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COMPARISON OF THE FINANCIAL PERFORMANCE OF COMPANIES USING CONVENTIONAL ACCOUNTING METHODS AND ACCRUAL-BASED ACCOUNTING

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Abstract

This research is a systematic literature review aimed at comparing the financial performance of companies based on the use of conventional accounting methods (cash basis) and accrual-based accounting. The fundamental difference between the two methods lies in the timing of transaction recognition, which directly impacts the presentation of financial statements and performance indicators such as Return on Assets (ROA), Return on Equity (ROE), profit margins, and solvency. The synthesis of various studies shows that the accrual method provides more complete, relevant financial information and reflects the economic reality of the company more accurately compared to the conventional method. Additionally, accrual-based accounting has been proven to enhance transparency, accountability, and managerial efficiency, especially in the public sector and large-scale companies. However, the effectiveness of its implementation is greatly influenced by technical readiness, institutional capacity, and policy support. This study recommends that the selection of accounting methods be adjusted to the information needs of report users, the complexity of the organization, and the objectives of financial reporting. Thus, this research is expected to serve as a basis for consideration in the reform of financial reporting systems across various sectors.

Keywords: Company Financial Performance, Conventional Accounting, Accrual Accounting

INTRODUCTION

Financial reporting is one of the important elements in the economic decision-making process. The information presented in financial statements serves as a basis for various parties, such as managers, investors, creditors, and regulators. The accuracy and reliability of financial statements greatly determine the quality of the decisions made. Without good financial statements, the decisions made can be speculative and unfounded (Tunisa et al., 2024). Therefore, the accounting system used to prepare financial statements needs to receive serious attention.

In practice, there are various accounting methods used by companies in preparing financial statements. Two main approaches that are widely known are the conventional accounting method (cash-based) and the accrual method. The conventional method generally records transactions only when cash is received or paid (Dwicahyani & Nugroho, 2024). Meanwhile, the accrual method records transactions when rights and obligations arise, regardless of when cash is received or paid. This fundamental difference greatly affects the portrayal of the company's financial condition.

The increasingly complex development of the business world drives the need for accounting methods that more accurately reflect the actual economic conditions. The accrual method is then seen as more capable of depicting the overall performance and financial position of the company (Rival et al., 2022). This has encouraged many countries and companies to switch from the cash method to the accrual method, especially in public sector financial reporting. This transition process is not only occurring in developing countries but also in developed countries that want to enhance transparency and accountability. However, the implementation of the accrual method also has its own challenges.

Common issues that arise in financial reporting include lack of accuracy, low transparency, and limited relevance of information. The use of the cash method often does not reflect liabilities and assets that have not yet been realized in cash (Wiraguna et al., 2023). This makes financial statements tend to be uninformative for parties who need long-term projections and analysis. On the other hand, the accrual method has the potential to provide more comprehensive information, although it requires a more complex recording system. The accuracy in choosing the method is very important so that the reports prepared have high utility value.

Transparency in financial reporting is becoming an increasingly strong demand from various stakeholders. Accrual-based accounting is considered to enhance transparency because it records all rights and obligations, including those not yet involving cash flows. This allows report users to see a complete picture of the company's financial condition (Butar-Butar & Indrianto, 2024). However, not all entities are ready or able to fully adopt the accrual method.

System readiness, human resources, and regulations are determining factors for the success of its implementation.

In the public sector, the adoption of accrual-based accounting has become part of the government's financial reform. The main objective is to enhance accountability and efficiency in the management of state finances. Several countries have reported positive results after switching to the accrual method, such as increased public trust and budget efficiency. However, this transition requires strong political and institutional support. Evaluation of the impact of this transition becomes important to determine its real effectiveness (Sima, 2024).

Private companies also face a dilemma in choosing the most suitable accounting method. Some companies still maintain conventional methods due to reasons of simplicity and cost efficiency. However, in the era of globalization and information openness, the demand for reliable financial reporting is increasing. Investors and creditors prefer accrual financial statements because they provide better prospective information (Choiriah & Lysandra, 2023). Therefore, the study on the impact of accounting methods on financial performance becomes very relevant.

A comparative study between conventional and accrual methods is necessary to provide an objective picture of the advantages and disadvantages of each. With a literature review approach, various research findings can be systematically examined to identify trends and general conclusions. The results of this study can provide input for policymakers, financial managers, and academics. Research of this kind also helps answer questions about the effectiveness of accounting methods in improving performance and accountability. Thus, this research makes a significant contribution to the development of accounting science and practice.

RESEARCH METHOD

This research is a systematic literature review aimed at analyzing and comparing the financial performance of companies based on the accounting methods used, namely the conventional method and the accrual-based method. This approach was chosen because it allows researchers to comprehensively and systematically review various previous research findings. A systematic literature review is conducted by following clear and documented steps, such as identification, selection, evaluation, and synthesis of relevant literature. This method is very suitable for summarizing existing empirical evidence, as well as identifying research gaps. Thus, the results obtained can serve as a strong foundation for drawing scientific conclusions and providing recommendations.

The data sources in this study include scientific journals, academic books, articles published in proceedings, as well as relevant financial reports, published within the last 10 to 20 years. The literature was selected based on inclusion criteria such as topic relevance, methodological quality, and the availability of information regarding accounting methods and financial performance. The analysis technique used is thematic synthesis, which involves grouping findings based on specific themes that emerge from previous studies. This process is supported by data coding techniques, where information is classified based on financial performance indicators (such as ROA, ROE, NPM) and the types of accounting methods used in each study. The results of this analysis will be used to compare the impact of both accounting methods on the company's financial performance systematically and objectively (Earley, M.A.2014; Snyder, H.2019).

RESULT AND DISCUSSION

Conceptual and Practical Differences between Conventional and Accrual Accounting

Conventional accounting generally refers to the cash basis method, which records financial transactions only when cash inflows or outflows occur. In contrast, the accrual method records revenues and expenses when rights and obligations arise, even if no cash transaction has taken place. This difference causes the financial statements produced by each method to present very different information. In cash basis, revenue is considered to occur only when cash is received, and expenses are recognized when cash is disbursed (Zhang, 2024). In contrast, in accrual basis, revenue and expenses are recorded based on the period in which the economic activity occurs. Therefore, the accrual method better reflects the matching and realization principles in accounting. This fundamental difference serves as the starting point for variations in the quality of financial reporting.

Practically, the cash basis method is simpler and easier to implement, especially for small businesses or organizations that do not yet have a complex accounting system. Recording that relies solely on cash transactions reduces the need for accounting estimates or adjustments. However, this simplicity often leads to limitations in presenting information that reflects the actual economic condition of the company. For example, unpaid debts or uncollected receivables will not be reflected in the financial statements (Tiron-

Tudor, 2022). This can mislead report users, especially in long-term decision-making. Meanwhile, the accrual method, although more complex, allows financial statements to present a more realistic picture. The information obtained is more relevant for the analysis of profitability, liquidity, and solvency.

In terms of reflecting economic reality, accrual-based accounting excels because it can comprehensively depict assets, liabilities, revenues, and expenses. For example, revenue that has been earned but not yet received in cash is still recorded, thus providing information about potential future cash. Expenses that still need to be paid are also recorded, showing the company's commitment to third parties. This makes accrual-based financial statements more informative and relevant, especially for the needs of investors and creditors (Ball et al., 2024). This method also supports higher transparency because all economic transactions, not just cash, are recorded. On the other hand, the cash basis often does not show a complete financial position because it only reflects cash that has changed hands. This can obscure the true picture of the company's ability to meet its obligations.

Academic literature shows that each method has its advantages and disadvantages depending on the context of use. Some studies mention that the accrual method provides a more accurate picture of performance, especially in the private sector and complex entities. However, on the other hand, this method requires more sophisticated recording and reporting systems as well as adequate human resource skills. In small organizations or areas with limited capacity, cash basis is considered more efficient and minimizes technical errors (Shirley, 2022). A study by Christiaens et al. (2010) shows that the success of accrual adoption highly depends on institutional readiness. Meanwhile, the OECD report indicates that many countries adopt a mixed approach as a middle ground. This approach attempts to combine the ease of cash basis with the accuracy of accrual basis.

This difference also affects how financial reports are used by stakeholders. In cash basis, the information is more suitable for cash monitoring and short-term liquidity management. However, in the context of public accountability or long-term performance assessment, accrual basis becomes superior. Investors, financial analysts, and creditors tend to trust accrual-based reports more because they are able to reveal performance trends and financial positions more comprehensively (Ferrara et al., 2024). Research by Jones and Pendlebury (2000) shows that accrual accounting provides better predictability of future cash flows. However, there are concerns that the application of accrual accounting could open up room for estimation manipulation, such as the assessment of uncollectible receivables or depreciation (Gagliardi, 2024). Therefore, internal control and good governance become very important in the implementation of accrual accounting.

In conclusion, both conventional accounting methods (cash basis) and accrual have distinguishing characteristics and significant implications for financial reporting. The choice of method used should be adjusted to the information needs, system capacity, and financial reporting objectives. Literature review shows that the accrual basis is superior in terms of accuracy, relevance, and transparency, but requires higher implementation costs. On the other hand, cash basis is more resource-efficient, but tends to simplify complex financial conditions. Many organizations are starting to switch or combine both methods to achieve a balance between efficiency and information quality. Therefore, it is important to understand the conceptual and practical differences between these two methods in order to improve the quality of financial reporting. This research is expected to provide a clear picture as a basis for the reform of accounting systems in both the public and private sectors.

The Influence of Accounting Methods on Financial Performance

The accounting methods used by the company play an important role in shaping perceptions of financial performance. Performance indicators such as Return on Assets (ROA), Return on Equity (ROE), profit margin, and solvency are often used to measure the effectiveness and efficiency of a company. Several studies show that the use of the accrual method can produce more accurate indicator values because all revenues and expenses are recorded comprehensively. On the other hand, with the cash basis method, performance indicators can be distorted because not all transactions are recorded at the time of the economic activity (Hardian & Vendy, 2023). This can lead to an overstatement or understatement of the actual financial performance. For example, a company might appear very profitable when cash is received in large amounts, even though liabilities remain high. Therefore, many researchers believe that the accrual method better reflects the actual performance of the company.

Empirical research comparing the financial performance of companies using both methods shows fairly consistent results (Ighodalo et al., 2024). A study by Chan (2012) shows that companies applying accrual accounting tend to have more stable and predictable ROA and ROE compared to those using cash basis (Chinedu, 2022). In addition, accruals also contribute to a more accurate measurement of solvency because they record obligations even if they have not yet been paid. This provides a more complete picture of the company's debt level. Profit margin is also recorded more realistically because costs and revenues are recognized on a matching basis. Companies with an accrual system are able to perform better financial planning and risk management (Elviana & Ali, 2022). This makes their financial statements more useful for investors and creditors.

Trends in financial performance by sector also show differences in the effectiveness of accounting method usage. In the private sector, especially large companies, the use of the accrual method has become standard due to the complex reporting requirements (Mardiana & As'ari, 2023). Meanwhile, the public sector has only just begun transitioning from the cash basis method to accrual accounting in line with financial reforms and accountability demands. Studies in the public sector show that this transition helps improve asset and liability management, although its implementation still faces technical challenges. The size of the company also affects the impact of accounting methods on financial performance. Large companies with well-established financial systems tend to be more capable of managing accrual accounting effectively compared to small companies (Mnif & Tahari, 2023). This reflects that institutional capacity also influences the benefits of using the accrual method.

For example, the Indonesian government officially adopted an accrual-based accounting system through PP No. 71 of 2010, which was implemented starting in 2015. The goal is to enhance transparency and accountability in national financial reporting. The Central Government Financial Report (LKPP) post-accrual implementation shows an improvement in the quality of information presentation and successful audits by the BPK. Other countries such as New Zealand and Australia have also implemented the accrual system in the public sector earlier. The results show an increase in budgeting efficiency and fixed asset management (Eladira et al., 2024). A study by Barton (2009) in Australia found that accrual accounting helps the government identify program costs more accurately. This provides a stronger foundation for performance evaluation and fiscal decision-making.

Although the benefits of the accrual method seem promising, its adoption still faces obstacles in some organizational contexts. Not all companies or institutions are able to implement accrual due to limitations in human resources, information technology systems, and managerial understanding. In some developing countries, the adoption of the accrual method often tends to be a formality without substantive changes in financial practices (Wiraguna et al., 2023). This causes distortions in reporting and decision-making, which should be more accurate. Therefore, the transition to accrual needs to be supported by training, regulations, and adequate control systems. In the private sector, the implementation of accrual accounting runs more smoothly due to pressure from the capital market and auditors. However, the consistency in the application of accrual principles remains a major challenge (Setianingsih & Nursyirwan, 2022).

Overall, the accrual accounting method has a positive impact on the measurement and reporting of financial performance compared to the conventional method. The use of this method allows companies and public institutions to present more comprehensive and relevant information. The performance indicators produced are more reliable for analysis and evaluation purposes. However, the effectiveness of this method highly depends on the implementation capacity possessed by the organization. Case studies from various countries and sectors show that regulatory support, technological infrastructure, and human resources are crucial for the success of the transition. Therefore, each entity needs to consider internal readiness before fully adopting the accrual method. Further research is still needed to measure the long-term impact of this method change on financial performance in greater depth.

Policy and Accountability Implications

The choice of accounting method has a significant impact on the transparency, accountability, and efficiency of financial management, both in the public and private sectors. The accrual method, which records all economic rights and obligations even if cash transactions have not yet occurred, is considered more capable of presenting a complete picture of an entity's financial position. Transparency increases because all assets, liabilities, revenues, and expenses are explicitly disclosed in the financial statements. This also strengthens accountability as entities are required to account for economic resources comprehensively, not just the cash managed. Conversely, the conventional method (cash basis) tends to obscure future liabilities or unrealized assets. This can reduce users' trust in the reliability and completeness of the information (Karina et al., 2023). Therefore, accounting methods become an important instrument in formulating responsible financial policies.

In the public sector, many policy reforms encourage the transition from cash basis to accrual in order to improve efficiency and control over state expenditures. Accrual-based financial statements enable the government to evaluate program costs more accurately and assess their impact on long-term fiscal balance. Accrual accounting also provides a strong foundation for performance-based budgeting. When the government has comprehensive financial data, budget allocation decisions can be made more strategically. Efficiency increases because the available financial information helps reduce duplication, waste, and misallocation (Surenggono & Djamilah, 2022). In the private sector context, accrual accounting allows management to assess operational efficiency based on actual expenses and revenues. This is very important for setting prices, measuring product profitability, and accurately evaluating the performance of business units (Tade & Mersha, 2024).

Findings from various literature indicate that investor and creditor perceptions are more positive towards financial statements that use the accrual method. This is due to the belief that the report reflects the company's financial position and performance in a more realistic and informative manner. Investors tend to use accrual data to estimate future cash flows and return on investment (ROI). Creditors also feel more confident when information on liabilities and assets is fully disclosed, as this helps assess the company's ability to pay its debts. Regulators also support the accrual method because it enhances compliance with financial reporting standards and strengthens oversight (Ananda et al., 2023). A study by Barth et al. (2001) shows that the quality of accrual-based earnings is positively correlated with capital market efficiency. In other words, the information conveyed through accrual accounting is more beneficial for economic decision-making by stakeholders.

However, the implementation of the accrual method is not without challenges, especially from the policy and implementation capacity side. Low accounting literacy among practitioners, limited information systems, and resistance to change often become the main obstacles (Hidayat & Nursyirwan, 2023). Therefore, the literature review suggests that the reform towards accrual accounting should be carried out gradually and tailored to institutional readiness. Training, enhancement of technical capacity, and political commitment are the main prerequisites for successful implementation. In the private sector, support from external auditors and capital market regulators is also needed so that the adoption of the accrual method is not just formal, but truly enhances the quality of reporting. In the context of public policy, supervisory agencies and legislative bodies must also have adequate understanding so that accrual financial statements can be used effectively. Without comprehensive support, accrual accounting risks becoming merely an administrative procedure without any real impact on transparency and accountability (Maysaroh et al., 2024).

Recommendations from the literature review indicate that the selection of accounting methods should consider the reporting objectives, the information needs of stakeholders, and the organization's capabilities. For entities that require accurate, complete, and useful reporting for strategic decision-making, the accrual method is highly recommended. However, for small organizations or those focused on short-term cash management, a mixed approach or gradual transition can be a rational choice. Some studies also suggest a combination of approaches, such as using cash basis for budget reports and accrual basis for annual financial statements. Flexibility in adopting these methods needs to be balanced with a commitment to improving the quality of the reporting system (Rahmadita & Marsono, 2024). Other recommendations include harmonization with international accounting standards, especially in the public sector that aims to enhance competitiveness and fiscal integrity. Thus, financial statements not only become administrative tools but also strategic tools in governance (Pramiana et al., 2024).

In conclusion, accounting methods have broad implications for financial policies, public accountability, and the relationship between companies or governments and their stakeholders. Accrual accounting offers advantages in terms of information quality, but it requires significant technical and institutional readiness. Various studies show that this method can enhance efficiency, transparency, and accountability, especially when applied consistently and supported by adequate supervision. Therefore, accounting policies need to be designed not only based on technical standards but also taking into account local capacity and context. The adoption of the accrual method is not merely an administrative change, but rather part of a profound institutional reform. With the right approach, the transition from conventional methods to accrual can bring long-term positive impacts. This will strengthen the financial reporting system as the foundation of accountable and results-oriented governance.

CONCLUSION

Based on the results of the literature review, it can be concluded that the accrual-based accounting method is generally superior to the conventional (cash basis) method in reflecting comprehensive, accurate, and relevant financial performance. The accrual method allows for comprehensive recording of transactions, both involving cash and non-cash, thereby providing a more realistic picture of the economic condition of an entity. Previous studies have shown that performance indicators such as ROA, ROE, and profit margin are more stable and informative in the accrual system, and support transparency, accountability, and efficiency in financial management. However, the adoption of this method requires adequate institutional, technical, and human resource readiness to optimize its benefits. Therefore, the selection of accounting methods needs to consider the organizational context, reporting requirements, and implementation capacity comprehensively.

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