

Case Study in a Malaysian Public Agency on an Asset Management-Moving Towards the Accrual Basis of Accounting

Sharifah Sabrina Syed Ali¹, Sharon Cheuk Choy Sheung¹ & Mohd Waliuddin Mohd Razali¹

¹Faculty Economics & Business, Universiti Malaysia Sarawak (UNIMAS), Malaysia

Correspondence: Sharifah Sabrina Syed Ali, Faculty Economics & Business, Universiti Malaysia Sarawak (UNIMAS), 94300 Kota Samarahan, Sarawak, Malaysia. E-mail: sassabrina@unimas.my

Received: March 16, 2019

Accepted: July 25, 2019

Online Published: July 26, 2019

doi:10.5430/afr.v8n3p149

URL: <https://doi.org/10.5430/afr.v8n3p149>

Abstract

As part of the strategic reform of Malaysian public services under the Government Transformation Program (GTP), accrual accounting is expected to be fully adopted in public sector financial reporting commencing on 1 January 2015, in order to ensure alignment with the global accounting standards. Consequently, in order to assess the government effectiveness of moving towards the accrual basis of accounting, this study is to examine the asset management system in a Malaysian public agency; to evaluate the extent of compliance with MPSAS 17, Property, Plant and Equipment (PPE), IPSAS 26, Impairment of Cash-Generating Assets and IPSAS 21, Impairment of Non-Cash Generating Assets. Using qualitative approach, a preliminary study was conducted via interviews and through obtaining documents. The findings include the following: MPSAS17 has not been strictly adhered to and software is used to monitor the assets; however, the disposal of assets is a manual process and is not automated. The study also discussed any weaknesses pertaining to the said asset accounting system, and suggested recommendations for improvement thereon.

Keywords: accrual accounting, Malaysian public agency, asset accounting system

1. Introduction

1.1 Accounting Reforms and the Rationale for Accrual Accounting

Accounting reforms are part of the complex processes of social change, that in many cases stem from the need to define new surroundings for the role of government is called to play in this modern economy for the relationship between government and citizens (Caperchione & Mussari, 2000). This is the reason why it is not possible to fully grasp the new policy that leading to accounting innovations in local government (ibid). According to Rozaidy, Raman, Rasid and Kaziemah (2014), to prepare for eventual adoption of accrual accounting, there must be change take place in the management where the structured approach for organization is supposed to occur. Despite the move of both federal and state governments towards accrual based accounting commencing from 2015, the newly elected government again proposed in Malaysian budget 2019 to once again include the use of accrual basis of accounting to replace the modified cash basis accounting. Xavier (2018) commented the full transition of accrual basis of accounting will be fully complied by 2021 meaning the extension still needed even after the commencement date.

Accrual accounting is a basis of accounting that is most commonly used by organizations around the world. Over a decade it has been more demands for accountability in the public sector where there is significant increasing in the number of governments all over the world using accrual accounting for financial reporting and budgeting purposes (Champoux, 2006). Accrual accounting is said to be beneficial for the government as like in the private sector, it can provide more information and can lead to a better decision making (Conolly & Hyndman, 2011). Rozaidy et al. (2014) opined the shift towards accrual accounting demonstrates some problems and challenges. Hence, it is not sure as to whether the accrual accounting is being fully practice in the Malaysian public sector? Consequently, in order to assess the government effectiveness of moving towards the accrual basis of accounting, this study intend to examine the transition of this new policy and whether there are differences can be found in the stages of economic development in the form of government practices of accrual basis, accounting traditions and in how accounting standards are set out and reviewed.

Under the accrual accounting, revenues are recorded when they are earned and expenses are recorded when they are incurred. In accrual accounting there is the term called accrued revenues which is a category of an asset and accrued