Property	■ This standard relates to assets. ■ If there is a planned asset implementation, consider for those purposes
17	Property Plant & Equipment	■ This standard relates to assets. ■ If there is a planned asset implementation, consider for those purposes
18	Segment Reporting	As more functions transition e.g. assets and revenue, this report becomes more meaningful and the possibility of populating most of illustrative example IPSAS 18 increases
19	Provisions, Contingent Liabilities and Contingent Assets	■ Some further provisions and contingent liabilities may be identified as the transition process continues. ■ These may also become more reliably estimated
20	Related Party Disclosures	As further work is undertaken, further conformity with the disclosure requirements may be possible

IPSAS #	IPSAS Title	What could further transition in Year 1?
21	Impairment of Non Cash Generating Assets	■ This standard relates to assets. ■ If there is a planned asset implementation, consider for those purposes
22	Disclosure of Information about the General Government Sector	This standard is only mandatory for those entities where a general government sector is relevant.
23	Revenue from Non Exchange Transactions	■ This standard relates to revenue. ■ If there is a planned revenue implementation, consider for those purposes
24	Presentation of Budget Information in Financial Statements	Entities can assess what budget information they have to include in the financial statements.
25	Employee Benefits	Depending on relevance, an entity may commence adoption of the standard with some forms of employee benefits
26	Impairment of Cash Generating Assets	■ This standard relates to assets. ■ If there is a planned asset implementation, consider for those purposes
27	Agriculture	■ This standard relates to assets. ■ If there is a planned asset implementation, consider for those purposes
28	Financial Instruments: Presentation	Further assessment of the standard regarding what is relevant to the entity may be undertaken
29	Financial Instruments: Recognition & Measurement	Further assessment of the standard regarding what is relevant to the entity may be undertaken
30	Financial Instruments: Disclosures	Further assessment of the standard regarding what is relevant to the entity may be undertaken
31	Intangible Assets	■ This standard relates to assets. ■ If there is a planned asset implementation, consider for those purposes

Year 2 ->

MILESTONE 8:

Further IPSAS Implementation

IPSAS #	IPSAS Title	What could further transition in Year 2?
1	Presentation of Financial Statements	■ The Statements would present in accordance with M6.2. ■ Outline form of the statements can be produced and as further functions transition (assets, revenue) the Statement of Financial Position becomes more meaningful and useable.
2	Cash Flow Statements	■ Most parts of the statement could be populated in accordance with M6.3
3	Accounting Policies, Changes in Accounting Estimates and Errors	■ Further accounting policies could be disclosed as IPSAS adoption increases.
4	The Effects of Changes in Foreign Currency Rates	■ Foreign currency payments could be converted at the spot/average rate on recognition. ■ Liabilities could be revalued at the closing rate at the end of the period. ■ If relevant, financial statements may now be in a position to be converted to a foreign currency
5	Borrowing Costs	■ This standard relates to assets. ■ If asset implementation is being undertaken, then capitalisation of borrowing costs may be possible
6	Consolidated and Separate Financial Statements	This is probably best undertaken when there is: ■ a full accrual Statement of Financial Position ■ the ability to identify inter entity transactions and balances ■ a separate project team to advance the project
7	Investments in Associates	■ This standard relates to assets. ■ If asset implementation is being undertaken, then commencement of the adoption of this IPSAS may be possible
8	Interests in Joint Ventures	■ This standard relates to assets. ■ If asset implementation is being undertaken, then commencement of the adoption of this IPSAS may be possible.
9	Revenue from Exchange Transactions	■ This standard relates to revenue ■ If revenue implementation is being undertaken, then commencement of the adoption of this IPSAS may be possible.

IPSAS #	IPSAS Title	What could further transition in Year 2?
10	Financial Reporting in Hyperinflationary Economies	■ Entities may consider whether this IPSAS is relevant to their circumstances. ■ If relevant, entities need to consider restatement of financial statements ■ If only part accrual ie. Assets and revenues have not transitioned, then adoption of this standard is of limited value.
11	Construction Contract	■ Entities can consider if this standard is applicable however, most government bodies are unlikely to be construction providers.
12	Inventories	■ This standard relates to assets. ■ If asset implementation is being undertaken, then commencement of the adoption of this IPSAS may be possible
13	Leases	Operating Leases ■ There is little difference between accounting for operating lease payments under cash and accrual accounting Finance Leases ■ Compliance with the standard should be possible for the more straight forward finance leases provided: ■ the entity has the necessary information to split between principal and interest and ■ Entity's are able to determine the balance outstanding for the opening position.
14	Events After the Reporting Date	■ Further improvements to the communication system to capture these events ■ If asset / revenue implementation planned, consider how to capture of these events Adjusting events: if ■ a) the communication system is sufficient to determine events after reporting date and ■ b) the event pertains to a liability then the entity can conform to great extent with the standard. Non adjusting events: ■ if the communication system is sufficient to determine events after reporting date then the entity can disclose most non adjusting events, and not just those pertaining to liabilities.
15	Financial Instruments: Disclosure and Presentation	This standard has been superceded by IPSAS 28, 29 and 30 which apply for period after January 1, 2013.
16	Investment Property	■ This standard relates to assets. ■ If asset implementation is being undertaken, then commencement of the adoption of this IPSAS may be possible
17	Property Plant & Equipment	■ This standard relates to assets. ■ If asset implementation is being undertaken, then commencement of the adoption of this IPSAS may be possible

IPSAS #	IPSAS Title	What could further transition in Year 2?
18	Segment Reporting	As more functions transition e.g. assets and revenue, this report becomes more meaningful and the possibility of populating most of illustrative example IPSAS 18 increases
19	Provisions, Contingent Liabilities and Contingent Assets	■ Some further provisions and contingent liabilities may be identified as the transition process continues. ■ These may also become more reliably estimated
20	Related Party Disclosures	As further work is undertaken, further conformity with the disclosure requirements may be possible
21	Impairment of Non Cash Generating Assets	■ This standard relates to assets. ■ If asset implementation is being undertaken, then commencement of the adoption of this IPSAS may be possible
22	Disclosure of Information about the General Government Sector	This standard is only mandatory for those entities where a general government sector is relevant.
23	Revenue from non Exchange Transactions	■ This standard relates to revenue ■ If revenue implementation is being undertaken, then commencement of the adoption of this IPSAS may be possible
24	Presentation of Budget Information in Financial Statements	Entities can assess what budget information they have to include in the financial statements.
25	Employee Benefits	Depending on relevance, an entity may commence adoption of the standard with some forms of employee benefits
26	Impairment of Cash Generating Assets	■ This standard relates to assets. ■ If asset implementation is being undertaken, then commencement of the adoption of this IPSAS may be possible
27	Agriculture	■ This standard relates to assets. ■ If asset implementation is being undertaken, then commencement of the adoption of this IPSAS may be possible
28	Financial Instruments: Presentation	Further assessment of the standard regarding what is relevant to the entity may be undertaken
29	Financial Instruments: Recognition & Measurement	Further assessment of the standard regarding what is relevant to the entity may be undertaken
30	Financial Instruments: Disclosures	Further assessment of the standard regarding what is relevant to the entity may be undertaken
31	Intangible Assets	■ This standard relates to assets. ■ If asset implementation is being undertaken, then commencement of the adoption of this IPSAS may be possible

Generic Implementation Plan Based on Study 14 Chapter 2

IPSAS #	Key Steps	Study 14 Reference	Implementation Guidance Reference
1	**Project Initiation**		*Milestone 0: Mobilisation*
1.1	Document project and obtain project approval		
1.2	Establish the steering committee		
1.3	Prepare detailed project plan(s)	2.43	
1.4 1.4.1 1.4.2 1.4.3 1.4.4 1.4.5	Establish project team Project sponsor Project manager Project team (team leader and other staff) Identify required resources Obtain required resources	2.42	
2	**Detailed Scoping and Planning**		
2.1	Document existing processes, procedures and legislative requirements (including existing accounting policies and systems) *Assess the Operations*	Chapter 7 Chapter 14 Chapter 17	*Milestone 1*
2.2	*Decide and consider which transaction types to transition*	2.25 – 2.27	*Milestone 2*
2.3 2.3.1 2.3.2	Identify proposed changes or areas of changes - *processes / systems* - *accounting policies* (including proposed accounting policies and systems)	Chapter 7 Chapter 4 Appendix A Appendix B 8.13 – 8.14	*Table M2.9* *M2.10*
2.4	*Identify and quantify transactions for opening Statement of Financial Position (Liabilities)*	2.52 – 2.55 7.16 – 7.17	*Milestone 3* *Table M3.3* *Table M3.4*

IPSAS #	Key Steps	Study 14 Reference	Implementation Guidance Reference
2.5 2.5.1 2.5.2 2.5.3 2.5.4 2.5.5 2.5.6 2.5.7	Systems planning *System Readiness* Identify structure/ownership of proposed system Identify system requirements (existing and new systems) Identify control requirements Identify interfaces required Develop the chart of accounts Develop interfaces (if applicable)	2.44 – 2.46 7.30 8.19 – 8.22 2.79 – 2.82 8.11 Chapter 18 2.87 – 2.96	*Milestone 4* *M4.1* *M4.2* *M4.4* *M4.5*
2.6 2.6.1	Reporting Develop new reporting requirements		
2.7 2.7.1 2.7.2	Audit Liaise with external auditor to assess impact of changes on audit process Identify role of internal audit during the change process	2.33 – 2.35	
2.8	Develop communications plan		
2.9	Prepare training strategies (e.g. project team, accrual accounting, and computer literacy)	3.1 – 3.31	*Milestone 5*
2.10	Develop change management strategy		
3	**Implementation Phase**		
3.1	Initiate project management responsibilities and reporting structures		
3.2	Implement new systems/system changes		
3.3	Implement interfaces		
3.4	Develop detailed accounting policies	Chapter 4; Chapter 7 + Appendix	
3.5	Develop/amend supporting financial management policies and procedures		
3.6	Implement roles and responsibilities		
3.7	Deliver training	3.32 – 3.44	
3.8	Obtain approval to switch to new systems		

IPSAS #	Key Steps	Study 14 Reference	Implementation Guidance Reference
3.9	Implement other phased projects (eg. The recognition of specific categories of assets or liabilities may be phased)		
4	**Reporting**		
4.1	Develop improved external and internal reporting		*Milestone 6*
4.2	Develop financial and non-financial performance measures		
4.3	Review controls and procedures that support the integrity of financial and non-financial information		
5	***Go Live***		*Milestone 6*
6	***Future Years***		*Milestone 7* *Milestone 8*

APPENDIX B

Employee Payroll

The treatment of Employee Payroll under cash and accrual accounting is another area which will need to be considered when transitioning from cash to accrual accounting.

Payroll generally comprises a number of different elements:

- The net payment to the employee
- Payments to Government revenue department for taxes withheld
- Payments to bodies for insurances
- Payments to entities for automatically deducted sums from employees e.g. repayment of a student loan

Under cash accounting, these payments may all be made at different times depending on when the payment is due.

Under accrual accounting, these costs are all considered to be a salary cost which is expensed at the time the salary is due. Payments for each of these elements may still occur at the appropriate future times but the expense will be immediate.

Transactions under the different methodologies are set out in the following table:

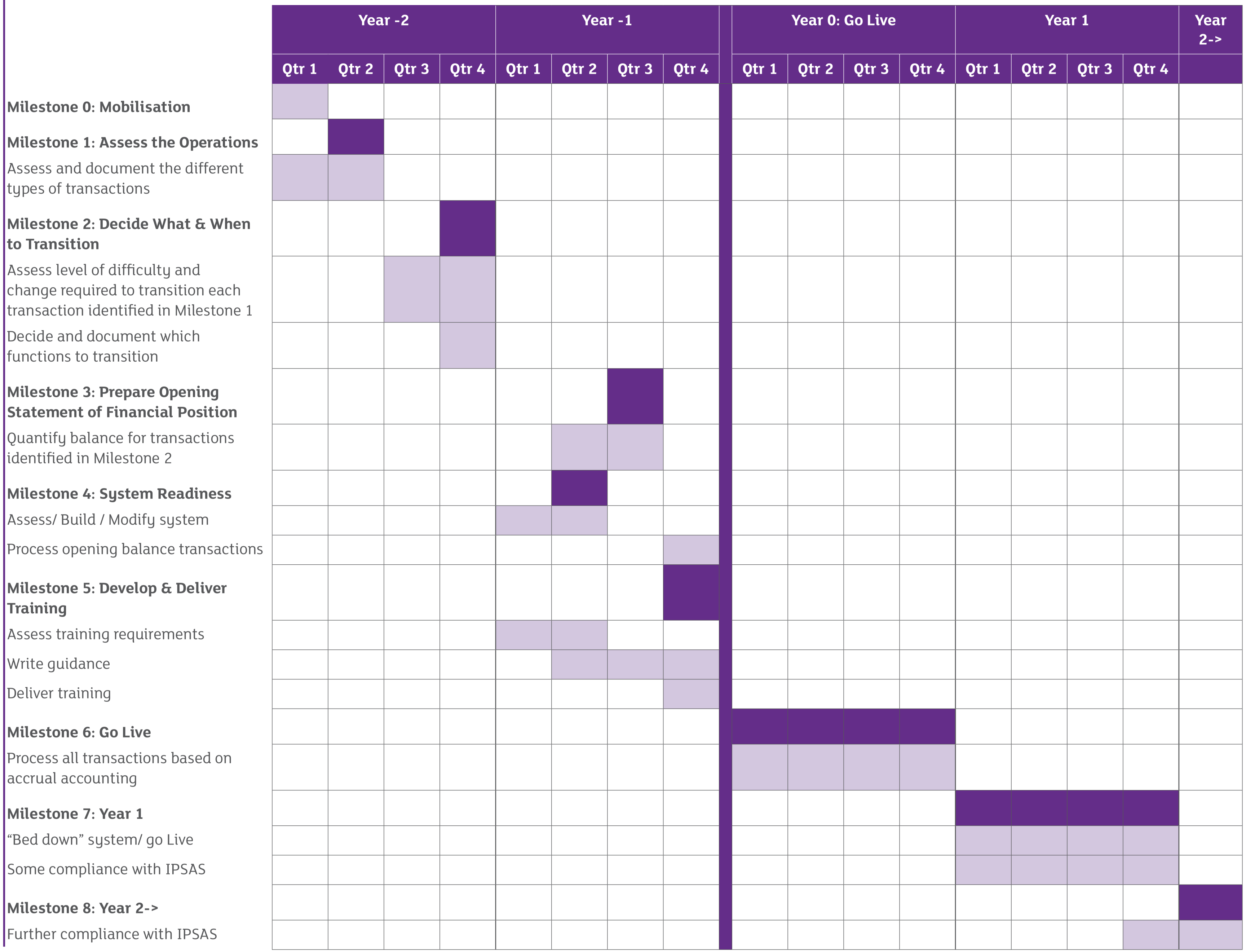
Cash Accounting Transaction	Accrual Accounting Transaction
When employee is due payment (net payment to employee) Dr Salaries Expense Cr Cash	*When employee is due payment* Dr Salaries Expense Cr Taxes Payable (Liability) Cr Insurances Payable (Liability) Cr Other Payable (Liability) Cr Cash
When Revenue Department is to be paid Dr Taxes Expense Cr Cash	*When Revenue Department is to be paid* Dr Taxes Payable (Liability) Cr Cash
When Other bodies are to be paid Dr Insurances/other expenses Cr Cash	*When Other bodies are to be paid* Dr Insurances/Other Payable (Liability) Cr Cash

Therefore, under Accrual Accounting, the expense will impact the Statement of Financial Performance in it's entirety at the time the employee is paid. Taxes, Insurances and other payables will feature as liabilities on the Statement of Financial Performance until payment is required. These can then be paid through the creditors system in the normal way.

APPENDIX C

Gant Chart – Implementation Rollout

Sample Gant Chart for Project Plan: Cash Accounting to Accrual Accounting
Suggested Implementation Timeframe and Intervals



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