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Govt to shift to accrual accounting system

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NEW DELHI, Aug. 4: The government has decided to develop accounting standards based on the accrual system for its financial reporting.

The Government Accounting Standards Advisory Board (GASAB) set up by the Comptroller and Auditor General of India (CAG) with the support of the finance ministry took this decision to facilitate ongoing pilot studies for migration to accrual basis of accounting in the central and state governments.

These standards would initially be issued as recommendatory to facilitate transition to the accrual accounting. It is envisaged

to eventually lead to improved financial reporting in government, accrual accounting, the concept where a revenue or expense is not recorded or recognised at the same moment in time as the related cash inflow or outflow. For instance, if a company delivers a product during the financial year-end and the customer makes payment in the next fiscal, the revenue is shown in the year of delivery even though cash inflow takes place the next year.

Government accounting in India follows cash-basis accounting and GASAB has been formulating accounting standards for the Union and the states under cash basis accounting till

now. Following the 12th Finance Commission recommendations, the Centre decided in principle to gradually migrate to accrual basis accounting. So far, 21 state governments have expressed their agreement to migrate to the accrual basis accounting.

The Board has decided to develop standards on accrual basis on the following topics:

- Framework for financial reporting under accrual basis accounting
- Property, plant and equipment
- Revenue from exchange transactions
- Inventories
- Provision, contingent liabilities and contingent assets