

TRANSFORMATION PROCESS OF STATE ACCOUNTING TO ACCRUAL BASIS ACCOUNTING IN CONDITIONS OF THE CZECH REPUBLIC

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Abstract

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This paper briefly outlines the significant issues that occur during the implementation of the accrual principle accounting in the public sector in the context of the reform of accounting of public finance in the Czech Republic. The reform mostly regards government organizational units, self-governing territorial units and allowance organizations. The objective of the paper is to describe the transformation process from state accounting to accrual principle accounting in the Czech Republic and to identify the main problems associated with the introduction of accrual principle. Authors summarize these key problems with the use of questionnaire survey results at the municipal level in the Czech Republic. According to the research presented in this paper, the ongoing reform has not provided the intended transparency of accounting in selected entities and these tend to have an impression of their efforts being wasted by doing unnecessary work. Drawing on the above facts, approaches to the public finance accounting reform by central authorities and municipalities are different. However, we can say that the reform was launched to improve the situation of users of financial statements and had been needed for many years because public sector accounting regulations were incomplete and non-uniform.

Reform of public sector accounting, municipality, International Public Sector Accounting Standards, cash base, selected entities, consolidation, accrual accounting

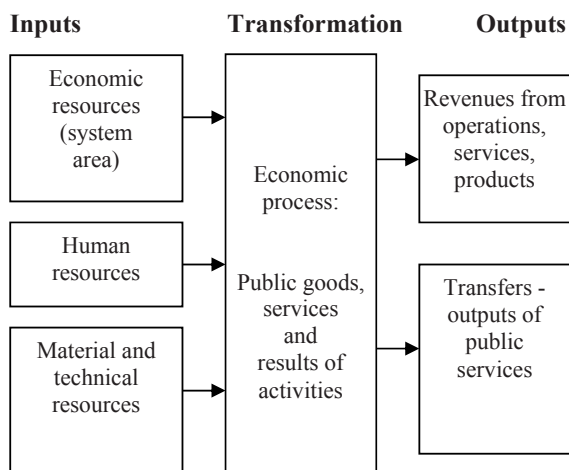
From the literature review (for ex. Wynne, 2012) currently, many countries around the world have been experiencing reform processes in public sector accounting. The process of harmonization with international public sector accounting standards (IPSAS) takes place as well as attempts to unify financial reporting, including the possibility of statistical evaluation. This fact forces all entities managing public resources to seek ways to streamline the entire management system. International public sector accounting standards are based both on the accrual basis and the cash basis. These basic terms are defined by International Public Sector Accounting Standard IPSAS 1; see NKU, (2006), or <http://www.ifac.org/public-sector> (2013). There is defined the accounting basis as the accrual or cash basis of accounting as

defined in the Accrual basis International Public Sector Accounting Standards and the Cash Basis International Public Sector Accounting Standard. The terms cash basis and accrual principle are thus in accounting and budgeting understood as two basic principles of accounting and budgeting in the world. If an accounting entity accounts on a cash basis, it shows only the transactions associated with cash flow and cash equivalents.

The objective of the paper is to describe the transformation process from state accounting to accrual principle accounting in the Czech Republic and to identify the main problems associated with the introduction of accrual principle. Authors summarize these key problems with the use of questionnaire survey results at the municipal level. Another objective is to find common features of the

reform process of adopting the accrual basis and the trend in harmonization of accounting.

The currently ongoing stage of the reform is intended to comprehensively improve the information quality and capability of the accounting data and their usefulness for management performance in this area. Within the Otavová (2013), for non-profit organizations it is not typical to perform the financial analysis to the extent to which the business entities do. However also managers of non-profit organizations must have information that is a reliable tool for the management and control activities. For non-profit organizations the methods and tools of financial analysis must respect their specificities. Understanding the concept of public administration performance has been still developing in connection with changes in the economy. The specialized literature has been dealing with the issue of performance of public sector, see, e.g. Arnaboldi (2010), Modell (2009), Pastuszkova (2011). The authors, for example, Benito *et al.*, (2007) and Bolívar (2012) in their contributions are exploring that all of the reforms undertaken in the public sphere are accompanied by consideration of the effectiveness of performance of public administration activities. Public finance system affects all subjects of the national economy but in various ways. Should we characterize public administration performance, public administration must be seen as a basic economic system, which is characterized by general features – inputs outputs transformations. The transformation is presented in Fig. 1. Generally, during every economic activity, assets are consumed or worn out, services are bought from suppliers, liabilities to employees incur due to wages, etc. Costs are inputs into the economic process. The results of economic activity (products, services performed), generally known as performance, represent revenues of the organization and are the outputs of the economic process.



1: Transformation of inputs into outputs in public administration
Source: Authors' outline

The aim of the paper is to identify the main problems associated with the introduction of accrual principle in government and municipal institutions in the context of the cash basis. The public sector is characterized by using cash basis accounting and budgeting in the field of public finance. By the Wynne (2012) nowadays, most countries use the accrual principle in various stages of development to ensure the reliability and accuracy of output data. The trend lies in the change from the cash to the accrual principle in public sector organizations. The IFAC has published numerous studies dealing with the public sector and government sector accounting in various countries around the world, for example, France, Argentina, the United Kingdom and New Zealand. We can find similar experience with accounting reform in other countries, e.g. Australia (Barton, 2009) or New Zealand (Walker, 2009).

The implementation of the ongoing accounting reform in public finance is accompanied by efforts to comply with international law treaties by which the Czech Republic is bound. The reform aims to create an environment suitable for the application of new legal regulations for the preparation of financial statements by public sector entities, including regulations relating to reporting and accounting consolidation. A specific objective consists in approaching the accounting methods and principles in the public sector to accounting rules for business entities and implementing such accounting policies that the accounting information contained in the financial statements would predicate more realistically about property and performance situation of accounting entities. The aim is to provide users (citizens, banks, government and others) qualified information about the financial situation of the relevant group.

The introduction of the reform to the full extent for all entities in the area of public finance is challenging and is therefore divided into different stages, when the first year of the implementation was 2010. The emergence of state accounting on the accrual principle of accounting is a prerequisite for increasing the credibility of the financial statements for the Czech Republic. This area faces many problems that need to be analysed and addressed in relation to international trends in the implementation of accrual basis in state accounting. The main purpose of the reform is the convergence of accounting principles of public and private sector and the implementation of state accounting and preparation of consolidated financial statements for the Czech Republic. Consolidation is currently a very topical term related to actual phase of the ongoing accounting reform in the public finance field in the Czech Republic.

The result of the accounting reform should comprise aggregated data for the public sector. Accounting information of public as well as local allowance organizations will enter the consolidated groups, which will be the founders and all the organizations established by them. The application



2: Chart illustrating stages of consolidation
Source: Authors' outline

of international principles is determined in each EU country through a wide range of political, historical and cultural barriers. In terms of introduction of the state accounting in the CR, the IPSAS recommendations should be applied with regard to the historical and legal environment, technologies, methodical and control components, and the cost of the entire system with particular emphasis on user's environment. As apparent from the above, one of the objectives of the reform is the effective gathering of relevant information for the needs of the state in the central system of state accounting information to prepare consolidated financial statements for the CR. In the case of consolidation of public sector accounting entities, the creation of consolidated groups will not take place on the basis of shares and the typical control as in the business sector, but mainly on the basis of other links, for more information see Harna (2010). The consolidation decree shall include process including accounting entities in the consolidated group and methods of consolidation of financial statements and definition of the consolidated group and sub-consolidated groups of the state.

Fig. 2 presents the consolidated group and sub-consolidated groups in the Czech Republic.

The current structure of accounting entities and their responsibility for accounting and preparation of financial statements remains unchanged. The state – the Czech Republic becomes a consolidation accounting entity, i.e., all subordinate accounting entities are required to determine and transmit specific accounting records in a binding assigned structure and terms to the central system of state accounting information. The central system of state accounting information is a technical tool through which the accounting records from the selected accounting entities are collected in order to prepare financial statements for the Czech Republic. This is a certain “data warehouse”, where the outputs shall contain, next to statements for the Czech Republic, budget implementation reports as well.

The law for the consolidated financial statements for the central government is still preparing. The assumption for preparing consolidated financial statements for the Czech Republic and consolidation sub-groups is in 2014 for first time. Consolidated financial statements will be prepared for the whole Czech Republic consisting of the following financial statements:

- Summary statement of assets and liabilities of the state,
- Summary statement of income and expenses of the state,
- Statement of cash flow,
- Notes.

As mentioned above the Czech Republic has adopted the accrual basis of accounting in Public sector since 1. 1. 2010. There is new national accounting standards for Public sector and the first accrual based financial statements issued by the year 2010. The very first document which started to think about an accounting reform of public finance was The Action Plan of the Government of Czech Republic for increasing credibility of accounting and audit from 2004. The Action Plan was followed by The Conceptual Framework 2006–2007 and finally by The Resolution of the Government of Czech Republic No. 561/2007 from 23rd of May 2007 which contained the basic principles of establishment of the state accounting in 2010. The first essential step in the CR was the commencement of major accounting reform and preparation for the presentation of financial statements for the CR, i.e. the introduction of so-called “state accounting”.

Otrusínová and Kubíčková (2011) give the following goals of the reform:

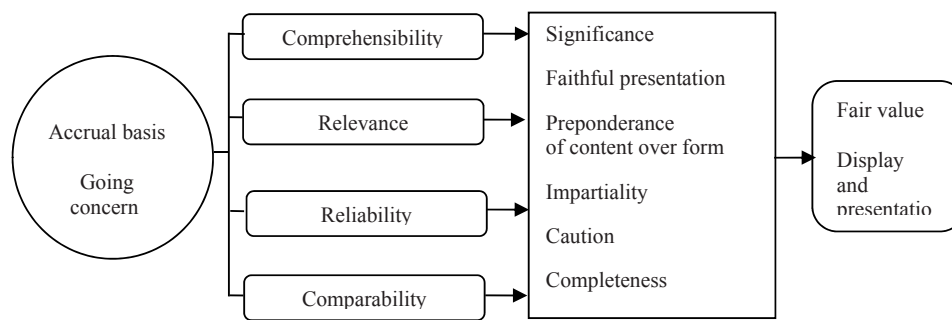
- To unify a wide variety of accounting systems used in public sector;
- To enable comparison of public and private sector accounting based on the accrual principle;
- To provide information on the whole state economy in a real time and in the EU context (relevance for operative management);
- To implement e-tools into accounting systems in public sector.

The basic aim of the reform is the full acceptance of the fundamental principles of conceptual framework, which are summarized below in the Fig. 3.

The reform mostly regards government organizational departments (which are, in particular the ministries), self-governing territorial units (i.e. municipalities and regions) and allowance organizations. Allowance organizations operate mostly in education, health, and culture and wealth management.

Accounting methods based on the accrual principle till the year 2010 are presented in the Tab. I. The situation in the year 2013 shows the Tab. II.

As shown in above table, accounting methods based on the accrual principle till the year 2010 were



3: Chart illustrating fundamental principles of conceptual framework
Source: Authors' outline

I: Accounting methods and principles in the selected entities before the reform

Accounting methods and principles	Income statement	Depreciation	Accruals	Provisions	Impairment of assets	Fair value
Government organizational departments	No	No	No	No	No	No
Self-governing territorial units	No	No	No	No	No	No
Allowance organizations	Yes	Yes	Yes	No	No	No

Source: Authors' outline

II: Accounting methods and principles in the selected entities after the reform

Accounting methods and principles	Income statement	Depreciation	Accruals	Provisions	Impairment of assets	Fair value
Government organizational departments	Yes	Yes	Yes	Yes	Yes	Yes
Self-governing territorial units	Yes	Yes	Yes	Yes	Yes	Yes
Allowance organizations	Yes	Yes	Yes	Yes	Yes	Yes

Source: Authors' outline

legislatively modified for allowance organizations only, which are approximately 11 000 in the CR and representing about 2.2% of all legal persons in the Czech Republic and there are 6 246 municipalities. The ongoing reform of state accounting in the Czech Republic thus includes a large number of organizations within the public budgets. By the Czech Statistical Office (2013) there are 18 174 this institutions in the Czech Republic in the year 2013.

MATERIALS AND METHODS

The meeting of the aim of this paper is based on analysis the problems of accounting Reform of Public Finance in the Czech Republic. To obtain the information necessary for complex processing of the issue some of the basic methods of scientific research were used. The methods usually complement each other and, in consequence, overlap. Standard scientific methods which allowed objective, systematic description of the given issue were used. Than we used methods of quantitative and qualitative and case study research, using the questionnaire. Especially the methods of induction and deduction, comparison, description, modelling, analysis and subsequent synthesis were used in order to fulfil the aim of this paper. Procedures of

analysis were used: identification of the processes, analysis of running of processes and analysis of value-added of identified processes. Method of synthesis was used in order to draw conclusions. Also some specific accounting methods and procedures are commented in the paper.

The quantitative research investigation itself was realized in the following way: the questionnaires were sent out to appropriate organizations and then the statistic methods were used. The aim of the research was to analyze an overview of the impact of reform to the selected public institutions and their allowance organizations in Czech surrounding. Respondents were members of public sector administration – a sample of municipalities and their allowance organizations in Moravia region. Number of inhabitants or other classification criteria was not important in this research because the accounting reform affected all municipalities. The accounting employees were the target group of our survey because just these employees deal with new accounting principles in their everyday life. These municipalities were contacted via email and telephone and asked to participate in the survey. The research was realized in the year 2012 by the students research work (Nekolová,

Ošťádalová, 2012), there were collected sources of 102 questionnaires.

Every valid questionnaire were statistically analyzed and followed by synthesis of obtained information.

The aim of the survey was to highlight the views of selected entities, particularly municipalities and allowance organizations, on the issue of the ongoing accounting reform. The first part of the research is focused on the general assessment of the reform from the municipalities' point of view and their adaptation to new rules. Due to the broad discussion on accounting issues of public finance in academic, professional and political circles, there were expected differences of opinion between central authorities and municipalities. At the beginning of the survey, a more or less negative assessment of the accounting reform on the part of municipalities was predicted. This hypothesis was tested based on the questionnaire survey results.

Respondents answered a number of questions related to the methodological support of the Ministry of Finance of the Czech Republic, personal questions concerning the reform, specific accounting changes accompanying the reform and the opinion of municipalities on the public finance accounting reform as a whole. The addressed respondents consisted primarily of accounting and economic staff of individual institutions, mayors or directors. Another method applied in evaluating the opinions on the accounting reform were interviews with personnel in charge of selected municipal entities and consultations carried out with representatives of 38 municipalities and allowance organizations. Subsequently, the comparison of opinions expressed by the employees of municipalities and the Ministry of Finance of the Czech Republic, which is an administrator of the ongoing reform, was implemented. These views were discussed at a specialist conference in Prague on 28 May 2013. According to the survey results and information gathered, a resulting analysis of the major problems encountered during the individual stages of the reform implementation was performed.

The questionnaire survey served as a source for the following questions selected for the purpose of presenting the results in this paper:

- Do new procedures introduced in connection with the reform bring more job responsibilities?
- Does the accounting reform represent a fundamental change in accounting?
- Was the information provided by the Ministry of Finance sufficient?
- Mean the reform a fundamental change of your accounting?
- Was necessary to hold a special training for employees?
- Do you value the transition from the cash basis to the accrual principle of accounting as beneficial?
- Can the reform be viewed as beneficial for the public sector?

Based on the research questions a null hypothesis was determined:

H0: The implementation of the individual stages of the reform to accounting practice is perceived by the respondents as not affected by any problems or difficulties and the reform itself is considered beneficial for the use in practice.

In contrast, an alternative hypothesis that rejects the null hypothesis was determined as follows:

HA: The introduction of the individual stages of the reform to accounting practice is viewed by the respondents as confusing and the reform itself does not bring major benefits to the use in practice.

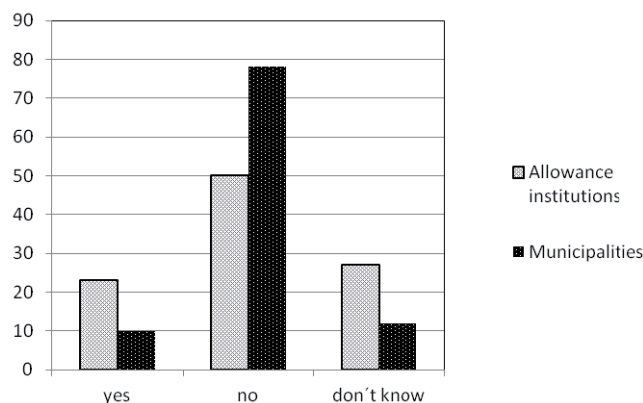
RESULTS OF THE RESEARCH

The evaluated questionnaires resulted in the ensuing findings:

- The methodological support from the Ministry of Finance is rated by 80% of the surveyed municipalities as insufficient, low-level, and mainly late.
- The question of whether the reform brings more job responsibilities was replied positively by 90% of the respondents. The transformation process from the cash basis principle accounting (incomes and expenditures), which was used by municipalities earlier, to the accrual principle (costs and revenues) are municipalities unable to fully evaluate yet.
- 65% of the surveyed municipalities, however, assess the transfer as not beneficial, and 33% of the allowance organizations also have a negative opinion. 20% of the respondents have not carried out an assessment yet.
- The question of whether the reform brings a fundamental change of accounting was replied positively by 92% of the respondents.
- For 55% respondents was necessary to hold a special training for employees.

The viewing the reform in the Czech Republic as beneficial for public sector is presented in Fig. 4.

To summarize the findings of the questionnaire survey regarding the benefits of the reform for the Czech Republic, 78% of the respondents rate the reform as unbeneficial, negative and confusing, whereas principles of management and functioning of public administration interfere with an effort to approach the accounting of business entities which operations, however, rely on entirely different principles. The big problem seems to lie in a slow process of the Ministry of Finance when issuing new standards. A total of 21 Czech accounting standards of 5xx series have been repealed and are gradually replaced by new ones, out of which only 10 (701–710) are currently valid. It can be concluded that especially small municipalities lack a clear methodology on how to proceed in specific cases; information sources often vary, are incomplete and lack sufficient details. Some respondents incline to



4: Chart illustrating the reform in the Czech Republic as beneficial for public sector

Source: Authors' outline

the opinion that the reform would be beneficial if it was implemented more wisely and consulted with experts from practice.

Another issue, which can be identified based on the conducted survey, is very often lack of financial expertise of accounting employees in the non-profit sector in general, especially in small municipalities. The introduction of a completely new system of accrual principle accounting causes a number of problems to these employees. In contrast, the high quality expertise documents published by the Ministry of Finance may sometimes seem rather counterproductive. According to the authors, the development in this area should aim to improve mutual communication and unification of the interests of the central, regional and local levels of state administration and local governments. The lack of expertise is a serious problem for the whole public administration, professionalization of public administration staff is a necessary task that should be dealt with as quickly as possible.

Pursuant to the performed survey, it was found that the municipalities assess the reform in a negative way and do not understand the meaning of all reform stages in the field of public administration.

The above conclusion basically results in rejecting the null hypothesis and the alternative hypothesis can be confirmed, therefore, the implementation of each stage of the reform in accounting practice is perceived by the respondents as confusing and by their opinion the reform does not bring any essential contributions to practice.

DISCUSSION

Upon the analysis, positive and negative views on the ongoing accounting reform were evaluated by the accounting staff in charge of municipalities as summarized below.

The advantages of the accounting reform:

- Conclusiveness of accounting and financial management.

- Unified approach to accounting and business entities.
- More accurate overview of the entity's accounting operations.
- Applying the accrual principle – accrued costs.
- Content over form.
- Determining profit or loss at regular intervals.

The disadvantages of the accounting reform:

- Performing a variety of accounting operations, increasing the volume of agenda, time demand factor.
- Ambiguity, continuous changes, greater complexity.
- The reform puts considerable demands on software, IT equipment and security, and the quality of accounting programs.
- Great administrative burden.
- Poor preparation, inconsistent interpretation of the methodology.
- Lack of cohesion in legislative regulations, frequent amendments to already issued legislation.
- The complexity and time consumption of closing financial statements.

The advantages may include in particular conclusiveness of accounting and financial management, more accurate overview of the entity's accounting operations, determining profit or loss at regular intervals and displaying the actual state of economic management and performance at the time. As negative and therefore disadvantageous may be considered performing a variety of accounting operations, increasing the volume of agenda, time demand factor; furthermore, ambiguity, frequent amendments to legislation and complexity. The reform puts considerable demands on software, IT equipment and security, and the quality of accounting programs. It is very burdensome regarding administration and in the meanwhile insufficiently prepared from the users' perspective, including a non-uniform interpretation of the various state administration subjects.

The central authorities, or more precisely, the Ministry of Finance of the Czech Republic, may have underestimated the importance of broad discussion and providing information to employees of selected entities about upcoming changes, as well as the preparation of methodological support. According to the authors, prior to the implementation of such large changes in practice, it is essential to prepare not only precise legislative actions, but mainly methodological support so that the selected entities, not just municipalities and allowance organizations which are used to accounting on a completely different basis, understood well all the changes and could fluently switch to a new accounting system. On the other hand, we can see a somewhat negative attitude to the new accounting system resulting from the general reluctance of the staff of public structures to any large-scale changes in thinking and ways of working, undoubtedly brought by such extensive accounting reform.

These results should be further continued with a next survey in the area of non-profit sector and therefore, an empirical analysis should address the users' perspective. The main group of users are e.g. the inhabitants of municipalities. For them, the web application monitor.statnipokladna.cz is already available as a very useful output of the Accounting reform in the Czech Republic.

Accounting in the Czech Republic is regulated by the state through the Ministry of Finance of the Czech Republic. Concerning the evaluation of the course hitherto of the accounting reform from the perspective of the Ministry of Finance staff, the reform benefits may be listed as follows:

- Modernization of public sector accounting,
- increasing the information potential of accounting for its user,
- the use of accounting information from the Central System of State Accounting Information for management and planning (a basic version of the portal for public use Monitor – <http://monitor.statnipokladna.cz> was launched on 1 May 2013),
- meeting the requirements of the EU,
- creation of conditions for the preparation of consolidated financial statements for the Czech Republic, the assumption for preparing consolidated financial statements for the Czech Republic and consolidation sub-groups in 2014 for first time,
- in the field of accounting, the most important changes include the introduction of depreciation. A high percentage of municipalities in the Czech Republic are struggling with debt and depreciation, therefore asset impairment could lead to a further reduction of the liquidity of municipalities.

A significant contribution of the ongoing reform in the Czech Republic is generally understood (especially by professionals among the legislative founders of the reform, auditors, and experts from practice) the use of the Central System of State Accounting Information, especially in the

monitoring, detection and control activities of the State for the purpose of financial control, the review of economic management of municipalities, and control activities of the Supreme Control Office. Major users of accounting information are the Czech Statistical Office, the Czech National Bank, the Ministry of Finance of the Czech Republic, and other control authorities. Another potential use of the Central System of State Accounting Information is linking budget (cash basis) and financial information (accrual principle), enhancing the planning system and monitoring its compliance, computerization of the process of approving the financial statements and connection to other information systems.

In most countries (as in the Czech Republic), the state budget as a key document in the public sector is compiled on a cash basis and financial statements are prepared on an accrual principle. The application of budgeting based on the accrual principle is not specified in legislative standards of each country very often, mainly due to concerns about its complexity and the possible risk of the breach of budgetary discipline. According to Wynne (2012) they are Spain, USA, Canada, Finland, and France.

During the current legislative process, the Czech Republic pursues maximum compliance with the Fourth and Seventh EU directive, so that the new national standards would accept the international rules of IFRS, IPSAS and the European System of Accounts (ESA 95) – European statistical system. ESA 95 is the standard for fiscal reporting for EU member countries. Eurostat defines the rules and reporting formats for ESA 95. The Maastricht Treaty fiscal criteria for EU members are defined in the ESA 95 methodology.

According to Kovanicová (2005) the task for the IASB is to develop rules and principles for the unique concerns of the public sector, such as non-exchange revenues (i.e. taxes, transfers, etc), relations between financial accounts and budgets, or social policies, obligations, and pensions in order to ensure convergence with the IFRS and the statistical basis, the United Nations and the European Union. Existing standards have been currently adopted or accepted on a worldwide basis by a number of international organizations including OECD, IFAC, the European Union and several nations. In order to be effective, the new standards must be completely understood and therefore, translated into the national language of the Czech Republic. The Czech translation of the 21 IPSAS was released in 2005. The Czech Republic is one of many countries fighting for additional transparency, accountability, and management efficiency.

IPSAS are based on IFRS, some IPSAS deal with exclusively public sector issues and hence have no equivalent IFRS. IPSAS apply to all public sector entities including national and regional governments and government agencies. They also apply to multinational public organisations, e.g.

the United Kingdom has adopted IPSAS for its own financial reporting. It is of course a decision of individual governments whether to adopt IPSAS for the public sector reporting within each country.

There were been published numerous studies dealing with the public sector and government sector accounting in various countries around the world; e.g. France, Argentina, the United Kingdom and New Zealand. Various studies have been also published on financial reporting of central governments, reporting the performance of public administration, transition to accrual accounting (Jorge de Jesus and Jorge, 2011, and Wynne, 2012).

Wynne (2012) identifies in his research those governments which have actually adopted the accrual basis of accounting for their central government ministries. He understands that the following governments are currently the only ones to have issued accrual based financial statements as the main financial statements for their central government ministries: Spain, New Zealand, Australia, USA, UK, Canada, Estonia, France, Colombia, Latvia, Romania, Switzerland, Denmark, Cayman Islands, Lithuania, and Barbados. Some of governments already apply full accrual accounting that is broadly consistent with IPSAS or IFRS.

The conclusions of the paper should be future compared with the situation in other EU countries or in worldwide. The study should identify the main differences in the implementation of accrual basis in accounting and budgeting at both the government and the municipal level in other countries. Another objective would be to find common features of the reform process of adopting the accrual basis and the trend in harmonization of accounting, financial and budget systems. There are many questions in this area; the future research would be focused on several sections: the similarities and differences between treasury information systems, identification of the most important accounting adjustments in individual countries and analysis of the resulting impacts on public finance.

CONCLUSION

Resulting from the above facts approaches to the public finance accounting reform by central authorities and municipalities are different. Now we can present a compilation of opinions of accounting experts, the Ministry of Finance employees and professionals among the users.

The benefits and advantages of the reform:

- A significant change in the concept of public finance accounting.
- Introducing the non-profit sector accounting systems with the business environment in greater detail.

- Development of working with data and presentation layer.

Disadvantages, thus subject to modification and completion of the reform.

- Legal perfection, completion of all legislative regulations – Czech accounting standards and regulations.
- Comprehensibility of individual stages of the reform for the general public.
- Abridgement and administrative simplification.

In conclusion, it is possible to say that the accounting reform had been needed for many years because public sector accounting regulations were incomplete and non-uniform. However, the question remains whether the reform, planned by the government for many years, was conducted efficiently and correctly. According to the research performed, the ongoing reform has not provided the intended transparency of accounting in selected entities and these tend to have an impression of their efforts being wasted by doing unnecessary work. We can also discuss the argument on adjusting the accounting in selected entities to the accounting in business entities in order to prepare comparative financial statements. The difference arises from the basic principle of profitability or non-profitability and understanding revenues as funding sources.

It is important to realize that the public finance accounting reform does not involve a change in accounting procedures only, but a change in the overall philosophy of accounting and reporting, as well as an understanding of information that accounting provides. In this case, changing the philosophy of thinking does not concern only accounting, which now becomes very important, but also the overall approach to public administration functioning that is undergoing an extensive transformation process. Nowadays, accounting in general serves as a great source of information on economic management and continues to grow in importance. It is therefore absolutely necessary that accountants' knowledge and understanding is not limited to the field of accounting only, but it should also include the area of financial management, financial control, financial law, etc.

The Czech Republic, as an EU member state, has the obligation to use the fourth and the seventh European Union directives (as amended) and when setting the national GAAP. Every EU Member States are obliged to prepare accounts in compliance with ESA 95 requirements and achieve convergence with the EU requirements for budgetary discipline. Since 2010, the Czech Republic has joined several of the countries that are currently undergoing a major reform of public sector accounting.

SUMMARY

Currently, many countries around the world have been experiencing reform processes in public sector accounting. The process of harmonization with the International Public Sector Accounting Standards (IPSAS) takes place as well as attempts to unify financial reporting. The IFAC has published numerous studies dealing with public sector and government sector accounting in various countries around the world, for example, France, Argentina, the United Kingdom and New Zealand. A similar situation is currently being addressed in the Czech Republic. The reform aims to create an environment suitable for the application of new legal regulations for the preparation of financial statements by public sector entities, including regulations related to reporting and accounting consolidation in the Czech Republic.

The objective of the paper is to describe the transformation process from state accounting to accrual principle accounting in the Czech Republic and to identify the main problems associated with the introduction of accrual principle. Nowadays, most countries use the accrual principle in various stages of development to ensure the reliability and accuracy of output data. The trend lies in the change from the cash to the accrual principle in public sector organizations.

The paper identifies some main issues that occur during the implementation of accrual basis in accounting at the municipal level in the Czech Republic and summarizes key findings from the questionnaire survey. The findings presented in the paper are derived mainly from research carried out among selected accounting entities and municipalities. The questionnaire focuses primarily on the preparers, who view the reform negatively, as it has caused increased workload for them. However, the reform was launched to improve the situation of users of financial statements. In conclusion, it is possible to say that the accounting reform had been needed for many years because public sector accounting regulations were incomplete and non-uniform. The Czech Republic has joined several of the countries that are currently undergoing a major reform of public sector accounting.

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