

## Abstract

The Sri Lankan government is considering the adoption of accrual-based accounting with the objective of introducing internationally accepted best financial practices. The government now operates on a cash basis/modified cash basis accounting system while the accrual accounting has become the accepted norm for accounting across the world.

The research objectives are to identify the appropriateness of the accrual system, understanding on SLAPS and accrual principles, identify suggestions for changes and finally, identify the factors affecting the implementation of accrual accounting in the public sector of Sri Lanka. The Roger's Diffusion Theory (1962) of Innovation has been used as the theoretical framework and semi-structured interview questionnaire is developed based on the same theory.

The general qualitative method has been used for the study. The population represents the government accountants, academics & professionals. The judgmental sampling method was used in selecting the sample. The sample included 20 accountants. The data collected through semi structured questionnaire was analyzed manually.

The findings of the study include supportive factors such as awareness on the existing system, lower accountability, wiliness to shift, better performance measures, system benefits, circular issued to all entities and mandatory of adoption. The impeding factors are negative attitudes, lack of influence, absence of monitoring task force, lack of top management support, lack of communication, system complications, poor quality of output, lack of leaderships, and the absence of an Act of Parliament.

The conclusion is that the government should adopt the accrual accounting system while taking clear policy decision and formulating the implementation strategies with the advice of a steering committee. The fiscal management and budgeting should also be changed to be in line with accrual accounting. The experience of countries where accrual accounting is adopted should also take into consideration.

- **Keywords:** Accrual Accounting, Cash Basis Accounting, Government Accounting Reforms, Diffusion Theory