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A CENTURY OF ACCRUAL ACCOUNTING RULES: REFLECTIONS ON THE AMERICAN EXPERIMENT

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Governments in the United States have been required by various authorities to practice accrual accounting for over a century: since the beginning of the 20th century for local and state governments, and since the 1970s for the national government. Even allowing for American exceptionalism, this body of rich experience is worth examination, because in varying extents the American approach have been replicated, wittingly or not, in International Public Sector Accounting Standards (IPSAS) for world-wide application. I shall critically review the evolution of the concept and standards for accrual accounting in the United States, and identify the ambiguities and flaws that frustrated their implementation. I note that ironically the better the external requirements for accrual accounting, the more resistance they would likely encounter in practice. The sources of this resistance are identified and traced to the costs and benefits of accruals to governments and their stakeholders. A better understanding of this situation calls for a stakeholder theory of government to recognize and measure the long-term financial and economic consequences of the interactions between governments and other actors in the economy and society. I suggest that the sooner this political science theory replaces the economic theory of the firm as the foundation of government accounting, the better standard-setting bodies would be able to anticipate their constituents' reactions and take a stand on the degree of accrual to require of governments. For this to happen, the academic community needs to take a more independent stance in research and to teach theory-based principles in university courses. These views are informed by the insights I gained in multi-disciplinary and historical research and as a participant and observer of the standard-setting processes since the late 1970s. These personal adventures in ideas and engagements with the real world will therefore be briefly recounted for the audience.

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