Cash Basis Accounting Implementation: An Evidence from Indonesian Village Government

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Abstract. The study investigates the application of cash basis accounting within the accounting practices of Indonesian village governments. In many developing nations, including Indonesia, the revolution from traditional bookkeeping practices to IPSAS cash basis accounting system has been a challenging and significant one. The objective of this study is to provide empirical data concerning the implementation, consequences, and obstacles associated with cash basis accounting compared to transitioning to accrual accounting implementation in the distinctive administrative context of Indonesian villages. Interviews with village officials and constituents provide the qualitative data for this study, which compares the period prior to and after the implementation of cash basis accounting. The adoption of cash basis accounting has increased financial transparency and accountability in the context of Indonesian village governments, according to this study. Nevertheless, the transition has presented a multitude of obstacles, encompassing concerns pertaining to capacity-building, training, and acclimatization to the novel accounting system. The qualitative data offer valuable insights into the viewpoints of community members and village officials regarding the pragmatic developments and obstacles associated with this transition. This study enhances knowledge regarding accounting reforms in the public sector of developing nations and provides insights into the opportunities and challenges that arise from the implementation of cash basis accounting in the specific context of Indonesian villages. The results of this study may have significant implications for policymakers and stakeholders who are interested in improving financial management practices in the community.

Keywords: cash basis accounting, transparency, accountability, qualitative approach, accounting reform

1 Introduction

Since the 1980s, public management reform has extended globally to make government more business-like. This was called New Public Management (NPM). The NPM reform encompasses four key areas: finance, accounting, and budgeting; human resources management; public sector organization; and performance measurement tools [1-3]. The reform of Public Financial Management (PFM), later referred to as New Public Financial Management (NPFM), has mostly concentrated on enhancing financial and accounting systems. NPFM, which stands for Narrow Public Financial Management, is a component of the NPM framework that specifically focuses on the accounting and financial components, rather than the broader scope of institutional transformation [4];[5]. [6] identified five distinct components of NPFM related to financial

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management. 1) Creating market-based management systems; 2) Establishing planning systems; 3) Implementing performance management systems in government agencies; 4) Overhauling the government's financial reporting system; and 5) Revamping the public sector's self-auditing process. Public financial management reform initiatives highlight the significance of promoting cultures of learning and adaptation to ensure continuous advancement. Regional institutions and professional associations are essential for enhancing public finance management practices. External technical assistance and advisory support have been vital in advancing Public Financial Management (PFM) reform processes, emphasizing the significance of clear objectives and unbiased evaluation of reform activities [7].

Current studies on accounting reform have concentrated on the adoption of accrual accounting as a substitute for the cash accounting system. Governments can enhance fiscal openness, accountability, and performance by implementing accounting reforms that are purportedly grounded in optimal methodologies. An instance of such reforms is the implementation of the International Public Sector Accounting Standards (IPSAS) [8]. According to [9], the notion is that accrual accounting improves accountability in the public sector and assists users by providing decision-making information. This implementation is predicated on the anticipation that these accrual methodologies will augment accountability and transparency in the distribution of resources and the provision of services. The use of accounting has transformed into a significant tool via which big businesses spread their neoliberal ideals and specialised knowledge, while also ensuring profitable job opportunities for their consultants in developing nations. Accounting has transformed into an essential function for these firms indicate that international organisations have widely spread accounting methods, such as participatory budgeting, accrual accounting, and the Cash Basis IPSAS, to developing countries [10];[11].

Nevertheless, empirical research has demonstrated that the application of accrual accounting in the public sector encounters certain challenges, such as concerns related to the definition and value of assets, as well as the matching concept [11]. In some nations, like the Netherlands, Italia, Spain, and others, the adoption of accrual accounting is frequently declined due to the belief that the goals of accountability and openness can still be accomplished through the deployment of cash basis accounting [12]. Evidence on Germany show that accrual accounting and cash accounting are used together as a result of a potential problem from the implementation of accrual accounting [13]. Furthermore, the implementation of accrual accounting technique, as mandated by international donors, presents obstacles to accounting reform in Nepal and Bangladesh. Consequently, the advancements in accrual accounting were abolished and replaced with cash accounting, which is based on IPSAS [14];[15]. Utilizing management accounting concepts in government contexts is challenging because of the distinctive characteristics of the public sector. To succeed, one must have a comprehensive grasp of the background and mechanisms unique to government operations [16];[17].

Accrual accounting was also implemented in Indonesian government particularly in central and local government (province, city/district) level. Nevertheless, this implementation has resulted in inefficiency and has failed to accomplish the objective of NPM reform, which includes enhancing governance and curbing corruption.

Additionally, there is a shortage of proficient accounting and audit professionals in Indonesia, particularly at the local government level [6];[18].

In the village government level, the implementation of IPSAS cash basis accounting since 2018 started since the enactment of Ministry of Home Affairs Regulation number 20 Year 2018. Some countries such as Bangladesh, Nepal, Spanish, Italia also implemented cash accounting for several purposes such as simple implementation and better calculation of activity costs [14];[19].

This study is case-based research aimed at answering the question of why the village government in Indonesia adopted the cash basis accounting system. What are the consequences, challenges, and obstacles linked to cash basis accounting in the governmental setting of Indonesian villages? Indonesia is unique as in the level of government in recent time, there is a formal government system in the village level which rarely found in the other countries around the globe. Thus, this study is providing contribution to the financial management research for the implementation of accounting model in the village level as there is limited information for accounting bases implementation in village level in the other country.

IPSASs, in particular the Cash Basis IPSAS issued by the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC), have emerged as an alternative reform strategy developing countries. There are assertions that the adoption of Cash Basis IPSAS has spread to numerous, purportedly enhancing the quality of their financial reporting. The dissemination and implementation of Cash Basis IPSAS in village Government, considered a frontrunner in adopting this standard. However, the studies have raised concerns about the practicality of cash-basis IPSAS in village government contexts. Certain provisions of Cash Basis IPSAS have proven impractical, a fact acknowledged by international federation of accountant (IFAC) itself. The village government experience illustrates that while there is rhetoric surrounding the adoption and implementation of the standard, the reality in many sectors falls short. Consequently, the implementation of Cash Basis IPSAS in village government is characterized by uncertainty, with a diffusion trajectory that lacks clarity.

This study seeks to examine the evolution and dissemination of Cash Basis IPSAS concepts within the village government, along with the practical challenges encountered. The widespread use of similar modernization discourses to advocate for such reform agendas globally, coupled with notable implementation difficulties, has turned public sector accounting into a rich area of study for researchers in recent times [20]. There have been calls to expand research in public sector accounting to gain deeper insights into these challenges and to better understand how reforms are being executed across different nations. Indeed, research on the adoption of IPSASs has become increasingly pertinent, especially as the IPSASB is developing a distinct conceptual framework for public sector accounting.

The paper explains various aspects of the adoption and implementation of the cash-basis IPSAS within the village government. Specifically, this research aims to investigate the internal and external factors driving the adoption of IPSAS, the level of awareness of Cash Basis IPSAS among government accountants, and the processes involved in decision-making, implementation, and confirmation of the IPSAS.

This examines reforms in public sector accounting, specifically focusing on the adoption and implementation of the Cash Basis IPSAS within the village government of Indonesia. Over the past three decades, the emergence of New Public Management (NPM) reforms has led to a notable increase in research on public sector accounting. Such studies have revealed the endeavours of various Western nations to transition their accounting practices from cash-based to various forms of accrual accounting [21], sparking a global debate both in favor of and against the adoption of business-style accrual accounting in non-profit-driven public sector entities. Recent studies suggest that Western countries are increasingly recognizing the importance of accrual accounting, whether as a means of showcasing governments' long-term sustainability or of managing the repercussions of fiscal and sovereign debt crises [22]. The focus of the debate has shifted towards the significance of cash budgeting and the adoption of IPSAS to complement the effective implementation of cash accounting and achieve the associated benefits, including enhanced governance and accountability in the village government [23].

2 Literature Review

2.1 Implementation of Accounting Basis Across Different Countries

[24] cautioned that there is no universally applicable accounting system for all enterprises. The system will undergo ongoing modifications and adjustments in response to several circumstances, including the organizational environment, technology, political policy, and structure. These reasons hinder the implementation of a new accounting system in certain nations. [25] multiple research that demonstrate the challenges encountered by states and governments when attempting to apply the technical parts of accounting accumulation.

The cash basis and accrual basis are two endpoints of a spectrum of accounting and budgeting bases that can be applied. The concept of cash basis accounting was originally used in many countries for public sector activities using traditional methods. In the early 1990s, the world saw the emergence of the first-ever accrual-based financial and budgetary reports, which originated in New Zealand. Over the course of the next decade, there was a significant shift in the use of accounting bases from cash basis to accrual basis in OECD member countries. However, there are still variations in the degree of accrual among these countries. The utilization of accrual basis has become one of the distinguishing features of current financial management practices [6].

The use of accrual basis is not just limited to financial reporting, but also extends to budgeting in several countries such as New Zealand, Australia, and England. Within OECD member countries, the accrual approach has been predominantly adopted for financial reporting rather than budgeting purposes. There are two common reasons that are often mentioned about this. First, the use of appropriation accurately is believed to pose risks in budgetary discipline. The political decision to allocate funds must be linked to when the expenditure is reported in the budget. Only cash reserves can fulfil that requirement. The second reason is that legislators tend to be resistant to adopting accrual accounting due to the complexity of the accrual concept itself [18].

The implementation of an accrual basis for financial reporting could have been done in conjunction with cash-based budgets or other methods. Nevertheless, several governments employing the dual system encounter difficulties in the form of opposition to adopting accrual-based accounting. Furthermore, a dual system necessitates a thorough process of reconciliation between the two systems. The efficacy of accrual accounting is contingent, in part, upon the incentives provided to managers. If managers are still required to oversee cash-based budgets, their attention, as well as that of legislators, will remain on cash resources, such as the expenses associated with new accrual information. The purpose is to guarantee the accuracy and reliability of the financial information obtained through accrual accounting [14].

The application of accrual-based accounting is estimated to result in more comprehensive and accurate financial statements. This implementation yields a more precise representation of financial data and has become a hallmark of contemporary financial management methodologies. Thus, the transparency of financial stating is increasing and, ultimately, the quality of financial reporting and public finance management is improving. Conversely, the cash basis may be better suited for small businesses that wish to directly monitor cash inflows and outflows, without concerning themselves with debtors or loans [14];[26].

Although there are more governments implemented accrual basis, The International Public Sector Accounting Standards (IPSAS) is still proposing the implementation of cash basis accounting. The IPSAS chairs mentioned the reason that Strong financial reporting based on cash can serve as a crucial basis for enhancing public sector financial management more broadly. The changes clarify that the IPSASB considers the Cash Basis IPSAS as a crucial intermediate step towards achieving full accrual accounting, rather than a final goal [27].

The European Union, the Council of Europe, NATO, the Organization of Economic Cooperation and Development (OECD), the World Bank, and the United Nations (UN) are just a few examples of the numerous nations and international organizations that have already adopted or are in the process of adopting IPSAS on a global scale. Given that IPSAS is the Anglo-American Model of Public Sector Accounting's international adaptation, it is assumed de facto that the United States (US), Australia, Canada, New Zealand, and the United Kingdom (UK) have embraced IPSAS. Regardless of differences, these nations adhere to the standards and use accrual accounting [27]. The implementation of IPSAS in developing nations is associated with such nations' efforts to implement accounting in the development of use. The majority of South Asian nations used standards to attain accounting independence, according to a study by [28]. These nations tend to adapt rather than fully accept the standards, which is what the researchers support. The table below provides a general overview of IPSAS accession status in several developing nations in South and Central America, Africa, and Asia.

2.2 Effective Implementation of Cash Accounting

Effectiveness is the extent to which goals are met and issues are fixed. Effectiveness in the accounting industry refers to how professional, trustworthy, clear, and compliant financial reporting is [29]. This means that the degree to which financial statement qualitative qualities like reliability, dependability, understandability, and transparency serve as a gauge for how well cash accounting is being applied. The decision-usefulness idea, which argues that financial statements are valuable if they give involved parties information to speed up decision-making and show accountability, explains the quality characteristics. Therefore, it must be relevant for the financial system to fulfill its accountability requirements and be helpful.

There are four ways in which cash accounting is implemented: administratively, symbolically, empirically, and politically. Aggregate accounting is implemented administratively under circumstances with little room for neglect or uncontrollability, where management is the primary implementation method. Conversely, the empirical approach allows important actors to experiment with cash accounting implementation in an environment where new policies exist.

2.3 Indonesian Government Accounting Implementation

The colonial regime introduced conventional accounting to Indonesia long before the Republic of Indonesia was born [6]. At that time, the Indonesian people imitated the foreign countries' practice of recording transactions such as profits and losses.

In 2003, the Indonesian central and local government began acknowledging government accounts, marking a significant development in the nation's 69-year history. In the past, government budgetary responsibility was constrained to the reporting of the State Budget Calculation, which alone offered details on the state's revenue and expenses. The enactment of Law No. 17 of 2003 on State Finance marks the beginning of a new era. This law mandates the President to present a financial report, audited by the Financial Supervisory Authority, to the House of Representatives within 6 months of the end of the budget year. This report serves as a Bill of accountability for the implementation of Government Budget. The financial statements must include, at a minimum, the Central Government Revenue Report, the Balance Sheet, the Cash Flow Report, and the Financial Statements Report appended to the financial reports of state-owned firms and other entities. The Government Accounting Standards (SAPs) were initially approved in 2005. Despite the limitations, this was a significant milestone in Indonesia's endeavour to align itself with advanced nations who have implemented the concept of good governance in their governments by providing financial reports. The Treasury Department is continuously changing and modernizing the way it presents financial statements [30].

The most prominent shift is the transition of the central and local government accounting method from Cash Basis to Full Accrual Basis, which reenforced by 2015. Indonesia has implemented best practices in the international accounting standards, leading to an increase in worldwide confidence in good governance in the country. In addition, the Treasury Department has expanded the range of financial reporting to include local government as part of its modernization efforts [6].

Rural accounting is a component of the public sector accounting system that facilitates the management and utilisation of financial resources by village institutions. The reform has been driven by the adoption of government accounting standards, which promote increased transparency and accountability in government financial management [31]. The village accounting system in Indonesia continues to use the cash basis accounting system, despite the widespread adoption of accrual accounting in central and local government levels, as mandated by Article 30 of The Indonesian Ministry of Home Affairs (MoHA) Decree Number 20 Year 2018 on Village Financial Management. The journey of financial management reform in villages includes public sector accounting, with the use of more applicable, efficient and effective accounting methods. The rationale for this approach is detailed in the Discussion section.

2.4 Accounting Standard Development in Indonesian Local Government

Indonesia began to reform the its public sector following the Asian crisis of 1998 and the downfall of the Suharto regime [31];[32]. The International Monetary Fund (IMF) insisted on implementing good governance practices and governmental accounting reforms [33]. This IMF directive proved instrumental in promoting government and regional autonomy, strengthening the newly established audit board, combating corruption, and adopting performance-based budgeting. Consequently, local governments underwent decentralization, leading to enhanced financial reporting. The Indonesian government has sustained financial management reforms through policy and legislative enhancements, upgrading financial system infrastructure, workforce development, and governance structure improvements.

Beginning in late 2017, government accounting gained prominence and acquired a legal foundation through Law No. 17/2017. This legislation, titled "Law No.17/2017 on State Finance," became a crucial framework for advancing government accounting practices in Indonesia. Preceding this law were Law No. 1/2004 on State Treasury and Law No. 15/2004 on Management and Responsibility Audits of State Finance. Together, these three laws underscore the growing demand for robust government accounting mechanisms. The enactment of Law No. 17/2017 aimed to establish accrual-based government accounting standards, replacing the cash-based standards outlined in Government Regulation No. 24/2005, as detailed in Government Regulation No. 71/2010.

Following Indonesia's independence in 1945, financial administration commenced. Initially, financial management mirrored the system established by the Dutch colonial government, specifically the Indische Comptabiliteitswet Stbl 448, 1925, which governed governmental financial management and accountability. This framework dictated financial management practices based on a cash basis. As per these regulations, local governments do not engage in the budgeting process themselves. Instead, this process is overseen by the central government, thereby requiring local governments to execute government activities based on the centrally prepared budget. Similarly, in the accountability process, local governments are not obliged to compile financial statements; rather, they are only required to furnish reports detailing the utilization of the budget to the central government.

In 2003, significant changes were introduced to the regulations governing the management of state finances in Indonesia. During this period, the Indonesian government underwent extensive reforms across various sectors, including governmental financial management, often referred to as the post-reform era following the events of 1998. The government enacted several laws, namely Law Number 17 of 2003 concerning National Finance, Law Number 1 of 2004 concerning National Treasury, and Law Number 15 of 2004 concerning National Financial Inspection, Management, and Responsibilities. These reforms initiated in 2003 led to the establishment of a governmental accounting standard committee tasked with formulating accounting standards to be applied by the government, particularly at the local level.

These three laws govern financial governance and accountability in Indonesia's financial management. Detailed regulations on financial governance are provided through Governmental Accounting Standards specified in Government Regulation No.

24 of 2005. According to this standard, income, expenditure, and financing are recognized on a cash basis, while assets, liabilities, and equity are recognized on an accrual basis. This transition from cash to accrual basis is a notable aspect of these standards. The standard was enacted in the fiscal year 2005 and is implemented on a temporary basis, as indicated in Act number 17 of 2003. Its implementation remains valid for a period of five years from its enactment.

According to [34], under the traditional accounting system, economic transactions impact the recorded cash amount and economic activities. In this system, agreements that lead to an increase in cash are recorded as cash inflows, while those resulting in a decrease in cash are noted as expenditures. Basic accounting principles, are fundamental for determining and reporting agreements in financial statements. Cash-based accounting, being a simplistic method, offers limited information on assets and liabilities, rendering it inefficient. The transition from cash-basis to accrual-basis accounting signifies Indonesia's progression toward a comprehensive accrual system. In this system, income, expenses, and financing in the Budget realization report are recognized using the cash basis, while the accrual system is employed to identify liabilities, assets, and equity in balance sheets, as stated by [31].

[35], [36], as well as [37] have observed that cash basis accounting has long been the predominant accounting system in the public sector of many countries. The primary distinction between accrual and cash basis accounting lies in the timing of revenue and expense recognition. The cash method is predominantly utilized by small businesses and for personal finances. Under the cash method, revenue is recorded only upon receipt of cash, and expenses are recognized solely upon payment. This accounting approach differs from the accrual basis, where revenue is recognized when earned and expenses are matched to the corresponding revenue or accounting period in which they are incurred, irrespective of payment timing. While individuals and small companies commonly employ the cash basis, it does not adhere to accounting's matching principle. The accounting approach where revenues are recorded on the income statement when they are earned, regardless of when cash is received, is known as accrual accounting. This method also impacts the balance sheet at the time of revenue recognition. If services are provided or a sale is made for cash, it results in an increase in the cash account. Conversely, if services are provided on credit, it leads to an increase in the accounts receivable account. Additionally, if services are performed after the customer has paid in advance, there is a decrease in unearned revenue on the balance sheet.

[38] mentioned that the cash method of accounting is straightforward, as it involves maintaining the business's financial records based on the actual cash inflows and outflows. Revenue is recognized upon receipt, while expenses are recorded when payments are made. This method is commonly employed by sole proprietors and businesses with no inventory. From a tax perspective, using the cash method can offer advantages for new businesses. It allows for deferring income recording to the following tax year, while expenses are immediately accounted for. Additionally, [39] also argue that the cash method may remain suitable for small businesses with cash-based operations or those primarily offering services. The cash basis of accounting is widely utilized in the public sector, despite its limitations and drawbacks, which impact financial transactions such as budget implementation and the management of public funds. These issues arise because the cash basis does not endeavour to align expenses with the revenue they generate. Consequently, the income statement and balance sheet

do not accurately reflect current business conditions, and expenses attributed to specific revenue may not have been incurred to generate that revenue. This discrepancy contributes to poor budget implementation, highlighting the importance of examining the correlation between public sector budgeting and the cash basis of accounting.

3 Method

This study utilized a case study approach to investigate the implementation of cash basis in the Indonesian village government. Case studies involve examining human or organizational circumstances using data obtained from documents, archival records, interviews, direct or participant observations, and physical artifacts under certain conditions [40]. The collection of data used in this study are sourced from available literature, documentary evaluations, observations and interviews with stakeholders (Ministry of Home Affairs, District, and Village government).

4 Discussions

The examination of the interviews, documents, regulations, and notes from the formulation of MoHA Decree number 20-year 2018 discloses the discussion in several sections.

4.1 The History of Village Financial Management

Villages were developed throughout Indonesia from Sumatera to Papua under the reign of many kingdoms before the independence of the Indonesian Republic in 1945. The village was known by different local terms such as "desa, hutan, gampong, nagari, kampung, or tiuh". It originated as a small self-governing community or tribe acknowledged by the former local kingdom. During the Dutch colonial and Japanese occupation in Indonesia, several regulations were enforced to govern communities and their management, considering their local wisdom, tribal cultures, and origins [1].

In the early local autonomy era (2000), The village regulation was amended by the enactment of Government Regulation No. 76/2001 on 'General direction for Village Government' and followed by MoHA Decree No. 47/2002 on the direction of village administration. The village management was mandated by a MoHA decree to use a traditional administration system including the traditional bookkeeping model, despite the local government implementing a new financial management system.

In the 2005, The village's financial management was changed by the implementation of Government Regulation No. 72/2005 on 'Village' (PP No 72/2005 tentang Desa), which offered detailed explanations for the village and its management system. The GR establishes that villages or local communities mentioned earlier are defined as a "law-based community with specific territorial rights to govern based on local culture and heritage, recognized and respected by the Indonesian government." This Government Regulation also specified the distribution of funds, including the Village Fund Allocation (Alokasi Dana Desa [ADD]) from the district/city, as well as other funding from the Central Government and province for financing village government financial management.

The Ministry of Home Affairs implemented Regulation 37/2007, titled 'Guidance of Village Financial Management', to manage the increased money sent to the village. This legislation is derived from the financial management system utilized by local governments (provinces and districts/cities) and has been successfully enforced previously. The GR 72/2005 and MoHA Decree 37/2007 on Village Financial Management were significant advancements in village management, moving from the old administrative system to a more recent financial management approach. The new financial management system incorporated concepts like transparency, accountability, participatory principles, and budget discipline.

In 2014, the central government allocated additional funds to villages following the implementation of Law 6 of 2014 on Villages, which requires village governments to handle their finances using modern financial systems. The MoHA enacted the MoHA Decree Number 113 in 2014 regarding the Guidance of Village Financial Management, in accordance with this law. The order encountered challenges such as inconsistent accounting principles and complicated financial administration. To address these challenges, the MoHA established new decree namely MoHA Decree Number 20 Year 2018. This MoHA stated the village accounting basis is cash basis and promotes the financial management process in the villages using the computerised system namely SISKEUDES (Village Financial System).

4.2 The Indonesian Village Cash Basis Accounting System Implementation

Village Finance Management is a crucial series of procedures that must be conducted transparently, accountably, and participatorily, with ordered budget discipline. MOHA Decree number 20-year 2018, in relation to the IPSAS Cash Base method, does not mandate the Village Government to create a balance sheet as part of the Financial Report. The village financial report includes simply the semester and annual Budget Realization together with the Notes of Financial Statement. However, The Village government still needs to construct the assets statements, and liabilities (particularly short-term obligations like tax debts) are documented as part of the Notes on Financial Statements element.

An objection has been raised regarding the initial drafting of MOHA Decree number 20-year 2018 by the Supreme Auditor. The MOHA Decree number 20 of 2018 is still not in compliance with the IPSAS principles. The cash-based financial report includes a cash receipt report, a cash-expenditure report, and financial statements showing records of assets, debt, revenue, and expenditure. The matter has been resolved in the final version of this decree.

The MoHA team members argue that village governments do not create balance sheets because determining the value of village assets is a major challenge for government entities, as it serves as the foundation for calculating the village balance. The Village Law defines village assets as land, village forest, village market, village water source, fish auction, springs public bathing spot, and other assets owned by the village. Calculating the value of village water sources, village forests, and springs village bathing spots is challenging since these assets are not classified as government assets in the central and local government accounting standards. Thus, the village assets listing does not necessitate the inclusion of fair value. However, it is crucial to provide detailed information regarding the status of the village's wealth, as outlined in the Asset

Inventory List under MoHA Decree number 1 Year 2016 on Village Asset Management.

Challenges in implementing accrual accounting in village government include the complex process of assessing village assets through physical inventory and determining fair property values, which requires substantial funding even without appraisal services. Additionally, the village finance manager has limited capacity. Each village varies in geographical difficulties from mild to severe. Over 10,000 Village offices are unavailable, with more than 8,000 being severely damaged.

4.3 Problems and Challenges for Village Government Cash Basis Implementation

Issues persist in the application of cash basis accounting as outlined below:

- Indonesia's 74 thousand villages, each with diverse backgrounds in terms of ethnicities, cultures, islands, and accessibilities, cannot be effectively managed using a single accounting standard, whether it is based on cash or accrual. Some villages lack the energy and technology required to establish financial accounts using current accounting techniques.
- Sustainable capacity-building and training are needed for Village staff with diverse backgrounds and education.
- There was debate and discussion among village activists and the government about the benefit of cash basis implementation should be eased with more basic reports or made more complex by utilizing a modified accrual basis.
- Some villages do not adhere to regulations requiring them to report financial statements due to a lack of fundamental understanding and absence of features in the village financial management software.

These problems and challenges persist and require attention from both the central and local government

5 CONCLUSIONS

This case study aims to examine the reasons behind the Indonesian Village government's decision to shift to the cash basis accounting technique. This study uncovers the impacts, challenges, and concerns associated with utilizing cash-based accounts in Indonesian village administration. The adoption of cash basis accounting in the village is determined by the readiness of the local authority in Indonesia. Transitioning from the conventional financial management model to the accrual accounting model in the village will be challenging, notwithstanding the persistence of some problems and challenges during the implementation process. The adoption of cash accounting involves a smooth transition influenced by aspects like asset characteristics, village background, location, preparedness, human resources, technology, and energy.

This study proposed that the adoption of accounting methods should be based on the readiness of each village. Villages prepared to use accrual accounting should receive government support, while those still using cash basis should adhere to the minimum accounting standards for villages allowing cash basis accounting.

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