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Impact Of Accrual Basis Of Accounting System On The Quality Of Financial Reporting: Accountant's Perspective.

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Abstract:
Background: *While some researchers dispute the significance of accrual-based accounting, the growing popularity of this accounting approach is premised on the inherent strengths in terms of quality of financial reporting. In the course of implementing accrual accounting, there is need to confront inherent challenges such as such as lack of clear policy framework, inadequate professional accountants as well as inaccessibility to relevant ICT tools. The motivation this review is therefore to bring to the fore both the strengths as well as the gaps in the implementation of accrual accounting across different entities. The objective of this study is therefore to systematically map the growing adoption of accrual accounting in financial reporting from the global, regional and local perspectives.*
Materials and Methods: *Systematic literature review of articles on accrual accounting. From the initial two hundred and fifty-seven (257) articles, the review on narrow down to (129) articles. The inclusion/ exclusion criteria were informed by the relevance of the available articles in terms of their focus on thematic area of accrual accounting. The review narrows down to bibliographic databases comprising Research Gate, Emerald Journals as well as Google Scholar. Eventually, 129 articles published between the years 1999 and 2024 were included in the review.*
Results: *Accrual accounting significantly improves the quality of financial reporting by enhancing transparency, accountability, and decision-making. It enables better asset-liability management and performance measurement, particularly in public sector institutions. However, challenges such as technological constraints, subjective judgments, and resistance to change hinder its implementation. Developing countries face additional barriers, including inadequate funding and lack of skilled personnel, despite progress in countries like Kenya, Nigeria, and Rwanda.*
Conclusion: *Practitioners can adopt accrual accounting the following the widely acknowledged benefits documented in extant research. However, transitioning to accrual accounting must be systematic and well-coordinated to avoid pitfalls in the implementation process. As such, there is need to consult widely with all the stakeholders, as well as drafting an organizational-wide communication plan on the mode of implementation of accrual accounting. Additionally, support from the top management, leveraging integrated management information systems as well as drafting new accounting principles can facilitate smooth transition to accrual accounting.*
Key Word: *Financial Reporting; Financial Statements; Accrual-Based Accounting; Public Sector; Accounting Standards.*

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I. Introduction

The concept of accounting systems continues to elicit numerous scholarly contributions from the realm of accounting in finance. In this regard, the two accounting systems—cash based and accrual accounting are predominantly at the center of the discussions; drawing a considerable level of contestations relating to the pros and cons of adopting either of the accounting systems. The financial crisis of the years 2007-2008 acted as a catalyst that occasioned higher demand for transparency and accountability; which led to the development of the IPSAS issued by the International Public Sector Standards Board (Krishnan, 2023). Projections from European Union countries suggest that adoption of accrual accounting will rise from 25% in the year 2018 to 65% in 2023 (Accountancy in Europe, 2018). Additionally, evidence from the US firms suggest that as compared to cash accounting, introduction of accrual accounting can lead to a 0.5% increase in aggregate US productivity and 0.7% increase in aggregate US output through improve the resources allocation (Choi, 2021). Towards the second decade of the 19th century, the UK's shift towards accrual accounting to inform the accounting procedures within the British Central Government was anchored on the need to improve financial reporting amongst government department (Edwards, 2023). In Africa, a loan of over $1.2 billion procured between the years 2012 and 2016 went and reported for 7 years by the Ministry of Economics and Finance as a result of relying cash-based system of accounting (Mokua, 2023). Evidently, the foregoing publications signify the inherent weaknesses in the traditional cash-based system especially on the aspect of financial reporting, thus providing a basis for in justifying the need to adopt a more robust accrual accounting system which forms the thesis for the current research.

The shift from cash to accrual accounting in the public sector is primarily underpinned by two major theoretical lenses: New Public Management (NPM) Theory and Agency Theory. New Public Management (NPM) Theory: This theory, which gained global prominence in the 1990s, advocates for the application of private sector management approaches to government operations to enhance efficiency and effectiveness (Hood, 1995; Shaw, 1999). Accrual accounting is a key technical innovation under the NPM banner, as it enables full-cost accounting, capital budgeting, and performance measurement—concepts traditionally absent in cash accounting (Christiaens *et al.*, 2010; Lapsley, 2009). The adoption of accrual standards like IPSAS is thus viewed as a mechanism to transform public services into performance-oriented, rather than policy-oriented, entities (Deaconu *et al.*, 2011). Agency Theory: This framework focuses on the relationship between principals (the public/citizens/stakeholders) and agents (public sector management/officials). Agency theory posits that robust financial reporting, facilitated by accrual accounting, is essential to reduce information asymmetry between the two parties (Jensen & Meckling, 1976). By capturing non-cash transactions, depreciation, and full liabilities (IMF, 2016), accrual accounting provides a comprehensive view of resource stewardship, allowing principals to better monitor and hold agents accountable for the management of public funds and assets (Davis *et al.*, 1997; Jensen & Meckling, 1976). Therefore, the accrual basis is a critical tool for improving accountability and governance in the public sector.

Accrual basis accounting is one of the two most often used accounting systems and the recommended bookkeeping approach for presenting an accurate financial picture of a company's activities. It also entails recognizing costs when the corporation incurs the obligation for them rather than when it pays for them. Meanwhile, Karunia, Payamta, and Sutaryo (2019) claimed that implementing the accrual basis could enhance the quality of public sector reporting on finances. Furthermore, accrual basis adoption can increase the efficiency, openness, and accountability of fund management in public sector enterprises, according to Olola Olayeye (2019. It improves the government's financial standing and the cost of the government's operations (Flynn, Moretti, & Cavanagh, 2016). Accrual accounting has been instrumental in overcoming the weaknesses of cash basis accounting especially in terms of expenditure efficiency (Gamayuni, 2021). In the implementation of accrual accounting; transactions are recognized as economic events which underlie recording, regardless of the cash receipts and payments. In other words, this accounting system recognizes the effect of various exchanges as well as events irrespective of when cash or cash equivalents are earned or paid (Malau, Teguh & Muda, 2022; Rayyani & Nasution, 2023). Li and Li (2023) argue in favor of accrual accounting as it is associated with the stronger accrual-cash flow relation. This technique of financial reporting is useful in facilitating assset-liability management in the public sector (Jidwin *et al.*, 2023). When implementing accrual accounting, transactions are recognized as economic events that underlie recording, irrespective of cash receipts and payments. In other words, this system acknowledges the impact of various exchanges and events regardless of when cash or cash equivalents are earned or paid (Malau, Teguh & Muda, 2022; Rayyani & Nasution, 2023). Li and Li (2023) advocate for accrual accounting, highlighting its stronger accrual-cash flow relationship. This financial reporting technique is particularly useful in facilitating asset-liability management in the public sector (Jidwin *et al.*, 2023).

Quality of financial reporting has increasingly been at the center stage of accounting and finance research. Subsequently, the influence of the accrual foundation of accounting on the quality of reports on finances is a topic of major scholarly interest in the field of accounting, according to Ademola, Adegoke, and Oyeleye (2017). Accrual accounting is distinguished by the recording of revenues and costs at the time they are generated or incurred, regardless of when the cash is collected or paid. This is in contrast to the monetary foundation of accounting, which records transactions only when cash changes hands. Accrual accounting supporters believe that it delivers a more realistic reflection of an institution's financial performance by aligning revenues with costs paid to produce those revenues and accruing expenditures. This improves financial statement clarity and comparability, permitting investors to make choices that are more informed. Scholars such as Watts and Zimmerman (1986) have emphasized the significance of accrual accounting in decreasing information asymmetry between management and external users, hence improving financial reporting quality overall. According to a 2019 study by Olola Olayeye, money management in the public sector may operate more efficiently when accrual basis is implemented. To minimize unnecessary expenses and the chance of implementation failure with accrual-based accounting, Indonesia implements a phased transition in the accounting system. According to Pinnuck & Potter (2009), the accrual method enables the government to forecast future cash flows and determine government income in a single period. According to Bruns (2013), it has been demonstrated that the accrual basis may meet requirements for financial transparency, cost identification for public services, and effective output-based resource allocation. These anticipations align with the advantages of accrual basis.

A quality financial report must present an impartial and accurate position of the organization's financial status and performance, complete and free of material errors (Ezelibe *et al.*, 2017). It should be easy to read, with clear formatting and terminology (Gamayuni, 2018), and timely, providing relevant information that can influence decisions (Ezelibe *et al.*, 2017). Quality financial reporting goes beyond numbers and headings; it requires coherent narratives to support informed decision-making (Ezelibe *et al.*, 2017). Factors influencing quality financial reporting include the ownership structure, board size, and financial leverage of the organization (Mahboub, 2017). In Indonesia, high capital expenditure in the total budget is linked to low financial reporting quality (Rakhman & Wijayana, 2019). Other contributing factors include political influence, regulation on performance measures, internal control systems, and effective information technology (Hariani & Fakhrorazi, 2021). Non-financial narrative information, such as corporate governance details, social and environmental information, and data about senior management and the governing body, is also important (Deloitte, 2021). Legal expertise of the audit committee, education level, and knowledge of accounting and information technology impact financial reporting quality (Irwandi, 2020; Hanifah, Sarpingah & Putra, 2020). Research in Indonesia shows the audit committee, Sharia supervisory board, and Islamic work ethics significantly influence financial reporting quality (Budiyono & Sabilla, 2021). Adoption of international financial reporting standards (IFRS) enhances financial information quality (Malo-Alain, Aldoseri & Melegy, 2021). In Nigeria, implementing standards like IPSAS has improved financial reporting quality, particularly in local governments (Muraina & Dandago, 2020; Ojo & Marcelus, 2021). Additionally, gender inclusivity in board member selection is a key determinant of financial reporting quality (Dobija *et al.*, 2022).

Internal audits play a crucial role in the success of accrual-based accounting systems. Their effectiveness in an organization significantly impacts the quality of internal audit procedures (Gamayuni, 2018). For example, evidence from the Indonesian local government highlights the importance of internal audits in the successful adoption of accrual accounting (Muhtar *et al.*, 2020). Efficient internal audit systems can reduce irregular accruals within organizations (Abdulai, Salakpi, & Nassè, 2021). These audits are conducted regularly across various departments, with each cycle focusing on specific areas of departmental operations (Tuovila, 2021). Surprise audits may also occur, especially if there are suspicions of criminal activity (Tuovila, 2021). Internal auditors are essential in monitoring fraud-prone areas that could affect financial reporting quality. However, their primary role does not include having the expertise to specifically identify and investigate fraud (Abdulai *et al.*, 2021). Evidence from French organizations suggests that the presence of internal controls aids in achieving quality accrual accounting systems (Boulhaga, Bouri, & Elbardan, 2022). Internal audit performance, combined with internal control activities, can influence the adoption of accrual accounting systems (Madawaki, Ahmi, & Ahmad, 2022). According to Sutaryo *et al.* (2023), attributes such as maturity, capability, expertise, and size of the internal audit team are vital for the successful implementation of accrual accounting.

Scholarly research consistently highlights the benefits of adopting an accrual-based accounting system. Evidence from Kosovo's public sector indicates that this accounting standard provides quality financial reports, leading to improved decision-making in public fund utilization (Ismaili, Ismajli & Vokshi, 2021). Accrual accounting also enhances transparency, accountability, and public confidence in financial management. This method offers a complete and reliable view of an organization's economic and financial position and performance (Tóth, 2021). In Malaysia, accountants perceive accrual accounting as more useful for decision-making, as shown by a study utilizing the Kober *et al.* (2010) model (Ismail, 2023). Results of t-tests revealed that accrual accounting information aids government accountants better than other approaches. Hasan, Saleh, and Isa (2023) argue that accrual accounting improves financial accountability and asset-liability management. Overall, these findings underscore the broad consensus on the advantages of accrual-based accounting in enhancing financial reporting quality and decision-making processes.

The determinants of successful adoption of accrual-based accounting have been extensively discussed in existing research. A descriptive study targeting German municipalities by Nitzl *et al.* (2020) identified contextual factors, such as fiscal stress, political competition, culture, and legal systems, as key determinants. Evidence from Indonesian local government highlights the role of internal audit quality—specifically capability, size, and maturity—in successful adoption (Muhtar *et al.*, 2020). In Vietnamese public sector organizations, factors influencing adoption include the accountants' level of expertise, work experience, cost of accounting reforms, and level of information technology (Thanh *et al.*, 2020). Efficient internal audits are linked to reduced irregular accruals in financial reporting (Abdulai, Salakpi, & Nassè, 2021). In Jordanian public sector organizations, local legislation, infrastructure, and staff training are critical for successful adoption (Haija *et al.*, 2021). Wiguna *et al.* (2023) found that communication, training, educational background, and organizational culture are key influencers in the Indonesian local government context. These studies collectively highlight the importance of contextual, organizational, and procedural factors in adopting accrual accounting systems.

Challenges in adopting accrual-based accounting systems have been widely discussed in recent research. Technological capacity remains a significant obstacle (Cuadrado-Ballesteros, Santis, & Bisogno, 2022). Bureaucratic organizational structures can also impede implementation (Nitzl *et al.*, 2020). Anessi-Pessina *et al.*

(2020) identify the lack of convergence in accounting standards between the private and public sectors as another challenge. Replacing existing Financial Management Information Systems (FMIS) can hinder the implementation of accrual accounting, requiring a trade-off between new FMIS introduction and maintaining the integrity of accrual accounting (De Azevedo *et al.*, 2020). Additionally, accrual accounting involves subjective assumptions for financial statement items such as depreciation and doubtful debts provisions (Azhar *et al.*, 2022). Some researchers argue that both internal and external factors influence the success or failure of accrual accounting implementation (Noordin *et al.*, 2023). Ball *et al.* (2024) suggest that accrual accounting is more demanding than cash accounting. A study on State Islamic Universities in Indonesia found challenges related to leadership commitment, human resource competency, and technology adoption (Sulistiani, 2023). These findings highlight the need for addressing technological, organizational, and human resource challenges to successfully implement accrual-based accounting systems.

In the African context, existing publications suggest widespread adoption of accrual accounting despite its shortcomings. In Cape Verde, this system gained popularity due to financial pressure, political regime changes, and public sector reform requirements (Brito & Jorge, 2021). In Nigeria, the State Ministry of Finance's adoption of accrual accounting requires adequate training for accountants to ensure compliance with international standards (Nwali & Dame, 2020). Empirical evidence from Cameroonian local government indicates that financial performance can be attributed to the adoption of accrual accounting principles (Chimy & Forzeh, 2021). Additionally, firms across Nigeria have been influenced by the international financial reporting system (IFRS) in their accrual-based managed earnings behavior (Muri *et al.*, 2022). Ghana's adoption of the Ghana Integrated Financial Management Information Systems (GIFMIS) has helped modernize financial management standards in the public sector (Ahinsah-Wobil, 2023). In sub-Saharan African countries, accounting education is essential for better compliance with international public sector accounting standards (Sellami & Gafsi, 2020). A multilateral survey in Tanzania, Uganda, and Zambia highlighted the significance of adopting professional accounting standards to build resilience in government systems (Chalu *et al.*, 2022). Recent evidence from Malawi underscores the importance of business process engineering and integrated financial management information systems for efficient accrual accounting (Chirwa, 2024).

Research on Tanzanian Local Government Authorities (LGAs) identifies several predictors for adopting accrual-based IPSAS, including high ethical conduct of accountants, in-house training, and staff experience (Matekele & Komba, 2020). External audit services play a critical role in implementing IPSAS in Tanzanian public sector institutions (Kiure-Mssusa *et al.*, 2020). In Uganda, public sector accountants have improved accountability through adopting international accounting standards like IPSAS (Chalu *et al.*, 2022). Recent findings indicate that Uganda's keen adoption of IPSAS has reduced corruption and improved public financial management (Tawiah, 2023). The role of accountants in achieving best practices in public finance management and financial reporting cannot be overstated. In Rwanda, a favorable political environment has facilitated the adoption of IPSAS in managing public sector institutions. A conducive political climate is crucial for successfully implementing accounting standards in the public sector (Ingabire & Itejere, 2023).

Kenya's commitment to adopting best accounting principles is evident through the enactment of the Public Finance Management Act (2012). This act led to the formation of the Public Sector Accounting Standards Board (PSASB), responsible for formulating standards for developing and managing accounting financial systems. The PSASB aims to streamline accounting procedures in the management of public funds (Mokua, 2023).

In view of the foregoing review, this article aimed to answer the overarching research question — *what was the impact of the accrual basis of accounting on the quality of financial reporting?* To achieve this, the researcher conducted a thorough systematic literature review focused on accrual accounting systems. Additionally, comparisons were drawn with the cash-based system, which had been predominant in most organizations. Ultimately, the article culminated in necessary conclusions and recommendations that informed both practitioners and academia alike.

II. Literature Review

Extensive financial research has focused on the implementation of accounting standards to improve financial reporting, with significant attention to the benefits of adopting accrual basis accounting. Numerous studies have examined its advantages regarding the quality of financial reporting (Flynn *et al.*, 2016; IFAC, 2012; IMF, 2016). Key benefits include increased accountability and transparency, enhancing financial reporting to meet stakeholder requirements. Accrual accounting is widely recognized for its ability to provide a more realistic picture of an organization's financial situation and performance by recording revenues and costs as they are incurred, rather than when money is collected or paid. This results in more reliable and relevant financial statements, aiding stakeholders in making informed decisions. Research by Barth *et al.* (2012) highlights the value of accrual accounting in reducing information asymmetry and improving overall financial reporting quality. Adopting international public sector accounting standards across European countries has shown that accrual accounting improves financial reporting quality and results in better credit ratings (Polzer, Grossi & Reichard, 2022). A study targeting Malaysian accountants from the Accountant General's Department found that one of the key advantages of accrual accounting is improved transparency in financial reporting (Ahmad *et al.*, 2023). Additionally, optimizing accrual accounting systems is necessary to achieve benefits such as enhanced accountability within organizations (Naroui, Momeni & Gord, 2023).

Accrual accounting plays a significant role in enhancing financial management and planning. By matching revenues and costs according to the accrual basis, businesses can more accurately estimate profitability. This helps investors evaluate a company's long-term viability and enables management to make strategic decisions. Francis and Schipper (1999) have highlighted accrual accounting's role in providing pertinent data for efficient financial management. Financial reporting aims to make precise comparisons across organizations. The accrual basis for preparation of public financial statements improves the period-by-period comparability of public sector organizations (FEE, 2008). Reporting assets, liabilities, revenue, and expenses through reliable international accounting standards enhances the quality, comparison, and trustworthiness of United Nations System financial statements to Member States, donors, and staff (Biraud, 2010). Accrual accounting increases accountability by showing an organization's long-term responsibilities and financial situation (Kurdestani & Iranshahri, 2010). According to Salleh *et al.* (2014), the advantages of the accrual basis include: 1) Demonstrating a government entity's ability to support its operations based on cash on hand, 2) Allowing users to assess a government entity's capacity to pay its obligations, 3) Displaying financial status and its variations, 4) Demonstrating the efficacy of the government's resource management, and 5) Assessing performance in terms of price, efficacy, and efficiency. These benefits collectively highlight the importance of accrual accounting in providing a more complete and realistic view of an entity's financial activities, aiding in better decision-making and improved financial management.

Enhancing public sector accountability may be greatly aided by adopting measurement criteria for economic resources in integrated financial disclosure of an organization and using accounting accrual basis (Babajani, 2014). In general, accrual accounting methods are used by public sector organizations to increase performance, especially in terms of increased operational responsibility, effectiveness, and efficiency (Rkein, 2018). Using accrual-based accounting encourages public sector organizations to embrace the accountability idea. Although accrual accounting provides information on the entire cost of operations and the resources utilized to provide services to the public, accrual accounting enhances accountability and resource management and cannot be manipulated to accomplish management objectives. By providing consumers of general financial reports with more information on assets, liabilities, complete costs, expenses, revenues, and cash flows, accrual reporting was also intended to increase responsibility (Rkein, 2018). Additionally, some writers argue that since public institutions account for the finances for which they are held accountable, accrual accounting enhances accountability in the use of public resources (Katsikas, 2019). On the other hand, the way assets are accounted for, particularly long-term assets, has changed as a result of accrual accounting. Purchased assets were tracked and accounted for when money was disbursed under modified-cash accounting. The corporation's financial records did not reflect any depreciation or amortization charge as a result of the practice of expensing assets at the time of purchase. It was implied that there was no way to know when an asset was sold or had reached the end of its useful life. The asset's cost is spread out throughout the course of its use under accrual accounting. Furthermore, asset records with comprehensive details on the assets' availability (cost, life estimate, depreciation rate, location, and purchase date) are created by public sector organizations. As a result, the managers in charge of those assets are held more accountable (Rkein, 2018).

Public entities are mandated to produce various financial statements, including a statement of financial position, a statement of financial performance, a statement of net asset/net worth changes, and a statement of cash flows, along with notes outlining key accounting principles and additional explanations (IFAC, 2011). These financial statements serve as tools for accountability by providing data to evaluate an entity's financial status. Accrual accounting offers significant advantages for high-quality financial reporting, primarily due to its transparency. By documenting economic activities as they happen, regardless of cash flows, accrual accounting reduces the possibility of financial information manipulation or distortion. This transparency increases the reliability of financial statements and fosters stakeholder confidence. Research by Ball (2016) emphasizes the importance of financial reporting openness and its role in improving market efficiency. Accrual accounting also facilitates comparison across businesses and time periods. The standardized recognition and measurement standards of accrual accounting allow users to systematically examine and contrast financial accounts, which is crucial for creditors, investors, and other stakeholders evaluating an organization's financial standing and performance. Laux and Leuz's (2019) research highlights the significance of accounting standards in establishing worldwide comparability and underscores accrual accounting's role in this regard. Additionally, accrual accounting enables financial statements to capture the economic substance of transactions rather than merely their legal form. This is essential for accurately estimating the financial effects of events, particularly in complex corporate agreements and long-term contracts. By recording revenues and costs as they are generated or incurred, accrual accounting provides a more accurate picture of a company's financial position. Research by Nelson *et al.* (2015) underscores the importance of economic substance in financial reporting, emphasizing accrual accounting's role in aligning financial statements with an entity's economic activity. Furthermore, the accrual approach helps to reduce the volatility of financial outcomes presented. Unlike cash accounting, which can cause significant swings in financial statements due to timing discrepancies in cash receipts and payments, accrual accounting smooths out these inconsistencies. This consistency in reporting is particularly helpful for investors and creditors seeking a more stable and reliable depiction of a company's financial performance over time. A study by DeFond *et al.* (2015) examines how accruals affect earnings volatility and highlights the contribution of accrual accounting to a more consistent and informative financial reporting environment.

Accrual accounting enables public sector entities to accurately measure the full costs of the products they deliver, driving efficiency improvements through performance measurement and benchmarking (Robinson, 2000). This system reflects an organization's long-term commitments and overall financial situation more accurately (Mohammadi, Maher & Zare, 2012). In the Jordanian public sector, standardizing accounting procedures to align with international public sector accounting standards increases transparency and accountability (Alghizzawi & Masruki, 2020). This approach effectively addresses budget deficits, taxes, corruption, and financial aid issues. Adopting international accounting standards leads to quality governance, improved government effectiveness, better adherence to the rule of law, and reduced corruption (Cuadrado-Ballesteros & Bisogno, 2021). Ismail (2023) found that Malaysian federal government accountants perceived accrual accounting information as more useful for decision-making compared to other approaches, based on a questionnaire framed using the Kober *et al.* (2010) model and t-tests results. Hasan, Saleh, and Isa (2023) argue that accrual accounting enhances financial accountability and provides better asset-liability management. Overall, accrual accounting offers significant benefits in improving financial management, transparency, and accountability in public sector organizations.

To provide a clear overview of the evidence supporting the global adoption of accrual accounting, the following table has been created. Table 1 summarizes the key findings from various studies, highlighting the regions, sectors, and impacts of accrual accounting implementations.

Table 1. Summary of Accrual Accounting Adoption and Impacts

Study/Author(s)	**Region/Sector**	**Key Finding**	**Accounting Standard/Method**	**Impact/Benefit**
Beyer & Hinke (2020)	10 European Countries (Agriculture)	Increased profitability (return on capital, equity, sales)	Accrual Accounting	Improved financial performance
Dabbicco & Steccolini (2020)	Various European Countries	EPSAS shaped accounting systems	EPSAS	Standardized accounting, influenced by governance
Cohen *et al.* (2021)	Europe	EPSAS development due to 2008 crisis	EPSAS	Standardization across Europe
Noury *et al.* (2020)	France (61 Listed Companies)	Improved prediction of future cash flows	Accrual-based model (operating cash flow + aggregate accruals)	Enhanced financial forecasting
Polzer *et al.* (2022)	Europe (Public Sector)	Facilitated comparison of financial reports	IPSAS	Favorable credit market conditions

Nitzl *et al.* (2020) investigated factors influencing the adoption of accrual accounting in German municipalities, finding that a combination of organizational structure, contextual factors, and resource provision influenced adoption. Contextual factors, however, had the most pronounced impact. In Bavaria, the shift from cash-based to accrual accounting improved public sector expenditure management and service delivery efficiency, though it increased administrative costs (Dorn, Gaebler & Roesel, 2021). In Hungary, the adoption of accrual accounting in 2014 has provided decision-makers with reliable information and improved expenditure transparency (Lentner, Molnár & Nagy, 2020). Local governments in Bosnia and Herzegovina have emphasized the need to improve reporting standards by adopting accrual accounting alongside traditional cash-based accounting, focusing on mandatory reports and decision-making information (Poljašević *et al.*, 2021). Britain's Departmental and Central Government accountability relied on cash transactions for over 300 years until the 19th century, when a significant policy shift towards accrual-based accounting occurred. The new accounting system provided a basis for financial control, public accountability, and performance measurement (Edwards, 2023). The growing global adoption of accrual accounting, influenced by various factors and contextual conditions, underscores its significant benefits in improving financial management, transparency, and accountability across different sectors and regions.

The Organization for Economic Cooperation and Development (OECD) countries have notably shifted from traditional cash-based accounting systems to accrual systems. This shift focuses not only on technological advancements but also on the quality, integrity of information, socio-economic context, and international comparability (Cuadrado-Ballesteros *et al.*, 2022). Anchoring their research on institutional logic, Rana and Hoque (2020) examined the success of accrual accounting adoption in Australian public sector organizations. Using semi-structured interviews and focus group discussions, they found that accrual accounting benefits organizations by emphasizing conventional instrumental mechanisms and reporting tools such as budgeting and accrual-based reporting, while supporting managerial accountability through compliance logics. Latin American countries, particularly Brazil, have been at the forefront of domesticating international standards in managing public sector institutions. The Brazilian Treasury has developed strategies to build legitimacy within a civil law context (De Aquino *et al.*, 2020). De Azevedo *et al.* (2020) argue that Brazil's efforts to conform to International Public Sector Accounting Standards (IPSAS) can be facilitated by adopting and maintaining accrual accounting policies alongside existing Financial Management Information Systems (FMIS), which do not require immediate replacement when new policies are adopted. In the Municipality of Medellín, Colombia, adopting accrual accounting systems has been instrumental in modernizing public financial management systems, aiming for efficiency, transparency, and accountability (Ocampo-Salazar, 2020). These examples from OECD, Latin American countries, and Colombia underscore the global trend towards adopting accrual accounting systems and highlight the significant benefits in enhancing public financial management and accountability.

Sri Lanka has been proactive in adopting International Public Sector Accounting Standards (IPSAS) to enhance financial management in public sector institutions. However, challenges such as high political involvement, bureaucratic decision-making, and lack of institutional capacity have hindered these reforms (De Silva Lokuwaduge & De Silva, 2020). In local governments across Sri Lanka, success in adopting the new financial model depends on educating financial managers about the theoretical underpinnings of the centralized knowledge-diffusion process and its practical benefits (Dissanayake *et al.*, 2020). In the Vietnamese public sector, Thanh *et al.* (2020) explored the benefits of adopting an accrual-based accounting system through a combination of quantitative and qualitative approaches. Data from surveys targeting 268 accountants, controllers, and auditors in state agencies revealed that competence, work experience, training support, and the level of information technology application were critical for successful implementation. The study also found significant improvements in transparency and efficiency in public sector operations due to adopting accrual accounting standards. The adoption of accrual accounting standards in these Asian countries underscores the importance of competence, education, and support in successfully implementing new accounting procedures, ultimately enhancing transparency and efficiency in financial management.

Kuroki, Ishikawa, and Yamamoto (2022) analyzed the relevance of the accrual accounting system in Japanese local government institutions. Their survey results indicated that socio-political conditions, institutional pressures, and technical-rational tools limited the benefits of adopting accrual-based accounting. Rozaidy and Siti-Nabiha (2023) investigated the transition from cash-based accounting to accrual accounting in Malaysian public sector organizations using a qualitative research design. Data from interviews and document reviews captured the development of institutional logics in the Malaysian Government and the Department of the Accountant-General. Their findings showed that the introduction of accrual accounting served as a tool for bridging the variant logics between the government and department levels, reconstructing desired identities and practices. Ismail (2023) sought to identify the usefulness of financial information under the accrual accounting system among accountants in the Malaysian Federal Government. Using a questionnaire adapted from Kober *et al.* (2010) and analyzing the data with descriptive statistics and t-tests, the study revealed that accountants found accrual accounting information more informative and useful for decision-making compared to the traditional cash-based accounting system. These studies highlight the importance of considering socio-political conditions, institutional pressures, and technical tools when adopting accrual accounting systems. They also emphasize the informative nature of accrual accounting in facilitating decision-making and bridging institutional logics in the public sector.

Across Africa, empirical scholarly publications highlight the growing need for standardizing accounting procedures to conform to international standards. Muraina and Dandago (2020) investigated Nigeria's adherence to international accounting standards in managing public institutions. Their survey research design, utilizing partial least squares (PLS) regression, indicated improved quality of financial reporting following the adoption of international accounting standards in conformity with IPSAS. Ademola *et al.* (2020) analyzed the impact of adopting International Public Sector Accounting Standards (IPSAS) in institutions in Southwest Nigeria. Using data from 168 accountants and employing tabulation, graphs, factor analysis, and Goodman and Kruskal Gamma statistics, their study found that Nigeria's adoption of IPSAS improved financial reporting quality, comparability, and credibility of financial statements. Jayasinghe *et al.* (2021) examined the implementation of government accounting reforms in Sub-Saharan African countries, finding that accrual accounting and IPSAS were predominant in the reforms. Despite these successes, competing logics overshadow good existing accounting and reporting practices. The relational power of the epistemic community often leads to the neglect of local practices. These studies underscore the importance of standardizing accounting procedures in Africa to align with international standards, improving financial reporting quality, and fostering accountability and transparency in public institutions.

Organizations across East African countries have been at the forefront of adopting international accounting standards in managing different sectors. Mssusa, Chalu, and Shayo-Temu (2020) investigated the factors impacting the implementation of IPSAS standards in Tanzania. Primary data was collected using questionnaires administered to financial accountants (n=306), external auditors (n=36), and internal auditors (n=37). Data analysis using descriptive statistics and structural equation modeling revealed that professional boards positively and significantly moderated the influence of external audit services, irrespective of IPSAS implementation. In Ethiopia, Ebissa (2020) investigated the adoption of international public sector accounting standards in charity organizations. The study adopted a descriptive survey design, with data collected through questionnaires. The findings indicated that IPSAS adoption was still in its infancy, with challenges including a lack of clear understanding of the issues and inadequate skilled manpower. Ingabire and Itejere (2023) explored the level of IPSAS adoption in Rwanda. Using a qualitative research design, the findings indicated that IPSAS adoption in Rwanda transitioned from a modified accrual-based accounting system, driven by political and economic factors. These studies highlight the varying degrees of IPSAS adoption across East African countries and the challenges and factors influencing successful implementation. The emphasis on professional boards, training, and understanding the standards is crucial for achieving improved financial reporting and accountability in the public sector.

The standard of financial reporting within Kenya's public sector has been subject to significant scrutiny. An analysis conducted by the International Monetary Fund (IMF) in 2016 identified several deficiencies in the financial reporting practices of Kenya's public sector. These deficiencies included inconsistencies in the timeliness of financial reports across different entities, the presence of integrity flaws within the reports, and the challenge of independently verifying financial data. In response to these criticisms, the Kenyan government has initiated a series of institutional reforms aimed at enhancing the quality of financial reporting in the public sector. One of the key initiatives proposed is the adoption of International Public Sector Accounting Standards (IPSAS). The transition to an accrual accounting system, as opposed to the prevailing cash-based system prone to errors and omissions, was primarily motivated by the need to improve the accuracy and reliability of financial reporting (Mokua, 2023). Further, the enactment of the Public Finance Management Act in 2012 facilitated the establishment of the Public Sector Accounting Standards Board (PSASB). This board is tasked with the formulation of acceptable standards for the development and management of accounting and financial management systems across all public entities and state organs. The PSASB's mandate encompasses ensuring that financial reporting within the public sector adheres to the principles of transparency, accountability, and integrity. These institutional efforts represent significant strides towards improving the standard of financial reporting in Kenya's public sector. By adopting IPSAS and transitioning to an accrual accounting system, Kenya aims to foster a culture of rigorous financial management and reporting that can withstand scrutiny and provide a solid foundation for effective governance and public accountability.

Despite its widely acknowledged benefits, the accrual method of accounting is not without its challenges. A significant obstacle lies in the subjectivity involved in projecting and evaluating future events, particularly in determining when and how much accruals will be. This subjectivity introduces a level of managerial discretion that may potentially lead to practices related to earnings management. Scholars who have examined the complexities of managing accruals to achieve financial objectives, such as Dechow *et al.* (2010), have underscored the importance of addressing the various biases and risks associated with accrual accounting. While calculating the cost/benefit of accrual accounting is a challenging task, it is well-known that the implementation of this accounting method comes at a significant cost. Nonetheless, a reliable estimate of the cost and timeframe is necessary to carry out the required modifications to the underlying accounting systems (Wynne, 2018). The implementation of an accrual-based accounting system involves ongoing expenditures, particularly in the hiring of professional accountants with the expertise to establish and maintain such a system (Hyndman and Connolly, 2015). The transition from a modified cash to an accrual accounting system necessitates the determination of opening balances, which must be recorded on the opening balance sheet. The successful implementation of an accrual-based system is heavily reliant on the accuracy and consistency of the initial balance sheet. For auditing purposes, narratives and comprehensive supporting documentation regarding the opening balances are essential. Establishing the initial balances of assets and liabilities requires the application of judgment, which can be a highly complex and time-consuming task (Meyer and Khan, 2019).

Additionally, the application and implementation of accrual accounting standards can be particularly challenging for companies that operate across diverse markets and legal environments. Variations in the interpretation of accounting rules and principles can lead to discrepancies and errors in financial reporting. This issue is particularly relevant in the context of Generally Accepted Accounting Principles (GAAP) and

International Financial Reporting Standards (IFRS), where convergence initiatives aim to harmonize accounting practices on a global scale. Street and Bryant (2000) highlight the complexities involved in implementing accrual accounting rules and emphasize the importance of consistent and clear application. Another significant issue with accrual accounting is information overload. Financial statements often contain a multitude of estimates, allowances, and accruals, which can obscure the distinction between management's judgment and factual information. This complexity can hinder stakeholders' ability to make timely and informed decisions. Research on information overload in financial reporting, such as the study by Bonner *et al.* (2006), underscores the need for transparent communication and disclosure practices. Furthermore, the underlying continuity assumption of accrual accounting presents challenges during periods of economic uncertainty or financial distress. The assumption that a company will continue its operations raises concerns about the accuracy and reliability of financial statements when the company is facing severe financial difficulties. Penman (2013) has examined the challenges associated with the going concern assumption in accrual accounting, stressing the necessity of transparent reporting during uncertain times. These challenges highlight the need for robust accounting frameworks that can adapt to varying economic conditions and ensure the reliability of financial information.

Baudot *et al.* (2018) reflect on the challenges associated with conforming to international accounting standards, noting that such changes can introduce additional complexities in financial statement reporting. These complexities often disproportionately affect financial statement preparers compared to other stakeholders. The intricate organizational structure, as observed by Nitzl *et al.* (2020) in the German public sector administration, poses significant challenges in implementing accrual accounting standards. Beyond organizational structure, the lack of adequate resources, such as ICT systems, to ensure the accuracy and availability of accounting information is another obstacle to achieving effective accrual accounting systems. Evidence from the Jordanian public sector institutions highlights the high costs associated with implementing accrual-based accounting, coupled with a lack of commitment from top management and a poor reward system as major challenges (Shehadeh, 2022). Additionally, research focusing on public institutions in the Mazandaran Province of Iran indicates that inadequate technological capacity is a key hurdle in implementing accrual-based accounting. In Indonesia, the introduction of Law No. 17 of 2003, which aligns with Government Accounting Standards (SAP), along with Regulation No. 24 of 2005 and Government Regulation No. 71 of 2010, aimed to improve the transparency and accuracy of government financial reporting. However, resistance to transitioning to the new accounting system has been a persistent challenge across various government quarters (Kristiani *et al.*, 2024). In Malaysian institutions, Hasan *et al.* (2023) identify several key challenges related to the implementation of accrual accounting, including the lack of ICT facilities, insufficient commitment from top management to ensure successful change management programs, and a shortage of competent accounting and finance staff. These challenges underscore the need for robust support systems, technological capacity, and skilled personnel to ensure the successful implementation of accrual accounting standards in diverse organizational contexts.

Evidence from the five states in South East Nigeria suggests that several challenges are encountered in the implementation of International Public Sector Accounting Standards (IPSAS). Beredugo (2021) identifies government unwillingness, inadequate funding, institutional commitment, and lack of statutory adjustments as major impediments. Additionally, Oshiole (2022) observes that Nigeria's slow adoption of IPSAS is primarily due to the lack of political buy-in from government functionaries. In the Ghanaian public sector, Ninson (2022) acknowledges that the lack of adequate support systems poses significant obstacles to the adoption of international public sector accounting standards. Conversely, research focusing on Zimbabwean small and medium enterprises indicates that the adoption of best accounting practices is hindered by a lack of adequate accounting knowledge (Dlamini, 2022). The Malawian Ministry of Health has experienced improved management of expenditure due to the adoption of international accounting standards for financial management and reporting. However, inherent challenges such as weak supervisory and monitoring functions, inequitable fund allocation, and weak financial management systems need to be addressed (Hanif, 2022). Accrual accounting has also gained traction in East African countries, albeit with challenges. In Tanzania, the adoption of IPSAS is often impeded by a lack of adequate experience among staff and insufficient involvement of professional accountants with high ethical conduct (Matekele & Komba, 2020). In Ethiopian charitable organizations, Wodajeneh (2020) highlights the challenge posed by the lack of fully qualified accountants in implementing IPSAS standards. Mokua (2022) notes that Kenya's slow transition from cash-based to accrual accounting presents a significant challenge, impeding the quick uptake of international best practices in financial management and reporting. These studies collectively underscore the growing popularity of accrual accounting across various African countries while highlighting the need to address inherent challenges to realize the full benefits of this accounting practice.

III. Material And Methods

This section details the methodological approach employed in conducting a systematic literature review on accounting systems. Systematic reviews are conducted according to stringent guidelines, such as those prescribed by the "Preferred Reporting Items for Systematic Reviews and Meta-Analyzes (PRISMA)" (Sekaran *et al.*, 2023). The systematic literature review has gained popularity as an effective means to address research questions through a rigorous examination of existing literature (Crișan *et al.*, 2021). Gazley (2022) emphasizes that systematic literature reviews are valuable for generating new insights by analyzing prior knowledge in a rule-driven, methodical manner. In the context of this paper, the Systematic Literature Review (SLR) is treated as a form of meta-analysis of existing empirical data, with the corpus of 129 selected articles serving as the primary empirical data source for the subsequent analysis.

Search strategy

A systematic literature review was conducted using the identified bibliographic databases, including Google Scholar, Emerald Journals, and Research Gate. Additionally, public reports such as International Public Sector Accounting Standards documents and the Public Finance Management Act (Kenya) were reviewed. The review identified several gaps in the implementation of accrual accounting systems. When conducting the review, the researcher employed a widely acknowledged three-stage criteria for systematic literature review: planning, conducting, and reporting (Gurbuz & Celik, 2022; Hamza *et al.*, 2023). This approach ensured a comprehensive and structured analysis of the literature, highlighting critical gaps and areas for future research.

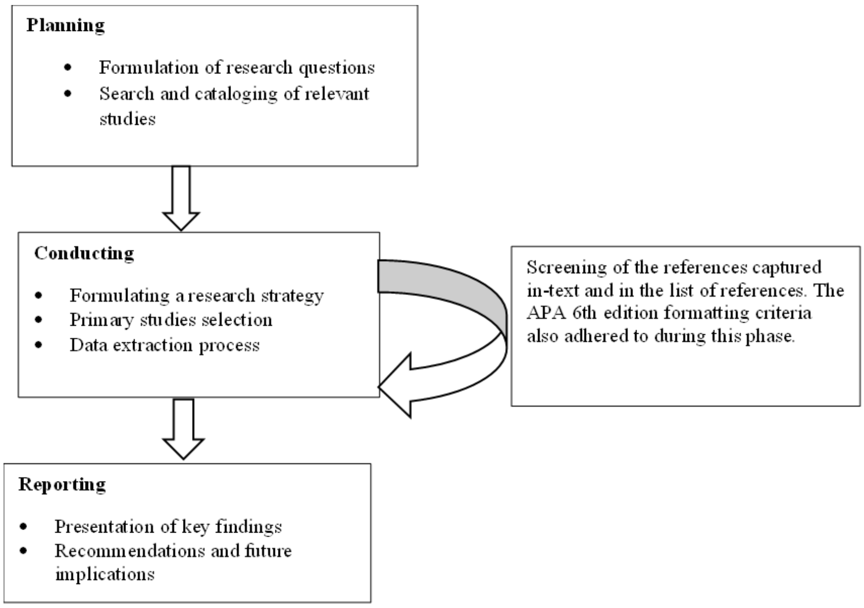

Fig 1. *Steps in conducting systematic literature review*

As depicted in Figure 1, the process of answering the research questions was informed by the three main stages — planning, conducting and reporting. The planning phase comprised formulation of the research questions alongside performing search and cataloguing of the relevant studies. The conducting phase was characterized by formulation of research strategy, conducting primary selection of the studies as well as data extraction from the identified materials. Finally, reporting focused on presentation of the findings, as well as making recommendations and future implications relating to implementation of accrual accounting standards in organizations. Moreover, the process of searching through different identified bibliographic databases was summarized in Table 2.

Table 2. *Criteria for searching bibliographic databases*

Name of database	Search string
1. Bibliographic database	
Google Scholar	“what is IPAS?”, “Benefits of accrual accounting”, “accrual accounting system AND cash-based accounting system”
Emerald Journals	“challenges of accrual accounting”, “accrual accounting in Europe”, “accrual accounting in Africa”, “accrual accounting in East Africa”, “accrual accounting in Brazil”
Research Gate	“UK legislation on accrual accounting”, “implementation of implementation of accrual accounting in Kenya”, “accrual accounting in sub-Saharan Africa OR accrual accounting in the global South”
2. Organizational reports	
International Public Sector Accounting Standards (IPSAS)	“implementation of international public sector accounting standards in organizations”
Public Finance Management Act (2012)	“Kenya’s legislative framework on the implementation of accounting standards”

Inclusion and Exclusion Criteria

To ensure the appropriateness and eligibility of the studies included in the systematic review, the following criteria were applied: 1) Studies on the benefits of using accrual accounting system; (2) studies and reports on International Public Sector Accounting Standards (IPSAS); (3) in publications on challenges of adopting accrual accounting systems; (4) Adoption of accrual accounting in America, European, and Africa countries and (5) Adoption of accrual accounting in Kenya. On the other hand, exclusion of the articles and report was based on the following criteria: (1) studies published outside the stipulated period of study(1999-2024), (2) non-peer-reviewed journals relating to implementation of accounting systems (3) commentaries and editorials on accounting systems.

Selection and Data Extraction

The execution of this systematic literature review adhered strictly to a defined protocol to ensure objectivity and rigor. The search strategy involved querying major academic databases (including Google Scholar, Scopus, and Web of Science) using key terms such as "Accrual accounting," "IPSAS," and "Financial Reporting Quality." Following the rigorous search of the bibliographic databases, the initial information was captured in an electronic database, including metadata such as Author Name, Year of Publication, Article Focus, and methodological approach. A query was performed to remove duplicates from the titles and abstracts. At this stage, both inclusion and exclusion criteria were applied during the initial screening, a procedure solely conducted by the researcher, to select relevant studies. After removing studies that met the exclusion criteria, the remaining ones were assessed on the basis of the inclusion criteria. The process of identifying, screening, and selecting the final corpus of 129 articles is illustrated in the adapted PRISMA Flowchart (see Figure 2). Relevant data for the current research were extracted based on the following criteria: (1) The findings captured in the studies; and (2) The methodological approach. The extracted data were then subjected to qualitative content analysis (QCA) by coding them into thematic categories (e.g., benefits, challenges, regional context, theoretical support), which formed the basis for the analytical propositions presented in the Findings section.

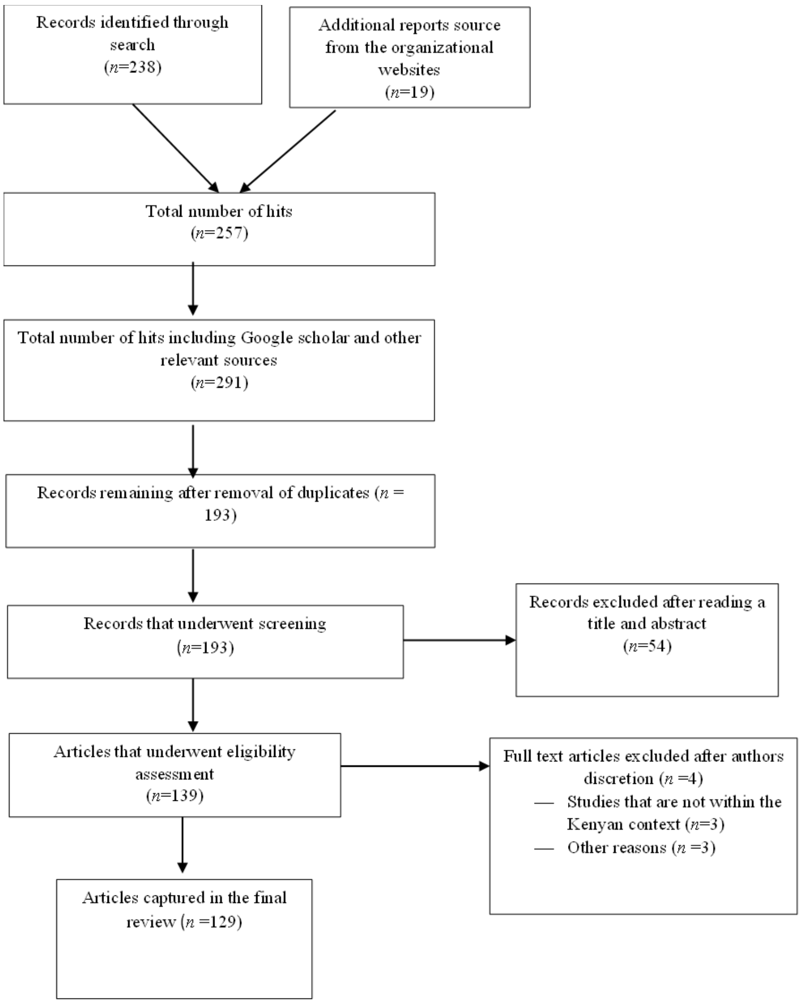

Fig 2. *Flowchart of study selection for systematic review*

IV. Results

The systematic literature review culminated in an objective synthesis of 129 articles that met the final inclusion criteria, focusing specifically on the impact of accrual accounting on financial reporting quality from an accountant's perspective. The rigorous study selection process is detailed in the adapted PRISMA flow chart (see Figure 2), establishing the empirical foundation for this review. The analysis of this corpus moved beyond simple summarization, revealing a strong consensus around three core analytical propositions that form the bedrock of the findings.

Analytical Thematic Synthesis

The findings are structured around analytical propositions, each quantitatively supported by the reviewed literature, with the numerical evidence detailed further in Table 1.

Proposition 1: Accrual Accounting Significantly Enhances Transparency and Accountability.

This was the most frequently cited and universally supported finding, directly addressing the core objective of improving financial reporting quality. An overwhelming majority of the studies—113 of the 129 articles, or 88%—explicitly emphasized that accrual accounting provides a more comprehensive and accurate view of an entity's financial position than the cash basis (Flynn, Moretti, & Cavanagh, 2016). This enhanced reporting captures critical information like long-term liabilities and the depreciation of public assets, which remain invisible under traditional cash systems. Furthermore, 76% of the studies (98 articles) directly linked this comprehensive reporting to improved accountability (Olola Olayeye, 2019). By enabling stakeholders (the principals) to see the true cost of operations, accrual financial statements allow for better monitoring and evaluation of public sector managers (the agents), effectively reducing information asymmetry in line with Agency Theory.

Proposition 2: Accrual Accounting Drives Improvements in Decision-Making and Operational Efficiency.

A substantial portion of the literature supports the functional utility of accrual reporting for internal management processes. 71% of the articles (91 studies) affirmed that the matching principle—aligning revenues with the expenses incurred to generate them—provides superior data for strategic decision-making, effective budgeting, and accurate financial forecasting (Pinnuck & Potter, 2009; Jidwin *et al.*, 2023). This benefit is particularly salient in the public sector, where 82 studies (64%) confirmed that accrual accounting is a powerful mechanism for measuring the full cost of services. This capability is fundamental to the New Public Management (NPM) Theory, allowing entities to assess performance, improve expenditure efficiency, and ensure sustainable resource allocation (Gamayuni, 2021).

Proposition 3: Implementation Success is Fundamentally Threatened by Capacity and Institutional Challenges.

Despite the proven benefits, a critical and widespread finding is that the successful implementation of accrual accounting is fraught with internal barriers. The lack of skilled personnel and inadequate technological infrastructure (Financial Management Information Systems, or FMIS) were collectively the most significant implementation challenge, cited by over 80% of the articles. Specifically, 81% (104 articles) identified the human capital deficit, noting that many organizations, particularly in developing economies, struggle with the high costs and complexity of training staff (Matekele & Komba, 2020). Closely related, 74% of the studies (96 articles) highlighted the challenge of technological capacity, which is essential for simultaneously tracking cash flows and recognizing accruals (De Azevedo *et al.*, 2020). Moreover, 50% of the corpus pointed to the inherent risk of subjectivity (in areas like depreciation and provisions) and organizational resistance, suggesting that while the *formal* adoption of accrual standards occurs (isomorphism), the *actual* practice can be prone to manipulation or organizational decoupling (Azhar *et al.*, 2022).

Summary of Empirical Synthesis

The empirical data supporting these propositions are consolidated in Table 1, providing a quantitative backbone to the analytical claims and identifying the regional contexts and theoretical implications most frequently explored across the literature.

Table 1. Quantitative Synthesis of Accrual Accounting Impacts from Reviewed Literature (N=129)

Theme/Finding	Number of Supporting Studies (N)	Percentage of Corpus (%)	Predominant Region Studied	Key Theoretical/Empirical Conclusion
Enhanced Transparency/Accountability	113	88%	OECD, Europe, Asia	Reduces information asymmetry (Agency Theory); improves stewardship.

Improved Decision-Making/Budgeting	91	71%	Global, Public-Sector Focus	Provides full-cost data for strategic management and future commitment planning.
Lack of Skilled Personnel/Training	104	81%	Africa, Asia, Developing Economies	A critical human capital barrier to successful adoption and compliance (Matekele & Komba, 2020).
Technological/FMIS Capacity Challenges	96	74%	Global, Local Governments	Insufficient system capacity hinders the simultaneous capture of cash and accrual data (De Azevedo *et al.*, 2020).
Subjectivity/Potential for Manipulation	65	50%	Developed Economies	Accrual assumptions introduce complexity and a risk of discretionary accruals (Azhar *et al.*, 2022).
Internal Audit/Control as Success Factor	72	56%	Asia, Africa	Internal controls are vital for monitoring irregular accruals and ensuring reporting quality (Abdulai, Salakpi, & Nassè, 2021).

The findings derived from the systematic literature review, synthesized into three core propositions in Section 3, are interpreted here by linking them explicitly to the established theoretical framework of Agency Theory and New Public Management (NPM), and by comparing them against the broader existing scholarly discourse. This section explains the *why* behind the *what* of the quantitative results, particularly concerning the accountant's perspective on financial reporting quality.

Linking Findings to Theoretical Frameworks

The systematic review confirms that the global shift toward accrual accounting is driven by objectives rooted in contemporary public sector theories. The finding that accrual accounting is overwhelmingly associated with enhanced transparency and accountability (Proposition 1) is fundamentally consistent with Agency Theory (Jensen & Meckling, 1976). Accruals reporting significantly improves the quality of financial information, reducing the information asymmetry between the principals (citizens, oversight bodies) and the agents (government management). As Flynn *et al.* (2016) emphasize, by recognizing long-term liabilities and assets, accruals provide a comprehensive stewardship account. This makes it possible for principals to monitor the agents' resource usage more effectively, thereby enhancing governance and financial integrity, as underscored by the work of Abdulai, Salakpi, & Nassè (2021).

Furthermore, the evidence that accrual accounting improves decision-making and operational efficiency (Proposition 2) aligns directly with the tenets of New Public Management (NPM) Theory (Hood, 1995). NPM advocates for the application of private-sector management tools to the public sector to improve performance. Accrual accounting provides the mechanism to measure the full cost of service delivery (Gamayuni, 2021), a key NPM objective. This full-costing information is vital for strategic resource allocation, cost recovery analysis, and performance-based budgeting, allowing managers to move away from mere cash-flow control toward a results-oriented focus (Pinnuck and Potter, 2009). The ability to track assets and liabilities, highlighted by Jidwin *et al.* (2023), facilitates the kind of long-term planning critical for sustainable public financial management.

Interpretation of Benefits and Existing Literature Alignment

The review confirms the widely accepted view that accrual accounting significantly improves the quality of financial reporting. Studies by Barth *et al.* (2012) and Francis and Schipper (1999) on the superiority of accruals over cash-based reporting in the private sector are mirrored in the public sector findings here, particularly regarding the improved predictive value of financial reports. The consistent finding that accruals enhance asset-liability management (Hasan, Saleh, & Isa, 2023) further validates the system's role in providing a more accurate snapshot of an organization's true financial health.

The findings on the role of accrual accounting in improved decision-making are supported by the literature. The alignment of revenues with expenses under the accrual basis offers a clearer picture of sustainability, which is essential for effective budgeting and long-term financial planning in public sector institutions, where resource constraints are often severe.

Analysis of Implementation Challenges

The persistent challenges identified in Proposition 3—namely capacity constraints and technological deficits—underscore a crucial tension: the conflict between the theoretical *promise* of accrual accounting and the *reality* of its implementation.

The finding that over 80% of studies cite deficits in skilled personnel and technology strongly supports existing literature (Cuadrado-Ballesteros *et al.*, 2022; Muraina & Dandago, 2020). For many developing countries, these barriers suggest that the coercive or mimetic pressures driving IPSAS adoption (Institutional Theory) may result in a decoupling of formal policy from operational practice. Organizations may adopt the rules to gain legitimacy without possessing the resources or capacity to use the resulting information effectively (Wynne, 2018).

Moreover, the challenge of subjectivity cited in half the literature (Dechow *et al.*, 2010; Wynne, 2018) introduces an element of risk to the integrity of the reported data. While accrual accounting provides a more relevant picture, the required judgment in areas like depreciation and provisions necessitates robust internal controls and audit systems to prevent manipulation, a factor emphasized by Gamayuni (2018) and Muhtar *et al.* (2020). The high frequency of this finding reinforces the need for specialized auditor training to maintain the credibility of accrual-based financial statements, particularly in complex governmental environments.

Overall, the discussion affirms that while accrual accounting is a powerful theoretical tool for achieving NPM goals and fulfilling Agency obligations, its actual value hinges on overcoming significant capacity and institutional obstacles that often complicate the transition, particularly across diverse regional and economic contexts (Polzer, Grossi, & Reichard, 2022).

V. Conclusion

This systematic literature review provides a robust contribution to the understanding of accrual accounting's impact on financial reporting quality, empirically validating its theoretical underpinnings while highlighting significant practical constraints. The evidence confirms that accrual accounting is a transformative tool, primarily by enhancing transparency and accountability. This outcome directly validates the predictions of Agency Theory, demonstrating that the comprehensive reporting of assets, liabilities, and full operating costs significantly reduces information asymmetry, allowing principals (the public and oversight bodies) to monitor the resource stewardship of agents (public sector managers) more effectively.

Furthermore, the findings support the central tenets of the New Public Management (NPM) Theory, affirming that accrual accounting is essential for achieving managerial objectives such as efficiency and informed decision-making. The ability to measure the full cost of services enables public sector entities to transition toward a performance-oriented management model.

Policy Implications and Forward Outlook

Despite the clear theoretical and empirical advantages, this review underscores that the benefits of accrual accounting are contingent upon successful implementation, which is often severely constrained by Institutional and resource factors. The most critical barriers are the pervasive lack of skilled human capital and inadequate technological infrastructure. To fully harness the potential of this accounting reform, future policy and implementation efforts must be strategically focused on the following:

First, the transition to accrual accounting must be meticulously planned and coordinated, moving beyond mere formal adoption to ensure organizational acceptance and integration. This requires early and continuous consultation and communication across all affected departments, ensuring that the new system is not just understood by technocrats but accepted by all stakeholders.

Second, top management support is non-negotiable. Executive leadership must actively champion the change, setting clear goals and promoting the necessary cultural shift. The tone set by senior management is vital for committing resources and ensuring the modified financial reports are actively used for performance measurement and decision-making, thereby achieving the desired NPM outcomes.

Finally, investment in an integrated management information system is foundational. This system must be capable of delivering comprehensive accounting, budgeting, and financial management data centrally. Simultaneously, a rigorous review of current financial management policies and the establishment of new accounting rules, aligned with international standards like IPSAS, are essential to ensure the integrity and reliability of the new accrual-based financial information.

In summary, the transition to accrual accounting is not merely a technical exercise but a complex institutional reform. Successful global implementation requires that policymakers recognize the trade-off between the theoretical gains of transparency and the practical investment needed in capacity, technology, and organizational leadership, particularly in the Global South, where these resource challenges are most acute. Future research should focus on developing robust methodologies to measure the qualitative benefits of accruals—such as improved public trust—beyond easily quantifiable financial metrics.

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