



USAID
FROM THE AMERICAN PEOPLE

National Municipal Accounting Reforms, India: Training Manual For Staff

Final Report

Indo-USAID Financial Institutions Reform and Expansion Project—
Debt & Infrastructure Component (FIRE-D Project)

USAID-TCGI Contract No. 386-C-00-04-00119-00

November 2007

This publication was produced for review by the United States Agency for International Development. It was prepared by The Communities Group International (TCGI), in partnership with AECOM.

Indo-USAID Financial Institutions Reform and Expansion Project—
Debt & Infrastructure Component (FIRE-D Project)

USAID-TCGI Contract No. 386-C-00-04-00119-00

DISCLAIMER

The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.



NATIONAL MUNICIPAL ACCOUNTING TRAINING MANUAL

**Ministry of Urban Development
Government of India**

Supported by
Office of The Comptroller & Auditor General of India
National Institute of Urban Affairs (NIUA) and USAID (FIRE-D) Project

Prepared by
A.F. Ferguson & Co., Consultant

November 2007

Ministry of Urban Development Government of India

Supported by

**Office of The Comptroller & Auditor General of India
National Institute of Urban Affairs (NIUA) and Indo-USAID FIRE-D Project**

Committee to Oversee the Development of the Manual

Shri M. Rajamani - Chairman

Joint Secretary, Ministry of Urban Development, Government of India

Smt. Geeta Menon - Member

Director (Local Bodies), Office of C & A. G of India

Shri Subhash Chandra - Member

Under Secretary, Ministry of Urban Development, Government of India

Shri N. Bhattacharjee - Member

Programme Manager & Regional Training Advisor, USAID

Shri Lee Baker - Member

Chief of Party, Indo-USAID FIRE-D Project

Dr. Mukesh Mathur - Member

Prof. & Director - in - Charge, National Institute of Urban Affairs

Dr. Debjani Ghosh - Member

Senior Research Officer, National Institute of Urban Affairs

Shri Alok Shiromany - Member

Senior Financial Management Specialist, Indo-USAID FIRE-D Project

Dr Rajesh Chandra - Member & Convener of the Committee

National Institute of Urban Affairs

Consultants

A. F. Ferguson & Co.

Mr. C. K. Mohan

Mr. A. Maru



सचिव, भारत सरकार

Secretary to the Government of India

शहरी विकास मंत्रालय
निर्माण भवन, नई दिल्ली-110011
MINISTRY OF URBAN DEVELOPMENT
NIRMAN BHAVAN, NEW DELHI-110011
Tel. : 23062377, Fax : 23061459
E-mail : secyurban@nic.in

PREFACE

The Ministry of Urban Development (MoUD), Government of India, has taken several initiatives to make urban local bodies self-sustaining viable entities of local-self government.

In pursuance of the recommendations of the Eleventh Finance Commission and *Guidelines for the Utilization of Local Bodies Grants* issued by Ministry of Finance, Department of Expenditure, Government of India, the Comptroller and Auditor General(C&AG) of India constituted a Task Force, to recommend *Accounting and Budget Formats for Urban Local Bodies* in India. The Task Force in its report, inter alia, suggested adoption of accrual basis of accounting by ULBs.

To provide a generic framework of National Municipal Accounting and a simplified tool kit, the National Municipal Accounts Manual (NMAM) was developed, based on the Task Force Report. The C&AG facilitated the development of the NMAM, which was brought out by the MoUD with the objective of providing support to the State Governments in implementing financial management reforms in the ULBs. The NMAM is now followed by this model Training Manual that State Governments can customize to meet local requirements. The C&AG has overseen the development of this Training Manual. The Indo-USAID FIRE-D project and National Institute of Urban Affairs have supported the initiative.

Efficient and transparent financial management is a prerequisite for a well functioning city, enabling it to provide adequate civic services on a timely basis to its citizens. With a view to providing better financial management, improved governance, accountability, and transparency of management, MoUD aims at implementing municipal accounting reforms as a part of the mandatory reform agenda under the Jawaharlal Nehru National Urban Renewal Mission (JNNURM).

This model National Municipal Accounts Training Manual comprehensively deals with the recommendations of NMAM through modern training methodology. This manual is expected to strengthen the capacity of local governments through the introduction of improved financial management, budgeting, accounting and auditing practices. Since significant skill upgradation will be required to implement the financial management reforms in ULBs, this manual will support the ULBs in their endeavors in achieving the municipal accounting reforms agenda under the JNNURM.

The training manual is accompanied by a separate volume meant for elected representatives and top management of ULBs. The information provided will enable them use improved financial management, MIS, financial indicators, and techniques to read financial statements in their decision-making functions.

We hope this National Municipal Accounts Training Manual will facilitate and assist State Governments in developing State specific municipal accounts training manuals.

M. Ramachandran

Secretary

Ministry of Urban Development
Government of India
New Delhi

Foreword

The 74th Constitutional Amendment has paved the way for emergence of Urban Local Bodies (ULBs) as constitutional entities empowered to provide improved governance and more effective delivery of civic services.

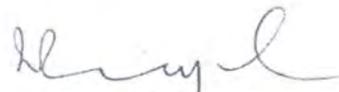
Recognising the importance of improved financial accounting and reporting in the context of growing responsibilities of ULBs, the Eleventh Finance Commission and the 'Guidelines for the Utilization of Local Bodies Grants' issued by Ministry of Finance, Department of Expenditure, Government of India recommended that the Comptroller and Auditor General(C&AG) of India would prescribe the Accounting and Budget Formats for ULBs. Accordingly, the C&AG facilitated the development of the National Municipal Accounts Manual (NMAM), which was brought out by the MOUD with the objective of aligning national level perspectives of reforms in municipal finance and financial management with that of the State Governments. The NMAM was to be followed by a model training manual that State Governments could then customize to meet local requirements.

This training manual is an acknowledgement of the fact that significant skill acquisition and upgradation is required in ULBs across the country in order to ensure a smooth transition to the accrual based system of accounting as envisaged in the NMAM. It reaffirms the importance of training and structured instructional techniques in helping organizations meet new challenges.

The training manual facilitates a greater appreciation of the philosophy, methods and practices as envisaged in the NMAM through practical exercises, elucidation of concepts and systematic cross referencing to relevant portions of the NMAM. This document also provides a carefully delineated structure for each session with training objectives, summaries and even an option of slides that the instructor could possibly use. With due customization to meet state and ULB specific requirements, the Manual will assume greater relevance and usefulness.

In a unique initiative, the training manual is accompanied by a separate volume meant for elected representatives and top management of ULBs to enable this crucial group gain a basic appreciation of the theory and practice of accrual accounts as outlined in the NMAM.

Over the past few years, as part of the mandate of Technical Guidance and Support (TGS), the C&AG has made significant strides in improving the accounting and auditing infrastructure in local bodies across the country through training. This training manual will also be a valuable addition to these efforts and will definitely enhance the skill levels in ULBs and Local Fund Audit across the country.



N.R.Rayalu

Deputy Comptroller & Auditor General

ACKNOWLEDGEMENT

National Institute of Urban Affairs (NIUA) and Indo-USAID Financial Institutions Reform and Expansion (FIRE - D) Project would like to acknowledge with thanks the help and support received from the following institutions and officials in carrying out this study:

- Office of the Comptroller & Audit General of India
- Ministry of Urban Development, Government of India
- All team members of A. F. Ferguson & Co.
- Several other experts who contributed to the preparation of this Manual



(Mukesh Mathur)

Professor & Director - in - Charge
National Institute of Urban Affairs

NATIONAL MUNICIPAL ACCOUNTING TRAINING MANUAL

TABLE OF CONTENTS

Chapter	Contents	Page No.
<i>Part I – General</i>		
1	Introduction	1.1
2	Accounting Concepts & Accounting Conventions	2.1
3	Guidelines for preparation of Opening Balance Sheet	3.1
4	Codification Structure & Chart of Accounts	4.1
5	General Accounting Procedures	5.1
<i>Part II - Accounting for Transactions</i>		
A	<i>Revenues</i>	
6	Property & Other Taxes	6.1
7	Octroi	7.1
8	Cess	8.1
9	Water Supply	9.1
10	Assigned Revenues	10.1
11	Rentals, Fees & Other Incomes	11.1
12	Public Works	12.1
B	<i>Expenditure</i>	
13	Stores	13.1
14	Employee Related Transactions	14.1
15	Health & Sanitation	15.1
16	Other Revenue Expenditures	16.1
C	<i>Balance Sheet items</i>	
17	Grants	17.1
18	Borrowings (Loans Received)	18.1
19	Special Funds	19.1
20	Investments	20.1
21	Fixed Assets	21.1
22	Loans & Advances	22.1

Chapter	Contents	Page No.
<i>Part III – Period-end Requirements</i>		
23	Period-end Procedures	23.1
24	Reconciliation Procedures	24.1
25	Financial Statements	25.1
	Glossary	
	Trainers notes & Illustrative Training Schedule	

LIST OF TABLES

Table	Contents	Page No.
4.1	Coding Structure	4.8
5.1	Other General Registers and Forms	5.3
5.2	Functionwise Income - Subsidiary Ledger	5.6
5.3	Summary of Major Headwise Income- Subsidiary Ledger	5.7
5.4	Functionwise Expense - Subsidiary Ledger	5.9
5.5	Summary of Major Headwise Expense- Subsidiary Ledger	5.10
6.1	Computation of Additional Provision at the Period end	6.8
13.1	Entries in Stores Ledger for the financial year 2006 -2007	13.6
21.1	Computation of Depreciation at Year-end on buildings	21.4
21.2	Depreciation as per Straight Line Method on other Assets	21.4
21.3	Computation of Profit or Loss on Plant & Machinery Sold	21.5
24.1	Factors necessitating Bank Reconciliation	24.2
24.2	Bank Reconciliation Statement of 'S' bank	24.3
24.3	Reconciliation Statement of Deposits Outstanding with MMC	24.4
24.4	Reconciliation Statement of Receivables and Collection - Cess	24.5
24.5	Reconciliation Statement of Advance Outstanding provided to Contractor/Supplier – HJ & Co	24.6
24.6	Reconciliation Statement of Permanent Advance to Administration Department	24.7
24.7	Reconciliation Statement of Personal Advance to Mr 'Z'	24.7
24.8	Reconciliation Statement of Miscellaneous Advance to Mr 'A'	24.8
24.9	Confirmation Statement of Loan borrowed	24.8
24.10	Reconciliation Statement of Payables	24.9
25.1	Trial Balance of MMC for the period 01.04.06 to 31.03.07	25.3
25.2	Income and Expenditure Statement for the year ended 31.03.07	25.8
25.3	Balance Sheet of MMC as on 31.03.07	25.15
25.4	Statement of Cash Flow of MMC for the year ended 31.03.07	25.28
25.5	Receipts and Payments Account of MMC for the period from 01.04.06 to 31.03.07	25.30
25.6	Financial Ratios of MMC for the period ended 31.03.07	25.38

LIST OF EXHIBITS

Exhibit	Contents	Page No.
2.1	Benefits of Accrual Based Double entry system of Accounting	2.5
4.1	Overall Structure	4.2
21.1	Fixed Asset Schedule – B 11	21.9

LIST OF ABBREVIATIONS

AFF	A.F.Ferguson & Co.
CAG	Comptroller and Auditor General of India (CAG)
CoA	Chart of Accounts
CWIP	Capital Work In Progress
EMD	Earnest Money Deposit
FIFO	First In First Out
GPF	General Provident Fund
ICAI	Institute of Chartered Accountants of India
IUT	Inter Unit Transaction
JV	Journal Voucher
MCA	Municipal Chief Auditor
MIS	Management Information System
MRN	Material Receipt Note
MRIN	Material Receipt cum Issue Note
NAM	National Accounts Manual
NAV	Net Assets Value
NIUA	National Institute of Urban Affairs
P&OT	Property & Other Taxes
PO	Payment Order
PPO	Pension Payment Order
TDS	Tax Deducted at Source
SLM	Straight Line Method
ULBs	Urban Local Bodies
WDV	Written Down Value
WIP	Work-In-Progress

CHAPTER I

INTRODUCTION

Project Background

1.1 In pursuance of the recommendations of the Eleventh Finance Commission and Guidelines for the Utilization of Local Bodies Grants issued by Ministry of Finance, Department of Expenditure, Government of India, the Comptroller and Auditor General of India (CAG) was to prescribe the Accounting and Budget Formats for Urban Local Bodies (ULB). Accordingly, CAG constituted a Task Force, which submitted its report on Accounting and Budget Formats for Urban Local Bodies to the Ministry of Urban Development (MoUD). The report of the Task Force was accepted by the Government of India and forwarded to State Governments for implementation, keeping in view the local requirements.

1.2 In this context, MoUD organized a “National Workshop on Municipal Accounting Reforms”, wherein it was agreed that the CAG, with USAID FIRE-D support, would prepare model national municipal accounts manual and a companion model-training manual and common software for computerization of budget and accounts and these will be provided by the MoUD to the State Governments. Based on these, the State Governments can prepare state-level accounting manual, state-level training manual and adopt the software according to their requirements. Pursuant to these decisions, the CAG constituted a committee under the Chairmanship of the Deputy Comptroller & Auditor General (Local Bodies), to monitor and provide guidance for the development of the model-accounting manual, model-training manual and development of the accounting software.

1.3 Since the development of model training manual and the development of the accounting software were to be based on the model accounting manual, the aforesaid committee decided to proceed with the development of the model accounting manual on a priority basis. Now that the National Municipal Accounts Manual (NMAM) has been prepared and launched, the MoUD has decided to proceed with the development of a companion-training manual and accounting software.

National Accounts Manual

1.4 The National Accounts Manual contains the required forms, formats, procedures, accounting entries, periodical statements, reconciliation procedures, etc with respect to transaction of the ULB. The recommended principles for accounting have also been included.

National Municipal Accounting Training Manual (NMATRAM)

1.5 The Training manual can be used at all ULB. This material is intended for the trainers for use as a background material for training the accounting staff on day to day accounting of transactions. The training manual does not replace the national municipal accounts manual nor is it intended to be a substitute for the same. For details reference must be made to the NMAM.

Structure

1.6 NMATRAM uses a Model Municipal Corporation (MMC) to explain the transactions. It starts with introduction to basic concepts of accounting. NMATRAM then takes the user through the entire process of accounting for transactions covering key revenues, expenditure and liabilities and culminates in the preparation of financial statements. The accounting entries have been explained using practical examples that the user can identify with and a model financial statement comprising of Trial balance, Income & Expenditure account, Balance sheet, Receipts & Payments account and Cash flow has been prepared based on the entries provided in all the chapters of the manual.

1.7 An exercise is provided at the end of each section that the users can use for testing their understanding of the concepts.

1.8 The chapters of the manual are arranged in such a way that, a study from the first chapter till the end of the manual will enable the user to understand and appreciate the logical steps involved in preparation of financial statements.

1.9 Each Chapter of the training manual is structured as follows:

- *Learning Objectives*
- *Chapter Overview*
- *Introduction*
- *Accounting Principles*
- *Accounting of transactions(explained with illustrations)*
- *Internal Control*
- *Presentation in Financial Statements*
- *Summary*
- *Exercise*
- *Broad structure for preparing presentation slides*

1.10 This Manual covers all day to day and routine transaction undertaken at the ULB and for certain chapters such as special transactions, lease and hire purchase, additions/ merger of ULB, inter-unit transactions, etc., which discuss non routine transactions , the users can directly refer the NMAM. The manual has been structured as follows.

Part I - General

- Chapter 1 - Introduction (this Chapter)
- Chapter 2 - Accounting Concepts & Accounting Conventions
- Chapter 3 - Guidelines for preparation of Opening Balance sheet
- Chapter 4 - Codification Structure and Chart of Accounts
- Chapter 5 - General Accounting Procedures

Part II - Accounting for Transactions

- Chapter 6 - Property & Other Taxes
- Chapter 7 - Octroi
- Chapter 8 - Cess
- Chapter 9 - Water Supply
- Chapter 10 - Assigned Revenues
- Chapter 11 - Rental, Fees & Other incomes
- Chapter 12 - Public Works
- Chapter 13 - Stores
- Chapter 14 - Employee Related Transactions
- Chapter 15 - Health & Sanitation
- Chapter 16 - Other Revenue Expenditures
- Chapter 17 - Grants

- Chapter 18 - Borrowings (Loans Received)
- Chapter 19 – Special Funds
- Chapter 20 - Investments
- Chapter 21 - Fixed Assets
- Chapter 22 - Loans & Advances

Part III - Period-end Requirements

- Chapter 23 - Period-end Procedures
- Chapter 24 - Reconciliation Procedures
- Chapter 25 - Financial Statements
- Glossary

Note: The Institute of Chartered Accountants of India (ICAI) is in the process of preparing Accounting Standards for Urban Local Bodies .The NMAM and consequently the training manual (NMATRAM) may need to be revised in line with the Accounting Standards to be issued by ICAI and prescribed by the technical committee of MoUD.

BROAD STRUCTURE FOR PREPARING PRESENTATION SLIDES

- About National Municipal Accounts Manual
- About National Municipal Accounts Training Manual
- Structure of National Municipal Accounts Manual
- Structure of National Municipal Accounting Training Manual

CHAPTER 2

ACCOUNTING CONCEPTS & CONVENTIONS

LEARNING OBJECTIVE

At the end of this topic the reader will:

- *Understand the meaning of Accounting Concepts and Conventions*
- *Be familiar with the various Accounting Concepts and Conventions*
- *Understand the significance of using these concepts*
- *Understand the meaning of Accrual system of Accounting and its significance.*
- *Be familiar with the basic rules of Accounting*

CHAPTER OVERVIEW

The Accounting Concepts and Accounting Conventions have been developed over the years from experience, reason, usage and necessity and are generally accepted for accounting of transactions and preparation of Financial Statements. These concepts and conventions govern the way transactions are accounted. This chapter introduces the reader to Accounting Concepts and Conventions and explains its significance in the context of Accrual Based Accounting System. The basic rules of Accrual Based Accounting are also discussed in this chapter.

ACCOUNTING CONCEPTS

2.1 Accounting Concepts are the necessary assumptions, conditions or postulates upon which the accounting is based. They are developed to facilitate communication of accounting and financial information to all the readers of the Financial Statements, so that all readers interpret the statements in the same meaning and context.

2.2 Accounting Concepts are as follows:

- a. Entity Concept
- b. Dual Aspect or Accounting Equivalence Concept
- c. Going Concern Concept
- d. Money Measurement Concept
- e. Cost Concept
- f. Accounting Period Concept
- g. Accrual Concept
- h. Periodic Matching of Cost and Revenue Concept
- i. Realisation Concept.

Entity Concept

2.3 For accounting purposes, an “organisation” is treated as a separate entity from the “owners” or “stakeholders”. This concept helps in keeping private affairs of the owners and stakeholders separate from the business affairs. For example, a ULB is a separate, independent and autonomous entity and is governed by a separate legislation and the regulations formed by it. The various stakeholders of the ULB, including citizens, State Government, environmentalists, etc., do not own the ULB. Thus, a separate Balance Sheet and Income & Expenditure Statement is prepared in respect of the operations of the ULB. This concept is applicable to all forms of organisations.

Dual Aspect or Accounting Equivalence Concept

2.4 This concept follows from the Entity Concept. All entities own certain assets. Such assets are acquired through contributions of those who have provided the funds for the purpose. Funds are made available either through the surpluses of the entity or loans or payables. In a sense, such providers of funds are claimants to the assets. At any point in time, the assets will be equal to the claims. Since the claims on the assets could be those of “outsiders” (i.e. liabilities) or “owners” (i.e. capital, reserves, etc.), it results in the accounting equation:

$$\text{Assets} = \text{Own Funds} + \text{Liabilities}$$

Going Concern Concept

2.5 This concept assumes that a business entity will continue to operate indefinitely and that it will not be liquidated in the immediate future. Indefinite future means that the business enterprise will not be wound up within the foreseeable future and therefore would be able to meet its contractual obligations and use its resources according to the plans and predetermined goals.

Money Measurement Concept

2.6 Accounting is only concerned with those transactions which can be measured in terms of money. Hence transactions that cannot be expressed in terms of money are not recorded in the books of accounts. Receipt of income, payment of expenses, purchase and sale of assets, etc., are monetary transactions that are recorded in the books of accounts. For example, the event of a machinery breakdown is not recorded as it does not have a monetary value. However, the expenditure incurred for the repair of the machinery can be measured in monetary value and hence is recorded.

Cost Concept

2.7 A business transaction is recorded in terms of the amount actually passing through the transaction, i.e., at its cost and this cost is the basis for all subsequent accounting for the asset. The cost concept does not mean that the asset will always be shown at cost. This basically signifies that each time the financial statements are prepared, the fixed assets need not be revised and recorded at its realisable or replacement or market value. The assets recorded at cost at the time of purchase may systematically be reduced through depreciation.

Accounting Period Concept

2.8 An accounting period is the interval of time at the end of which the financial statements are prepared to ascertain the financial performance of the organisation. Although the “going concern” concept stresses the continuing nature of the entity, it is necessary for an organisation (e.g. ULB) to review how it is performing. The preparation of financial statements at periodic intervals helps in taking timely corrective action and developing appropriate strategies. The accounting period is normally considered to be of twelve months.

Accrual Concept

2.9 Under the cash system of accounting, the revenues and expenses are recorded only if they are actually received or paid in cash, irrespective of the accounting period to which they belong. But under the accrual concept, occurrence of claims and obligations in respect of incomes or expenditures, assets or liabilities based on happening of any event, passage of time, rendering of services, fulfillment (partially

or fully) of contracts, diminution in values, etc., are recorded even though actual receipts or payments of money may not have taken place. In respect of an accounting period, the outstanding expenses and the prepaid expenses and similarly the income receivable and the income received in advance are shown separately in the books of accounts under the accrual method.

Periodic Matching of Cost and Revenue Concept

2.10 To ascertain the surplus or deficit made by the entity during an accounting period, it is necessary that the costs incurred are matched with the revenue earned by the entity during that accounting period. The matching concept is a corollary drawn from the accrual concept. To ascertain the correct surplus or deficit, it is necessary to make adjustments for all outstanding expenses, prepaid expenses, income receivable and income received in advance to correctly depict and match the income and expenditure relating to that accounting period.

Realisation Concept

2.11 According to this concept, revenue should be accounted for only when it is actually realised or it has become certain that the revenue will be realised. This signifies that revenue should be recognised only when the services are rendered or the sale is effected. However, in order to recognise revenue, actual receipt of cash is not necessary. What is important is that the organisation should be legally entitled to receive the amount for the services rendered or the sale effected.

ACCOUNTING CONVENTIONS

2.12 Accounting conventions are the customs or traditions guiding the preparation of accounts. They are adopted to make financial statements clear and meaningful. The Accounting Conventions are as follows:

- a. Convention of Disclosure;
- b. Convention of Materiality;
- c. Convention of Consistency; and
- d. Convention of Conservatism

Convention of Disclosure

2.13 The term “disclosure” implies that there must be a sufficient revelation of information which is of material interest to owners, creditors, lenders, investors, citizen and other stakeholders. The accounts and the financial statements of an entity should disclose full and fair information to the beneficiaries in order to enable them to form a correct opinion on the performance of such entity, which in turn would allow them to take correct decisions. For example, the Accounting Principles that have been followed for preparation of the Financial Statements should be disclosed along with the Financial Statements for proper understanding and interpretation of the same.

Convention of Materiality

2.14 An item should be regarded as material, if there is a sufficient reason to believe that knowledge of it would influence the decision of informed creditors, lenders, investors, citizen and other stakeholders. The accounts and the financial statements should impart importance to all material information so that true and fair view of the state of affairs of the entity is given to its beneficiaries. Hence, keeping the convention of materiality in view, unimportant items are not disclosed separately and are merged with other items. For example, the expenditure incurred on repairs and maintenance of a

certain asset of the ULB, which are small, may not be disclosed separately in respect of each such small item but may be grouped together and shown as a single item of expenditure.

Convention of Consistency

2.15 The convention of consistency facilitates comparison of financial performance of an entity from one accounting period to another. This means that the accounting principles followed by an entity should be consistently applied by it over the years. For example, an ULB should not change its method of depreciation every year, i.e., from Straight Line Method to Written Down Value Method or vice-versa. Similarly, the method adopted for valuation of stocks, viz., First In First Out (FIFO) or Weighted Average should be consistently followed. In case a change is made, it should be disclosed.

Convention of Conservatism

2.16 As per this convention, the anticipated profits should be ignored but all anticipated losses should be provided for in the books of accounts of an entity. This means that all prospective losses are taken into consideration, however, no doubtful income is taken into consideration in recording of transactions by an entity.

2.17 The following are some of the instances where Convention of Conservatism is in operation

- a) Making a provision for doubtful receivable of taxes
- b) Valuing the inventories at market price or cost price whichever is less.
- c) Creating provision against fluctuation in the price of investments.

ACCRUAL SYSTEM OF ACCOUNTING

2.18 Accrual system of accounting means a method of recording financial transactions based on accrual, i.e., on occurrence of claims and obligations in respect of incomes or expenditures, assets or liabilities based on happening of any event, passage of time, rendering of services, fulfillment (partially or fully) of contracts, diminution in values, etc., even though actual receipts or payments of money may not have taken place.

2.19 In this system, there is a change in accounting for transactions and reporting the financial results so as to provide the ULB and the Government with the Financial Reports, in the form of two important financial statements for the purposes noted against each:

Statement	Purpose
Income & Expenditure Statement	To determine the financial performance of the ULB
Balance Sheet	To assess the financial status of the ULB

Benefits of accrual system of accounting

2.20 The accrual basis of accounting helps in determination of the income and expenditure of the municipal bodies. The main benefits of accrual based accounting system are enumerated in exhibit 2.1 below:

Exhibit 2.1
Benefits of Accrual Based Double entry system of Accounting

- Revenue is recognised as it is earned and thus “Income” constitutes both revenue received and receivable. The accrual basis not only records the actual income but also highlights the level and efficacy of revenue collection, thereby assisting decision makers in taking financial decisions.
- Expenditure is recognised as and when the liability for payment arises and thus it constitutes both amount paid and payable. In accrual basis of accounting, expenditure incurred on repairs and maintenance shall be recognised as expense of the period in which they are incurred and, if not paid for during the year, shall be treated as a liability (payable) and be disclosed as such in the Balance Sheet.
- Expenses are matched with the income earned in that year. Thus, it provides a very effective basis to understand the true performance of the organisation for the operations that is conducted in that year.
- A distinct difference is maintained between items of revenue nature and capital nature. This helps in fair presentation of financial statements, viz., the Income and Expenditure Statement and the Balance Sheet.
- Costs which are not charged to Income & Expenditure Account are carried forward and kept under continuous review. Any cost that appears to have lost its utility or its power to generate future revenue is written-off.
- The surplus or deficit as shown at the year-end represents the fair financial position of the organisation arising out of the various transactions during that year.
- It facilitates proper financial analysis and reporting.
- It captures “full” cost of servicing and helps in identifying financial viability of rendering services.
- It helps in providing timely, right quality and nature of information for planning, decision-making and control at each level of management.
- It assists in effective follow-up of receivables by the municipal body and proper ascertainment of payables by the municipal body.
- One of the distinct advantages of adopting accrual accounting system is ease in financial appraisals by the financial institutions. It also facilitates credit rating through approved Credit Rating Agencies, which is a pre-requisite for mobilising funds in the financial markets through debt instruments.
- It presents a true picture of the financial position of an organisation and helps in better financial management.

2.21 Thus, accrual basis of accounting results in recording of transactions and events on the basis of their substance, rather than merely when cash is received or disbursed, and thus, enhances their relevance, neutrality, timeliness, completeness and comparability.

Note: When there is an uncertainty in collection of an income or the amount is not clearly ascertainable or an income for which no demand is raised, then it is prudent to recognize the income on actual receipt and not at the time of accrual of income. This concept has been explained at the relevant places in the manual.

Rules of accounting

2.22 The basic rules of accounting flow from the accounting equation:

$$\text{Assets} = \text{Own Funds} + \text{Liabilities}$$

2.23 An increase in the asset, e.g., Vehicle can be brought about by:

- a. Decrease in another asset, e.g., Bank Account, or
- b. Increase in liability, e.g., Loans or Payables.

2.24 An decrease in the asset, e.g., Cash may result in:

- c. Increase in another asset, e.g., Medical Equipment
- d. Decrease in liability, e.g., Payment of Loans or payment of suppliers outstanding
- e. Decrease in own funds through expenditure.

2.25 It is customary to use the term “*Debit*” and “*Credit*” to communicate the above phenomenon. The rules of debits and credits are as follows:

Type of Account	Debit Signifies	Credit Signifies
Asset Accounts	Increases	Decreases
Liability Accounts	Decreases	Increases
Own Funds	Decreases	Increases

2.26 An Accounting Entry would be a combination of a single debit and a single credit or a set of debits and a set of credits, as may be appropriate. Following the accounting equation of Assets = Claims, the debits will always equal credits.

2.27 If we were to expand on the above, the following will be the rules applicable to incomes, expenditures, grants, etc.

Type of Account	Debit Signifies	Credit Signifies
Income (which will increase Own Funds)	Decreases	Increases
Expenditure (which will decrease Own Funds)	Increases	Decreases
Grants Received	Decreases	Increases

2.28 Following is the representative sample of transactions explaining the above rules and accounting entry.

Transactions	Account head involved	Type of Account	Increase/Decrease	Debit/Credit
Property tax bills raised	Receivables	Asset Account	Increase	Debit Asset
	Property tax	Income Account	Increase	Credit Income
Purchase of supplies by stores	Stock in hand	Asset Account	Increase	Debit Asset
	Creditors	Liability Account	Increase	Credit Liability
Payment for expenses	Expense	Expenditure Account	Increase	Debit expense
	Cash\Bank	Asset Account	Decrease	Credit Asset
Repayment of borrowings	Borrowings	Liability Account	Decrease	Debit liability
	Bank	Asset Account	Decrease	Credit Asset
Realisation of debtors	Bank\Cash	Asset Account	Increase	Debit Asset
	Receivables	Asset Account	Decrease	Credit Asset
Contribution to Pension fund	Pension expense	Expenditure Account	Increase	Debit expense
	Pension fund	Liability Account	Increase	Credit Liability

SUMMARY

1. Accounting Concepts are the necessary assumptions, conditions or postulates upon which the accounting is based. They are developed to facilitate communication of accounting and financial information to all the readers of the Financial Statements, so that all readers interpret the statements in the same meaning and context.
2. Accounting concept are classified into
 - a. Entity Concept
 - b. Dual Aspect or Accounting Equivalence Concept
 - c. Going Concern Concept
 - d. Money Measurement Concept
 - e. Cost Concept
 - f. Accounting Period Concept
 - g. Accrual Concept
 - h. Periodic Matching of Cost and Revenue Concept
 - i. Realisation Concept.
3. Accounting conventions are the customs or traditions guiding the preparation of accounts. They are adopted to make financial statements clear and meaningful.
4. Accounting conventions are classified in to
 - a. Convention of Disclosure;
 - b. Convention of Materiality;
 - c. Convention of Consistency; and
 - d. Convention of Conservatism
5. Accrual system of accounting means a method of recording financial transactions based on accrual, i.e., on occurrence of claims and obligations in respect of incomes or expenditures, assets or liabilities based on happening of any event, passage of time, rendering of services, fulfillment (partially or fully) of contracts, diminution in values, etc., even though actual receipts or payments of money may not have taken place.
6. The basic rules of accounting flow from the accounting equation:
$$\text{Assets} = \text{Own Funds} + \text{Liabilities}$$

EXERCISE

1. State whether the following statements are **'Right'** or **'wrong'**
 - a. Cash basis considers the revenue as realized, when the bill is raised for demand.
 - b. The losses from the sale of capital assets need not be deducted from revenue to ascertain the net income.
 - c. According to money measurement concept, only transactions that can be expressed in money are recorded in accounts.
 - d. The business entity concept considers the business and the proprietor as separate from each other.
 - e. Going concern concept requires that assets should always be valued and recorded at market value.
 - f. According to consistency concept, the results of one accounting period of a business cannot be compared with that in the past.
 - g. Conservatism concept requires that all probable incomes must be considered while all prospective losses must be ignored in computation of income.

2. Indicate the correct alternative in each of the following cases:
 - a. The system of recording transactions based on dual aspect concept is called:
 - (i) Double entry system
 - (ii) Double account system
 - (iii) Single entry system.

 - b. Cost concept requires the recording of the following in the books of account:
 - (i) Skills and knowledge acquired by business manager.
 - (ii) An asset at its cost.
 - (iii) Free training provided

 - c. Market value of investments is shown as a footnote according to:
 - (i) Consistency concept
 - (ii) Disclosure concept
 - (iii) Conservatism concept

 - d. Provision for bad and doubtful debts is created in anticipation of actual bad debts on the basis of :
 - (i) Conservatism concept
 - (ii) Going concern concept
 - (iii) Disclosure concept

 - e. Income is measured and financial position is assessed on the basis of:
 - (i) Matching concept
 - (ii) Consistency concept
 - (iii) Money measurement concept

- (iv) Time period concept.
 - f. A fact or happening which cannot be expressed in terms of money is not recorded in accounting according to:
 - (i) Cost concept
 - (ii) Money measurement concept
 - (iii) Materiality concept
 - (iv) Consistency concept.
 - g. The policy of 'anticipate no profit and provide for all possible losses', arises due to:
 - (i) Conservatism concept
 - (ii) Consistency concept.
 - (iii) Materiality concept
 - (iv) Disclosure concept
 - h. Dual aspect concept results in the accounting equation
 - (i) Capital + Liabilities = Assets
 - (ii) Capital = Assets
 - (iii) Revenue = Expenses
 - (iv) Capital + Profit = Assets + Expenses.
 - i. Purchase of Government securities for cash would:
 - (i) Reduce assets,
 - (ii) Increase assets, or
 - (iii) Keep assets unchanged.
 - j. Purchase of equipment for cash:
 - (i) Increases total assets,
 - (ii) Keeps total assets unchanged, or
 - (iii) Decreases total assets.
3. Explain with accounting entries as to how the following transactions would be accounted under *cash based accounting* and *accrual based accounting system*.
- 3.1 Property tax demand for the first half year of 2007-08 amounts to Rs.4,50,000.
 - 3.2 Opening Balance of Property tax receivable amounts to Rs 50,000; Demand raised – Rs. 2,00,000; Collections made during the year – Rs 20,000 (arrears), Rs 1,30,000 (current year demand).
 - 3.3 Expenditure relating to insurance premium on machinery amounting to Rs 1,00,000 for the period January 2007-2008 was paid in the month of December 2006.
 - 3.4 Salary Payable for the month of September 2007 amounting to Rs.10,00,000/- paid in October 2007
 - 3.5 A sum of Rs 10,00,000 is payable to supplier "Z" for supply of hardware stores.

BROAD STRUCTURE FOR PREPARING PRESENTATION SLIDES

- Accrual system of Accounting
- Benefits of Accrual system of Accounting
- Rules of Accounting
- Accounting Concepts
- Accounting Conventions

CHAPTER 3

GUIDELINES FOR PREPARATION OF OPENING BALANCE SHEET

LEARNING OBJECTIVE

At the end of this Chapter, the reader will...

- *Understand why an Opening Balance Sheet is required*
- *Be familiar with the items of Assets and Liabilities that may be required to be reported.*
- *Understand the method of identification of items of Assets and Liabilities.*
- *Understand the method of valuation of items of Assets and Liabilities.*

CHAPTER OVERVIEW

Preparation of Opening Balance Sheet is one of the steps in conversion of the accounting system from Cash Based to Accrual Based Double Entry System. A Balance Sheet is a statement of the financial position of an ULB as at a given date, which exhibits its assets, liabilities, capital, reserve and other account balances at their respective book values. This chapter provides the guidance for identifying, valuing and collating the items of Assets and Liabilities based on which the opening balance sheet shall be prepared.

INTRODUCTION

3.1 This chapter contains the guidelines and the formats for collating the information for the assets and liabilities which would facilitate the preparation of the Opening Balance Sheet of the Urban Local Body (ULB). For the formats to be used for capturing the information relating to Assets and Liabilities refer [Chapter 34 –“Guidelines for preparation of opening balance sheet” of NMAM.](#)

Benefits of a Balance Sheet

- 3.2 The benefits of preparing a Balance Sheet are:
- a. Provides a record of the assets (amount owned) and Liabilities (amount owed) by the ULB.
 - b. Allows follow up and better management on the amounts receivable and payable by the ULB.
 - c. Allows the financial strength of the ULB to be assessed, based on analysis of assets and liabilities;
 - d. Allows comparability and analysis of financial position over different years.
 - e. Without the opening balance sheet, the balance sheet at the end of the period cannot be prepared (i.e. the closing balance sheet)

STEPS IN PREPARING THE OPENING BALANCE SHEET

3.3 The steps to be followed to prepare the Opening balance sheet is as follows:

Step 1: Updating of the records/ creation of records for the purpose of compiling and identifying the assets and liabilities of the Urban Local Bodies (ULBs)

Step 2: Verification of the assets and liabilities, including physical verification (in case of fixed assets), cross checking/ checking with original records, title deeds, etc. and valuation/ costing of the fixed assets

Step 3: Compilation of the information collected in the format of the Balance Sheet to arrive at the Opening Balance Sheet

Step 4: Preparation of opening balance sheet with the required disclosures.

GENERAL GUIDELINES

3.4 The general guidelines to be followed while preparing the formats for the assets and liabilities are as follows.

3.5 The exercise of preparation of Opening Balance Sheet begins with gathering/ collection of data from the existing records and various sources. The data should be obtained from as close to the source as possible. Efforts should be made to obtain the information without any omission and ensure that they are correct/ accurate.

3.6 All assets which are under the ownership and permissive possession of the ULB will be accounted. Similarly all liabilities ought to be paid will also be brought in the books.

3.7 As far as possible, all details should be collected department-wise and then consolidated to give an overall picture for the ULB. For instance, Form 12 - Furniture & Fixture, Form 13 - Office Equipment, Form 14 - Other Equipment, Form 15 - Livestock and other relevant forms shall be given to each of the dispensaries, hospitals, maternity homes, animal pound and other locations within the Health Department for collecting information of the assets there, which shall be then consolidated at the departmental level.

3.8 The ULB should form separate teams who would be responsible for collating information in the formats provided, within a specific time frame.

3.9 A Steering Committee comprising of City Engineer, Head of the Accounts Department and Head of the Audit Department shall be responsible for coordinating the task of collecting information for each of the category of fixed assets. An illustrative list of the assets for which separate teams should be formed is as under:

- Land
- Buildings - the team should include a Civil Engineer or preferably a Structural Engineer
- Roads, Streets and Lanes - the team should include a Civil Engineer
- Bridges, Culverts, Flyovers, Subways and Causeways - the team should include a Civil Engineer or preferably a Structural Engineer
- Furniture & Fixture, etc.

3.10 Separate teams may also be formed for collecting information for other category of the assets under the overall supervision of the Steering Committee. The information gathered should be signed by the members of the concerned team and authenticated by the members of the Steering Committee.

3.11 It is suggested that the Provisional Balance Sheet be prepared as on December 31 of the financial year, so as to facilitate a quick and efficient preparation of Opening Balance Sheet as on April 1 of the next financial year.

3.12 The General Guidelines to be followed for Fixed Assets have been arranged as General Guidelines for Immovable Fixed Assets and General Guidelines for Movable Assets.

Data Collection

3.13 Data collection assumes paramount importance in preparation of the Opening Balance Sheet. The table below gives the list of templates that shall be used for the purpose of data collection. Refer [Chapter 34 of NMAM](#) for the format of templates used for data collection.

Nature of Balance Sheet Item	Category	Form No.
Fixed Assets - Immovable Property	Land	Form 1
	Building	Form 2
	Roads, streets, lanes and footpaths	Form 3
	Bridges, culverts, flyovers, subways and causeways	Form 4
	Drains including underground drains	Form 5
	Water Works Distribution	Form 6
	Public Lighting System	Form 7
	Lakes and Ponds	Form 8
	Capital Work-in-Progress	Form 9
Fixed Assets - Movable Property	Plant and Machinery including machinery of Water Works and Drainage	Form 10
	Vehicles	Form 11
	Furniture and Fixtures	Form 12
	Office Equipments	Form 13
	Other Equipments	Form 14
	Live Stock	Form 15
Investments	Investments	Form 16
Current Assets	Cash Balance	Form 17
	Bank Balance	Form 18
	Details of Advances paid to suppliers / contractors	Form 19
	Details of Loans & Advances to employees	Form 20
	Receivables (including Taxes, Water charges, Rent etc.)	Form 21
	Grants Receivable	Form 22
	Department - wise Inventory	Form 23
	Consolidated Inventory	Form 23A
	Details of Deposits made	Form 24
Loans Payable	Loans Payable	Form 25
Unutilised Grants	Unutilised Grants	Form 26
Reserve Funds	Reserve Funds	Form 27
Current Liabilities	Details of Deposits received	Form 28
	Bills and other payables details	Form 29

3.14 Where the same format has been prescribed for different category of assets, separate sheets shall be used for compiling information in respect of each category of assets. For e.g., Form 13 is used for

compiling information about Office Equipment. Separate Sheets shall be used for compiling information in respect of Computers, Xerox Machines, Air Conditioners, etc.

GUIDELINES FOR IMMOVABLE ASSETS

3.15 The General Guidelines to be followed for Immovable Fixed Assets are as follows:

- a. Conduct physical verification of the immovable assets.
- b. The information collated during physical verification should be cross verified with the existing records maintained for the said fixed assets, if any.
- c. Only such assets, whose ownership vests with the ULB, shall be considered for arriving at the list of assets of the ULB.
- d. Details of the assets, whether freehold or leasehold should be specified separately for each of the assets.
- e. Cost of acquisition / construction.
 - The cost of acquisition / construction should also include, in addition to the cost incurred in acquiring / constructing the said asset, the cost incidental to the acquisition / construction such as registration charges, stamp duty, consultancy charges (including legal charges) etc.
 - In case the cost of acquisition / construction is not ascertainable, an estimate of cost that would have been incurred for the acquisition / construction should be provided.
 - For assets funded out of grants, the cost of acquisition of the assets would be net of the grant proceeds utilised for the purchase of the asset
 - In case an asset has been acquired / created free of cost, the asset should be recorded at a nominal value.

Cost of improvement. Any cost incurred for improvement of assets, which results in increasing the life or the utility of the asset, should be considered as an improvement cost. Expenses of a normal and routine nature incurred for the repairs and maintenance of assets should not be considered as an improvement cost.
- f. Date of Acquisition. The date of acquisition is the date on which the property was legally vested with the ULB. In case of acquisition of fully constructed civil property, specify the estimated date when the construction of the structure. Also specify the date of acquisition of the said structure by the ULB.
- g. Mode of Acquisition. Specify whether the fixed assets have been purchased, constructed, transferred or gifted to the ULB or has been attached under any Act.
- h. From whom acquired. Specify the person / institution from whom the assets have been acquired.
- i. Reference of available title documents. It has to be ensured that all the relevant documents like title deeds, contracts, invoices etc. are available with the ULB. A reference of the same has to be provided in the formats provided. In case the original documents are not available, a duplicate set should be made.
- j. The following should be specified in the Remarks Column:
 - Source of finance for the acquisition / construction of the assets.
 - Any restriction/covenants on the transfer of assets.
 - Pending litigations in respect of the fixed assets
 - Any unauthorised use or encroachment on the fixed assets
- k. The Accounts Department shall provide appropriate depreciation for assets held by the ULB to arrive at the book values of the assets. Depreciation shall be provided at the rates and calculated up to the date of opening balance sheet from the date of acquisition / installation as the case may be as per the principles laid down under the chapter 21 on Fixed assets.

- 3.16 The General Guidelines to be followed for Movable Fixed Assets are as follows:
- a. Conduct physical verification of the movable assets. Allot an asset reference number to all categories of plant and machinery, vehicle, furniture, fixture and equipment (including office equipment).
 - b. The information collated during physical verification should be cross-verified with the existing records maintained for the said fixed assets, if any.
 - c. Cost of acquisition / construction is the same as discussed in Para. 3.15 (e)
 - d. Cost of improvement. Any cost incurred for improvement of vehicles such as building of body for buses, hearse vans, ambulances, fire brigades, etc. should be considered as an improvement cost.
 - e. Date of Acquisition. The date of acquisition is the date on which the property was legally vested with the ULB.
 - f. Mode of Acquisition is the same as discussed in Para. 3.15 (g).
 - g. From whom acquired is the same as discussed in Para 3.15 (h).
 - h. Reference of available title documents. It has to be ensured that all the relevant documents like title deeds, contracts, invoices etc. are available with the ULB. A reference of the same has to be provided as per the formats. In case the original documents are not available, a duplicate set should be made.
 - i. The following should be specified in the Remarks Column:
 - Source of finance for the acquisition / construction of the assets.
 - Any restriction/covenants on the transfer of assets.
 - Pending litigations in respect of the fixed assets
 - Any unauthorised use of the fixed assets

GUIDELINES FOR DETERMINATION OF VALUE OF CURRENT ASSETS

3.17 In respect of Investments, Receivables, Other Current Assets, Loans and Advances, Borrowings/Loans payable, Unutilised Grants, Reserve Funds and Current Liabilities, the ULBs should compile the information required in the formats from the registers maintained by them currently. As far as possible, all details should be collected department-wise and then consolidated to give an overall position for the ULB.

3.18 Investments can be either short term or long term. Long term investments are the investments which are held by the ULB for more than one year. For the purpose of preparation of Opening Balance Sheet, the ULB shall have to do a 100% physical verification of all the original certificates.

3.19 Cost of investments shall include the cost of acquisition like brokerage, duties, etc. Investment made out of grants received in advance, special funds and earmarked funds shall be specifically identified for each of the grant, special fund or earmarked fund and shall be captured in separate sheets.

3.20 The ULB shall also provide for income receivable, expenses payable, provisions for current assets, loans and advance as per the accounting principles prescribed in each of the chapters described earlier. These provisions shall also appear in the opening balance sheet as follows.

- All income receivable shall be carried forward as current assets
- All expenses payable shall be carried forward as current liabilities
- Provisions for aged receivables shall be as per the accounting principles and the respective assets shall be netted off for the same.

GUIDELINES FOR DETERMINATION OF VALUE OF LOANS/BORROWINGS

3.21 The loans can be either short term or long term depending on the tenure of repayment. Any loan that is repayable after one year is treated as a long term borrowing. As part of the Opening Balance Sheet exercise, the Municipality shall have to verify all the original papers to determine the exact liability.

MUNICIPAL FUND

3.22 Once, the values of all the assets and liabilities are arrived, the ULB shall record the net value or the balancing figure under the head "Municipal Funds".

TRANSITIONAL ISSUES

3.23 ULBs may encounter few of the transitional issues as illustrated below while transforming data from manual system of accounting to a computerised data environment:

- Availability of Historical Data
- Knowledge and Understanding capacity of Staff.

States and ULBs shall develop a detailed implementation plan to ensure smooth shift to the new system. Sustainability shall also be addressed in the implementation plan.

ACCOUNTING ENTRY FOR INCORPORATION OF BALANCES IN THE OPENING BALANCE SHEET

3.24 MMC shall pass the following entry for incorporating the opening balances.

Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount (Rs)	Books/Register to be entered in to
410-(b)	Fixed Assets	Dr	3,27,500		Journal Book, Ledgers
412-(b)	Capital Work in progress	Dr	24,000		
431-20-(a)	Cess receivable	Dr	16,500		
460-30-(a)	Loans and advances	Dr	11,000		
431-40-(a)	Interest accrued on loans	Dr	500		
431-(b)	Octroi receivable	Dr	3,000		
431-10-(a)	Property tax receivable	Dr	21,500		
460-40-(a)	Capital advances	Dr	6,000		
430-10-(a)	Stock on hand	Dr	38,000		
450-10-(a)	Cash in hand	Dr	1,000		
450-21-(a)	Bank balance	Dr	29,000		
450-41-(a)	Provident fund bank account	Dr	55,000		
450-42-(a)	Pension fund bank account	Dr	45,000		
450-41-(a)	Water supply bank account	Dr	14,000		
431-30-(a)	Fees & User charges receivable	Dr	28,000		
310-10-(a)	To Municipal Funds	Cr		1,95,500	
311-70-(a)	To Earmarked Funds (Pension Fund)	Cr		45,000	
311-71-(a)	To Earmarked Funds (Provident Fund)	Cr		55,000	
311-13-(a)	To Earmarked Funds (Water supply Fund)	Cr		14,000	
312-50-(a)	To Reserves	Cr		96,700	
340-80-(a)	To Rent Deposits	Cr		15,000	

Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount (Rs)	Books/Register to be entered in to
340-80-(a)	To Security deposit	Cr		20,000	
411-(b)	To Accumulated depreciation	Cr		52,500	
461-10-(a)	To Provision for Loans & Advances	Cr		5,000	
432-20-(a)	To Provision for outstanding Cess	Cr		5,000	
432-10-(a)	To Provision for receivables	Cr		500	
350-10-(a)	To Creditors - suppliers	Cr		75,000	
360-10-(a)	To Provision for expense	Cr		34,050	
432-10-(a)	To Provision for Property tax	Cr		4,750	
432-10-(a)	To Provision for Water tax	Cr		3,000	

(a) Insert Detailed Head Codes of Account as applicable

(b) Insert Major and Detailed Head Codes of Account as applicable

Note: The individual accounts within the major account heads listed above shall be debited/credited in above. Journal voucher prepared for incorporation of account balances in the Opening balance sheet.

REVISION OF OPENING BALANCE SHEET

3.25 Please refer [Chapter 34](#) on “Guidelines for Preparation of Opening Balance Sheet” for accounting entries to be passed for revision of opening balance sheet.

SUMMARY

1. Preparation of Opening Balance Sheet is one of the steps in conversion of the accounting system from Cash Based to Accrual Based Double Entry System.
2. Steps to be followed to prepare an opening balance sheet are as follows:
 - a. Updating of the records/ creation of records for the purpose of compiling and identifying the assets and liabilities of the Urban Local Bodies (ULBs)
 - b. Verification of the assets and liabilities, including physical verification.
 - c. Compilation of the information collected.
 - d. Preparation of opening balance sheet with the required disclosures.
3. The general guidelines to be followed while preparing the formats for the assets and liabilities are provided elaborately in this chapter.
4. The list of forms/templates that shall be used for data collection are provided in this chapter.
5. Specific guidelines for recording, valuing, accounting of immovable assets, current assets, loans and borrowings etc are discussed in this chapter.
6. Accounting entry for incorporation of the balance in the opening balance sheet are explained with illustration.

EXERCISE

ANSWER THE FOLLOWING QUESTIONS

1. What is the purpose of preparing an opening balance sheet?
2. What are the various steps involved in preparation of opening balance sheet?
3. What does “Municipal Fund” signify in the opening balance sheet?
4. What is the significance of Bank Reconciliation Statement in the process of preparation of opening balance sheet?
5. The balance sheet for the year 2006-07 was prepared. Subsequently it was noticed that building was understated to the extent of Rs 5, 00,000. How would you rectify this mistake?

BROAD STRUCTURE FOR PREPARING PRESENTATION SLIDES

- Benefits of preparing a Balance sheet
- Steps in preparing opening balance sheet
- Overview of the general guidelines
- Forms for data collections
- Guidelines for immovable assets
- Guidelines for determination of value of current assets
- Accounting entry for incorporating balances in the opening balance sheet.

CHAPTER 4

CODIFICATION STRUCTURE & CHART OF ACCOUNTS

LEARNING OBJECTIVE

At the end of this Chapter, the reader will...

- *Understand the meaning of Chart of Accounts*
- *Be familiar with the coding logic and how to define a coding structure*
- *Be familiar with the mandatory and optional groups under coding structure*
- *Be familiar with the structure of function code, account code and fund code*

CHAPTER OVERVIEW

This chapter contains the recommendations relating to the Chart of Accounts (COA) and the Codification structure. COA provides the structure for recording and reporting financial transactions in a uniform manner by all the ULB. This chapter focuses on the codification structure that has to be followed by all ULB while accounting of transactions with respect to ULB and the methodology for formulating these codes.

INTRODUCTION (Refer Para 4.1 to 4.3 of NMAM)

4.1 COA defines the heads under which the income, expenditure, assets and liabilities of local bodies are classified and facilitates maintenance of accounts and preparation of financial statements. A well designed COA shall not only fulfill accounting requirements but also the Budgeting and MIS requirements and shall be flexible enough to consolidate and collapse to facilitate generation of various information reports. The structure suggested in this chapter, have been developed based on the recommendations of Task Force Report and NMAM with limited modifications to meet the requirements.

CODIFICATION STRUCTURE (Refer Para 4.4 to 4.15 of NMAM)

4.2 The codification structure proposed facilitates capture of all type of financial information within an ULB, which are essential in a government set-up. Each type of classification is considered as a group.

4.3 The mandatory groups for all local bodies are

- i. Functions
- ii. Account Heads

Optional Groups are

- i. Functionary (Responsibility center/department)
- ii. Field (Geographical center)
- iii. Funds

4.4 **Functions:** Functions shall represent the various functions or services carried out by the local body. Budgets in ULB are normally prepared function wise.

4.5 **Account Heads:** Account heads shall represent the nature of the income or expenditure.

4.6 **Functionary (Responsibility center/department):** Functions are provided through various responsibility/cost centres called departments.

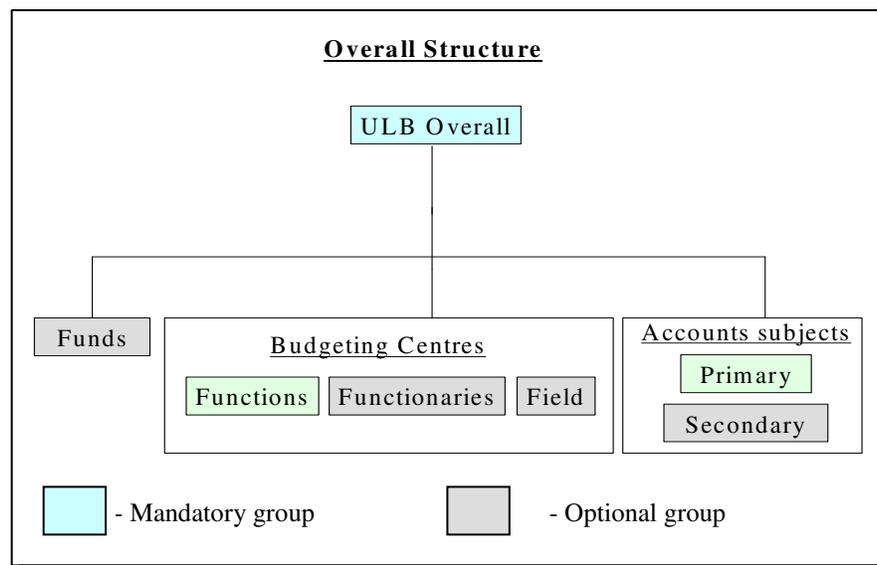
4.7 **Field (Geographical center):** Geographical dispersion of these activities may also be monitored more so in the context of introduction of Ward committees and decentralisation. Hence, some ULB identify its income and expenditure budgets at function, functionary (department) and field level.

4.8 **Funds:** ULB set up various funds for meeting certain objectives. Income and expenditure under these funds are to be identified and disclosed separately. However the method of disclosure may be different. When they adopt the integral concept, separate books of accounts are not maintained for the funds. Identity is created by providing separate account heads to capture the income and expenditure for each such fund. In some states, separate books of accounts and financial statements are maintained considering it as a separate accounting entity. In such cases, the identity of the fund (entity) is required as an additional classification. For example in some States Water Supply function are accounted through a separate fund.

4.9 Each group can have various levels within it to drill down further information. The levels even in the mandatory groups can be either mandatory or optional based on the requirements. First level in function and account heads are mandatory for all ULB and other levels are left to the states to define. This would mean that all ULB would have to use the function codes and account codes as defined in this manual only. For other levels each State can define the codes though some of them may be mandatory at the State level. Similarly for budgeting the functionary group, would be mandatory though each State can define these heads based on its internal organisation structure. Similarly, States or cities, which have decentralised accounting at zones/boroughs etc and prepare budgets at these levels, would have to use the field group as mandatory.

4.10 An overview of the suggested structure for mandatory information and overall structure is provided in the Exhibit 4.1 given below.

Exhibit 4.1



4.11 Each of the two mandatory and the three optional categories can be placed in any sequence for the sake of MIS reports/Budget reports. These groups are mutually exclusive and can be operated individually or in a combined way.

4.12 In some local bodies, accounts are maintained in a decentralised set up. Each of the locations in which accounts are maintained is called Accounting Unit. For example in some big local bodies, accounts are maintained at Zones. In this case each Zone and the Head Office are called Accounting units. Each accounting unit will maintain accounts in the same way. All transactions are identified under the groups mentioned above at the Accounting Unit level. Then it is consolidated at Head Office level to present the information at the ULB level.

4.13 If the accounting unit is lower than that say circles, then accounts are prepared Circle wise and can be consolidated Zone wise as well at the ULB level. The same process can be continued at any lower level. The intention here is to facilitate decentralization of accounting.

CODING LOGIC AND PROCEDURE (Refer Para 4.16 to 4.38 of NMAM)

4.14 The codification logic for each of these groups is explained below.

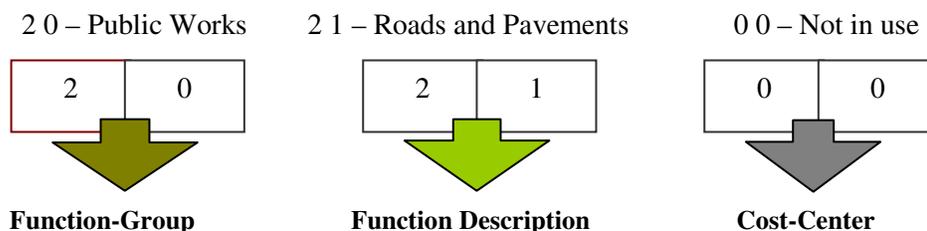
4.15 Please refer Chapter 4 of NMAM – “Codification Structure & Chart of Accounts” for detailed listing of Function Code and Account Code.

Functions

4.16 Functions of the ULB can have three levels within it. First level under this group represent various functions both obligatory and discretionary. Second Level in function would represent the particular type of service under a function, known as “Function Description” and third level will represent a particular cost center, Known as “Cost Centre”, which provides the service. The first level of functions/codes is mandatory for all ULB. All functions of the ULB are broadly classified under 10 major groups. Within this long listing of functions has been made. These functions are fitted within the group with each group having flexibility to go upto 9 sub functions. States can introduce two sub –levels of 2 digits each to suit their requirements.

4.17 New codes or additions to this list of functions shall be made only at the national level. A committee is likely to be set up under Ministry of Urban Affairs to which C& AG will also be a member who shall act as the authority to add new functions in the list. This can be triggered by a request from states. Refer Chapter – 4 “Codification Structure & Chart of Accounts” of NMAM for detailed list of function codes.

4.18 The structure of the function code can be explained with the help of the following example Expenditure on Repair and Maintenance - Roads and Pavements shall be shown under Roads and Pavements - Public works, which is one of the obligatory functions of the ULB. The accounting code for the function code will be entered as follows



4.19 Any transaction for Income/ Expenditure/ Asset/ Liability shall be first passed through the function code, i.e. before entering the Accounting code.

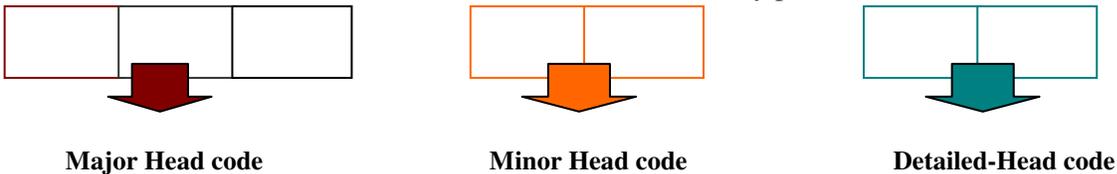
Accounting subjects

4.20 Accounting subjects can be divided into two levels: Primary and Secondary. Primary account code represents the subject of the income and expenditure.

4.21 Primary Account Codes: The Code of an Account head shall be numeric and shall be 7 digits. A 7 digit code is suggested to give flexibility to add new codes and for each State to define certain of its unique requirements. The code is structured into:

- Major Head Code;
- Minor Head Code; and
- Detailed Head Code.

4.22 The structure of the Code of Accounts is schematically presented below:



Major head code

4.23 The ***first digit*** of the Major Head Code shall indicate the nature or type of the account. The first digit shall be assigned one of the following numbers depending on the nature of the account:

- '1' shall denote an account relating to 'Revenue Income'
- '2' shall denote an account relating to 'Revenue Expenditures'
- '3' shall denote an account relating to 'Capital Receipts & Liabilities'
- '4' shall denote an account relating to 'Capital Expenditures & Assets'

4.24 The ***next 2 digits*** of the Major Head Code shall denote the group codes for the various head of accounts. For example,

- Code 1-10 shall denote 'Tax Revenue' related accounts
- Code 2-10 shall denote 'Establishment Expenses' related accounts
- Code 3-50 shall denote 'Other Liabilities' related accounts
- Code 4-10 shall denote 'Fixed Assets' related accounts

4.25 It is to be noted that the financial statements of an ULB are drawn at Major Head codes of account and hence this is a mandatory level of information. No major code addition is likely to happen, as this format is the final one. In case the same is required it has to be approved by the committee only.

Minor head Code

4.26 The Minor Head Code shall be of 2 digits. An item covered by a Minor Head Code is a subset of the Major Head Code. Thus, it shall be necessary to refer the Minor Head Code in conjunction with the associated Major Head Code.

4.27 The Minor Head Codes provide further details of transactions in respect of the Major Head Code it is associated with.

4.28 **For example:** Under the Major Head Code 110 relating to 'Tax Revenue', the Minor Head Code 01 shall denote 'Property Tax'

4.29 It is to be noted that the schedules to financial statements of an ULB are drawn at minor head codes of account and hence this is a mandatory level of information. Minor codes provided in the manual are mandatory. Additions to minor codes can be made by the state governments as per the logic provided in the manual. All additions made shall be intimated to the committee. Committee may introduce additional minor codes as mandatory at some periodicity based on the intimations received.

Detailed head Code

4.30 The Detailed Head Code shall be of 2 digits. An item covered by a Detailed Head Code is a subset of the Minor Head Code. Thus it shall be necessary to refer the Detailed Head Code in conjunction with the associated Minor Head Code.

4.31 The Detailed Head Codes provide further details of transactions in respect of the Minor Head Code it is associated with.

4.32 For example, under the Minor Head Code of Account 110-01 covering Property Tax, the Detailed Head Code 01 shall denote 'Property Tax from Residential Properties'. Thus, under the Minor Head Code of Account 110-01 in respect of 'Tax Revenues from Property Tax', the Detailed Head Code 01 shall represent 'Property Tax from Residential Properties'. The Account Code for this will be 110-01-01.

4.33 It is to be noted that the detailed heads are to be identified by the States. States can also give flexibility to the ULB to add new heads. For illustrative listing of detailed heads under minor heads refer Chapter 4 – "Codification Structure & Chart of Accounts" of NMAM.

Secondary Account codes

4.34 This is optional and would depend on requirements of a local body. These would typically represent the subsidiary ledgers and other analysis ledgers. For example, contractors control account can be maintained contractor wise at this level. This level is needed only for the internal control of the ULB and has no relevance at the state or national level. It is therefore not proposed to prescribe any codification structure for the same.

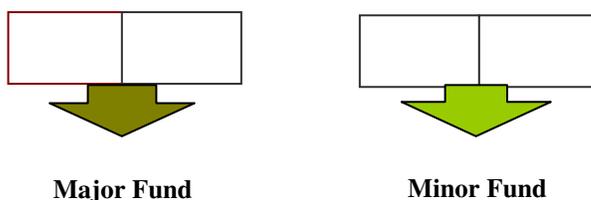
Funds

4.35 Depending on requirements, levels can be introduced. Funds can have sub- level within it. The codification structure for the funds may consist of the following:

- Major Fund and
- Minor Fund

4.36 Major Fund code would represent the broad categorisation of Funds and minor Fund within it represents a particular Fund.

4.37 The Code of a Fund shall be numeric and can be 4 digits. The structure of the Code for Fund would be as follows



4.38 For example, Employee Funds can be a major fund and Pension fund can be Minor Fund within that.

Functionary

4.39 In the government set-up, demands for expenditure are drawn by the department discharging the functions and become the responsibility center for the assigned functions. Functionary group represents this. Each sub-level within this group typically can represent the organisational structure within the ULB. This level is used only for the internal control of the ULB. It is therefore not proposed to prescribe any codification structure for the same.

Field

4.40 Field represents the way the ULB are aligned geographically. Sub-levels in this group will be based on the territorial hierarchy. Number of digits at each level can range from 1-3 depending on the size of the local body. This is different from accounting unit as explained under the overview section of this chapter. Field represents the area to which the expenditure or payment relates. Location or accounting unit represents the unit at which it is accounted. This level is needed only for the internal control of the ULB. It is therefore not proposed to prescribe any codification structure for the same.

ULB Codes

4.41 In addition to this to facilitate state level or national level aggregation, each ULB can be assigned a code. This could represent the state to which it is attached and the unique code assigned by the State. While state code can be assigned at the national level, the state governments shall prescribe a code for each Municipal body. This can be in the following format

STATE – DISTRICT – CATEGORY- CODE

4.42 Category can represent the way local bodies are classified within the state. (e.g. Corporations, Municipality etc.)

GENERAL GUIDELINES AND INSTRUCTIONS FOR USAGE OF CHART OF ACCOUNTS

(Refer Para 4.39 of NMAM)

4.43 The following guidelines should be followed while using the chart of accounts:

- Function codes, Major and Minor Head Codes given in the manual would apply uniformly to all ULB.
- Any requirement for an addition to functions shall be requested by the States to the committee. Only the committee set up in this regard can add new codes under this head.
- No major code addition is likely to happen as this format is more or less the final one. In case the same is required it has to be approved by the committee only.
- States can add minor heads at the state level. All additions made shall be intimated to the committee. Committee may introduce additional minor codes as mandatory at some periodicity based on the intimations received.
- States shall identify the detailed heads.
- ULB shall identify the operative detailed heads, with the same description and code number for accounting purposes. These Heads will be commonly used in all the ULB within a State. Detailed heads unique to a particular ULB can also be added with the approval of the State Government.

- Some ULB may have further break up in their activities requiring sub-heads at a level above detailed heads. ULB can induct sub-heads under minor head and thereafter detailed heads may be suitably opened, with the approval of State Government.
- The Accounts Department shall maintain a master index of all the Code of Accounts being utilised by the Municipal Body.
- Ledger Accounts corresponding to the Account Codes need to be opened by an ULB only in respect of those transactions which arise at that ULB. Thus all the Account Codes given in this Report may not be used by every ULB.

ILLUSTRATION (Refer Para 4.41 of NMAM)

4.44 Let us understand the coding logic with the help of an illustration.

4.45 **Tuition Fee of Rs. 1,000/-** collected by the 'Primary school in an ULB where they maintain separate Fund for Education. Information to be captured under all three levels of codification structure is given below.

Debit: Cash / Bank

Level 1 Funds: Education Fund is a separate fund under the Municipal Fund Group. (Code for Municipal Fund – Education: 10-03)

Level 2 Budgeting Centres: Not applicable for cash and bank Accounts

Level 3 Accounting subjects: Cash account under the Asset head cash and Bank Balances. (Code for Cash and bank Balances – Cash: 450- 10)

Credit: Income

Level 1 Funds: Education Fund is a separate fund under the Municipal Fund Group. (Code for Municipal Fund – Education: 10-03)

Level 2 Budgeting Centres: This is an income under the Education function/ service collected by the Primary schools department. (Code for Education – Primary Schools: 82)

Level 3 Accounting subjects: Tuition Fee is a user Charge under the Income from Fees and User Charges. (Code for Fees and User Charges – Other Fees: 140-40)

Accounting Entry to be passed is given below:

Fund Code	Budgeting Centre Code**	Account Code	Accounting Entry (Illustrative Heads)	Dr/ Cr	Debit Amount(Rs) Illustrative figures	Credit Amount(Rs) Illustrative figures
10-03		450-10-(a)	Cash Account	Dr	1,000	
10-03	08-82	140-40-(a)	To Fees & User charges - Other Fees	Cr		1,000

* This is applicable only when an ULB maintain accounts under each Fund. Codes shall be defined by ULB based on logic provided earlier in the chapter and codes provided here are illustrative only.

** Except Function code, other code numbers are defined by the ULB depending on its requirements and codes provided are illustrative.

(a) Insert Detailed Head Codes of Account as applicable

4.46 It may be noted that two levels that is Fund and Accounting subjects are to be captured for every debit and credit in an entry, whereas Budgeting center details are captured only for the respective budgetary control accounts for example Revenue Expenditure, Income, and Capital Expenditure. Whenever Budgeting centres are not applicable “00” may be used to denote the field in an IT environment. Once a transaction is identified to a fund all debits and credits in the transaction is attached to the same Fund and hence common for the entire entry.

4.47 To summarise, Fund code shall be same for all debits and credits in a transaction, Budget Codes will be applicable only for certain debits and credits in a transaction; Account codes shall vary for every debit and Credit in a transaction.

4.48 Please refer Chapter 4 – “Codification Structure & Chart of Accounts” of NMAM for other illustrations on the above subject.

4.1 The coding logic for the above structure is summarized in Table 4.1.

Table 4.1
Coding Structure

Component	Description of the Coding Structure	Coding Structure								
Fund	2 levels of 2 digits each - Used to capture activities/ group of activities for which separate books of accounts are required to be maintained. FUND Codes to be prescribed by the State Government.	<table border="1" style="display: inline-table; border-collapse: collapse;"> <tr> <td style="padding: 2px 5px;">X</td> <td style="padding: 2px 5px;">X</td> <td style="padding: 2px 5px;">X</td> <td style="padding: 2px 5px;">X</td> </tr> </table>	X	X	X	X				
X	X	X	X							
Function	Can be up to 4 levels - Initial 2 levels of 2 digits to be as per the recommendations of the NMAM. The first level represents the function group, the second level the function and the 3 rd and 4 th levels of 2 digits each capture the Sub-Functions and Sub Sub-Functions. NMAM gives the list of functions up to the second level and the States shall have the discretion to add the 3 rd and the 4 th levels.	<table border="1" style="display: inline-table; border-collapse: collapse;"> <tr> <td style="padding: 2px 5px;">X</td> </tr> </table>	X	X	X	X	X	X	X	X
X	X	X	X	X	X	X	X			
Functionary	NMAM does not recommend a coding logic for Functionary. Functionary code is created more for internal control purposes. The sub level in this code normally represents the organization structure of the ULB.									
Field	To be used to capture Zones and Electoral Wards. Coding Logic to be decided by State Government. Specific Codes to be assigned by each ULB as per their requirement, using the Coding Logic prescribed by the State Government.	<table border="1" style="display: inline-table; border-collapse: collapse;"> <tr> <td style="padding: 2px 5px;">X</td> </tr> </table>	X	X	X	X	X			
X	X	X	X	X						
Account Head Primary Account Code	This is of three levels; The First level of 3 digits represent the Major Head, the next level represents the Minor Head and the last level of two digits represent the Detailed Head.	<table border="1" style="display: inline-table; border-collapse: collapse;"> <tr> <td style="padding: 2px 5px;">X</td> </tr> </table>	X	X	X	X	X	X		
X	X	X	X	X	X					
Account Head Secondary Account Code	Used to capture Sub-Ledgers (Party-wise accounts). Left to the discretion of the ULB.	<table border="1" style="display: inline-table; border-collapse: collapse;"> <tr> <td style="padding: 2px 5px;">X</td> <td style="padding: 2px 5px;">X</td> <td style="padding: 2px 5px;">X</td> <td style="padding: 2px 5px;">X</td> </tr> </table>	X	X	X	X				
X	X	X	X							

SUMMARY

1. Chart of Accounts (COA) defines the heads under which the income, expenditure, assets and liabilities of local bodies are classified and facilitates maintenance of accounts and preparation of financial statements.
2. The codification structure proposed facilitates capture of all type of financial information within an ULB, which are essential in a government set-up. Each type of classification is considered as a group.
3. The mandatory groups for all local bodies are
 - a. Functions
 - b. Account HeadsOptional Groups are
 - i. Functionary (Responsibility center/department)
 - ii. Field (Geographical center)
 - iii. Funds
4. Function represents the various functions or services carried out by the local body.
5. Account heads represent the nature of the income or expenditure.
6. Functions are provided through various responsibility/cost centres called departments (Functionary).
7. Funds: ULB set up various funds for meeting certain objectives. Income and expenditure under these funds are to be identified and disclosed separately.

Coding Logic

8. Functions of the ULB can have three levels within it. First level represent various functions both obligatory and discretionary. Second Level represent the particular type of service under a function, known as “Function Description” and third level will represent a particular cost center, Known as “Cost Centre”, which provides the service.
9. Accounting subjects can be divided into two levels: Primary and Secondary.
10. Primary account represents the subject of Income and expenditure. This code shall have 7 digits and it is structured in to Major, Manor and Detailed Account code.

EXERCISE

1. Indicate the correct alternative in each of the following cases:
 - a. The mandatory group under coding structure for local bodies are
 - i. Account heads
 - ii. Field
 - iii. Fund
 - b. Functions are provided through various responsibility centres called
 - i. Function
 - ii. Field
 - iii. Functionary
 - c. Account heads is divided in to
 - i. Two levels
 - ii. Three levels
 - iii. Four levels
 - d. Primary account code is structured in to
 - i. Major Head code & Minor Head code
 - ii. Minor head code & Detailed Head code
 - iii. Major Head code, Minor Head code & Detailed Head code

2. **Match the following**

	Account code	Account Description
a.	1 – 20	Secured Loans
b.	2 – 30	Assigned revenues & compensation
c.	4 – 10	Vehicles
d.	3 – 30	Operations & Maintenance expense

3. **Identify the relevant Account codes (Major Head- Minor Head – Detailed Head) for the following transactions**
 - i. Property tax income on Residential buildings amounting to Rs 10,00,000
 - ii. Income from grant of transit permit amounting to Rs 1,50,000
 - iii. Payment of wages to temporary workers amounting to Rs 15,00,000
 - iv. Payment of electricity bill amounting to Rs 25,000
 - v. Consumption of Machinery spares costing Rs 15,000
 - vi. Repairs of office equipment amounting to Rs 30,000
 - vii. Depreciation on office buildings amounting to Rs 20,00,000
 - viii. Refund of water charges pertaining to previous year amounting to Rs 35,000
 - ix. Amount collected as security deposit from contractor/Supplier amounting to Rs 2,00,000
 - x. Interest accrued and due on loans amounting to Rs 3,00,000

- xi. Provision for legal expense amounting to Rs 1,75,000
- xii. Construction of Sewerage treatment plant building amounting to Rs 40,00,000
- xiii. Purchase of jeep amounting to Rs 6,50,000.
- xiv. Stock in hand of water supply stores amounting to Rs 30,00,000

BROAD STRUCTURE FOR PREPARING PRESENTATION SLIDES

- Introduction
- Codification structure classification
 - Mandatory groups
 - Optional groups
- Coding logic and procedures
 - Fund
 - Function
 - Functionary
 - Accounting subjects

CHAPTER 5

GENERAL ACCOUNTING PROCEDURES

LEARNING OBJECTIVE

At the end of this Chapter, the reader will...

- *Understand the various primary books of accounts and their use.*
- *Be familiar with the different types of vouchers and their applicability*
- *Be familiar with the accounting procedure for collection and payment of money*
- *Understand the procedure for making entries and posting into the books*
- *Understand the accounting entries for certain transactions like contra entries, stale/obsolete cheques*
- *Be familiar with the internal control to the extent it relates to maintenance of books and their related vouchers.*

CHAPTER OVERVIEW

This chapter focuses on the books of accounts to be maintained and the general accounting procedures to be followed by the ULB under the accrual based accounting system. This chapter also discusses the vouchers used for recording cash/bank and non cash/bank transactions. It also briefly touches upon the accounting entries to be passed in respect of collections, payments and posting to the ledger. It also contains accounting entries for recording stale/obsolete cheques, bank charges, payment of permanent advances etc .It also focuses on the internal control aspect to the extent it relates to maintenance of books of accounts and related vouchers.

INTRODUCTION

5.1 The following accounting documents and books are discussed in this chapter which forms the basis for preparation of financial statements.

A. Documents

I. Vouchers

- i. Receipt Voucher
- ii. Payment Voucher
- iii. Journal Voucher
- iv. Contra Voucher

B. Books of Accounts

II. Primary Books of Entry

- i. Cash Book
- ii. Journal Book
- iii. Ledger

BOOKS OF ACCOUNTS (Refer Para 5.2 of NMAM)

5.2 The books of accounts shall be maintained separately for each financial year as prescribed in the State Act/Rules.

- 5.3 The following are the primary Books of Accounts that shall be maintained at the ULB:
- a. Cash Book (Form GEN-1) shall be the Book of Original Entry for recording transactions involving cash and/or bank. The Cash Book may also be referred to as the Cash and Bank Book. The Cash Book has two sides, viz., “Receipt” and “Payment”. All collections on behalf of the ULB shall be recorded on the “Receipt” side and all payments shall be recorded on the “Payment” side. Separate Cash Books shall be maintained in respect of each bank account. Designated Bank Accounts may be operated for deposit of collections pertaining to Property & Other Taxes, Octroi, Water Supply, Cess, Public Works, Special Funds etc., as has been provided in the applicable rules and regulations.
 - b. Journal Book (Form GEN-2) shall be the book of original entry for recording all transactions other than those involving cash and/or bank. A non-cash/bank transaction is first recorded in the Journal Book by dividing into its debit and credit aspects, from which a posting is done in the relevant ledger account. Recording of income in respect of Property & Other Taxes Bills raised, recording of liability on receipt/approval of supplier’s bills are examples of transactions, which shall be first recorded in the Journal Book.
 - c. Ledger (Form GEN-3) shall be the book that shall contain all the accounts as specified in the Chart of Accounts. The Ledger has two sides, viz, “Debit” (Dr.) and “Credit” (Cr.). The head of account which is “Debited” while recording the accounting entry in the Journal Book (Form GEN-2) or which is recorded on the “Payment” side of the Cash Book (Form GEN-1) shall be posted on the “Debit” side of the Ledger. Similarly the head of account which is “Credited” while recording the accounting entry in the Journal Book or which is recorded on the “Receipt” side of the Cash Book shall be posted on the “Credit” side of the Ledger. Each entry in the Cash Book and the Journal Book shall have a posting in the Ledger (except transactions relating to deposit into or withdrawal of cash from bank or transfer of amount from one bank to another bank account). The Ledger shall provide a listing of all the transactions in respect of a head of account during an accounting period

ACCOUNTING DOCUMENTS: (Refer Para 5.4 of NMAM)

- 5.4 Vouchers prepared at the ULB shall form the base documents for recording the transactions in the Books of Original Entry. The vouchers shall be numbered serially. The accounting documents to be prepared by the ULB are described below:
- a. Cash/Bank Receipt Voucher (Form GEN -4) shall be the document prepared for recording receipt entries in the Cash Book. A cash receipt voucher shall be prepared for receipts in cash and bank receipt vouchers for cheques, demand drafts etc.
 - b. Cash/Bank Payment Voucher (Form GEN-5) shall be the document prepared for recording payment entries in the Cash Book.
 - c. Contra Voucher (Form GEN -6) shall be the document prepared for recording transactions involving deposit of cash into the bank, withdrawal of cash from bank or transfer of amount from one bank to another.
 - d. Journal Voucher (Form GEN-7) shall be the document prepared for recording non cash/bank related transactions.

OTHER REGISTERS/FORMS (Refer Para 5.5 & 5.6 of NMAM)

5.5 The specific books of accounts, forms and registers to be maintained at the various departments of the ULB can be defined in the State Manual depending on the rules and regulations governing them. However inputs required from various departments for recording the transactions are prescribed in the subsequent chapters. Some of the other general registers and forms which shall be required to be maintained are provided in Table 5.1.

Table 5.1
Other General Registers and Forms

Sr. No.	Name of the Form	Form Number
1	Receipt	GEN-8
2	Receipt Register	GEN-9
3	Statement on Status of Cheques Received	GEN-10
4	Collection Register	GEN-11
5	Summary of Daily Collection	GEN-12
6	Register of Bills for Payment	GEN-13
7	Payment Order	GEN-14
8	Cheque Issue Register	GEN-15
9	Register of Advance	GEN-16
10	Register of Permanent Advance	GEN-17
11	Deposit Register	GEN-18
12	Summary Statement of Deposits Adjusted	GEN-19
13	Demand Register	GEN-20
14	Bill for Municipal Dues	GEN-21
15	Summary Statement of Bills Raised	GEN-22
16	Register of Notice Fee, Warrant Fee, Other Fees	GEN-23
17	Summary Statement of Notice Fee, Warrant Fee, Other Fees	GEN-24
18	Register of Refunds, Remissions and Write-offs	GEN-25
19	Summary Statement of Refunds and Remissions	GEN-26
20	Summary Statement of Write-Offs	GEN-27
21	Statement of Outstanding Liability for Expenses	GEN-28
22	Documents Control Register/Stock Account of Receipt/Cheque Book	GEN-29
23	Register of Immovable Property	GEN-30
24	Register of Movable Property	GEN-31
25	Register of Land	GEN-32
26	Function-wise Income Subsidiary Ledger	GEN-33
27	Function-wise Expense Subsidiary Ledger	GEN-34
28	Asset Replacement Register	GEN-35

PROCEDURE TO BE FOLLOWED FOR ACCOUNTING OF COLLECTIONS (Refer Para 5.7 of NMAM)

5.6 The collections in respect of the receipts of the ULB may be made at Collection Offices (i.e. at the department, Ward Offices, Single-Window, etc.) or at other Collection Centres (i.e. branches of Designated Banks and other Collection Centres). Refer Chapter 5 – “General Accounting Procedures” of NMAM for the procedure to be followed for collection at collection offices, deposit of amount collected in the bank, remittance to other collection offices, entry of the collection in to collection register etc.

Accounting entry for Collection\receipt

5.7 Preparation of Bank Receipt Voucher. The Accounts Department shall prepare a Bank/Cash Receipt Voucher (Form GEN-4) for all collections made in Cash/Cheque/Demand Draft and pass the entry for recording the collections based on the Summary of Daily Collection (Form GEN-13) received on a daily basis from collection offices.

5.8 For example, an ULB receives on 1st April 2006 a Security deposit of Rs 5,000 and deposits it in bank.

- a. Journal Entry to be passed: Accounts Department shall pass the following entry for accounting the deposit received.

Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs) Illustrative figure	Credit Amount(Rs) Illustrative figure	Books to be entered in to
450-21-(a)	Bank Account*	Dr	5,000		Cash book, Ledger
340-10-(a)	To Deposit Contractors – Security Deposit	Cr		5,000	
* Specify name of the Bank and Account number (a) Insert Minor Head Codes of Account as applicable					

- b. Entry in Cash Book. In practice, the above entry shall be passed in the Main Cash Book (Form GEN-1), in the “Bank” column on the “Receipt” side, as follows:

Cash Book of _____ Name of ULB (Main)

Receipt								Payment							
Sr. No.	Date	Rept. Vchr. No.	Code of Account	Particulars of Receipt	L/F	Cash Amount (Rs.) Illustrative figures	Bank Amount (Rs.) Illustrative figures	Sr. No.	Date	Pymt. Vchr. No.	Code of Account	Particulars of Payment	L/F	Cash Amount (Rs.) Illustrative figures	Bank Amount (Rs.) Illustrative figures
	1/4/06		340-10-(a)	To Deposit from contractors – Security Deposit			5,000								

(Extracted Cash Book)

- c. Posting in the Ledger. From the Cash cum Bank Book, a posting shall be made to the Ledger (Form GEN-3) in the “Deposit from Contractors - Security Deposit ” Account on the “Credit” side, as shown below:

Deposit from contractors - Security Deposit

Dr.					Cr.				
Date	Head of Account	Particulars	Folio	Amount (Rs.) (Illustrative figure)	Date	Head of Account	Particulars	Folio	Amount (Rs.) (Illustrative figure)
					1/4/06	450-21-01	By Bank Account		5,000

- d. Updation of Subsidiary Ledgers. The Accounts Department shall maintain separate Subsidiary Ledger for each of the Major revenues in Form GEN – 33. The Subsidiary Ledgers would provide function-wise break-up of above-mentioned income earned/received by the ULB on a daily basis. Separate folios shall be maintained for each function within the Subsidiary Ledger for recording incomes in respect of each function. When some income is earned, it will be first recorded in the Cash Book on the receipt side or in the journal from bills submitted by the concerned departments. Thereafter the entry will be posted to the credit of the appropriate income account in the Main Ledger. Simultaneously, the amount will also be recorded in the folio for the concerned function in the Subsidiary Ledger under the respective income column.
- e. This is illustrated with reference to the Function Health Department which has received income from various type of heads as listed below:

Day 1

License fee: Rs. 1,000

Registration fees from patients: Rs. 500

Sale of Medicines: Rs. 10,000

Day 2

X-ray and Pathology Charges: Rs. 2,000

Sale of Tender Forms: Rs. 500

Receipt of Malaria Control Grant Rs.5,000

- f. The folio for Revenue in the Subsidiary Ledger shall provide for separate columns for various major heads of Income for which the incomes are received. The details of income received, after being posted in the general ledger, shall be posted in the relevant Subsidiary Ledger as follows:

Table 5.2
Function wise Income Subsidiary Ledger

Date	Ref. No.	Particulars	Total Amount	Function : Health			
				Revenue Grants	Fees & User charges	Sale & Hire Charges	...
1 2	1	License Fees	1,000		1,000		
	2	Registration Fees from patients	500		500		
	3	Birth & Death Fees	10,000		10,000		
	4	X-Ray and Pathology Charges	2,000		2,000		
	5	Sale of Forms	500			500	
	6	Malaria Control grant	5,000	5,000			
	:						
	:						
		Total for the month	19,000	5,000	13,500	500	
		Cum. total at the beginning of the month	NIL	NIL	NIL	NIL	NIL
		Cum. Total at the end of the month	19,000	5,000	13,500	500	

- g. Each of the above entries will be first posted in the respective ledger accounts in the Main Ledger. Thus, *the Main Ledger will be a complete record from which a Trial Balance can be prepared.* However, *for ascertaining function-wise details the Subsidiary Ledger will need to be referred.*
- h. Summary of major head wise income for each of the function may be prepared from the Subsidiary Ledgers in the following format (Table 5.3).

Table 5.3
Summary of major head wise Income

Sl. No	Function code	Functions Head	Total Income	Major Heads of Income			
				Revenue Grants	Fees & User charges	Sale & Hire Charges	...
		Health Public Works Civic Amenities	19,000	5,000	13,500	500	
Total for the major Heads of Income			19,000	5,000	13,500	500	

- i. Summary total of major heads of Income prepared as stated above must agree with the major income head wise schedules prepared from Trial Balance.

PROCEDURE TO BE FOLLOWED FOR ACCOUNTING OF PAYMENTS (Refer Para 5.8 of NMAM)

5.9 The general procedure in respect of payments, shall be applicable for all payments made by the ULB including payment of supplier's/ contractor's bills, refund of taxes, payment of advance, refund of deposits, investments made, loan repayments, etc. Refer Chapter 5 – "General Accounting Procedures" of NMAM for procedure to be followed for receipt of bill/claims, preparation of pay order, passing of bill etc.

- Preparation of a Cash/Bank Payment Voucher. A Cash/Bank Payment Voucher (Form GEN-5) shall be prepared for payment and verified.
- Recording of entry for payment. After the signing of the Cash / Bank Payment Voucher, the Accounts Department shall pass the entry for the payment.
- For example a ULB makes a payment to a contractor towards construction of a building block amounting to Rs 10,000 on 25th May 2006.
- Recording of entry for payment: The Accounts Department shall pass the following entry for payment of contractors bill

Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs) Illustrative figure	Credit Amount(Rs) Illustrative figure	Books to be entered in to
350-10-(a)	Creditors – Contractors Control Account	Dr	10,000		Cash book, Ledger
450-21-(a)	To Bank Account *	Cr		10,000	
* Specify name of the Bank and Account number (a) Insert Minor Head Codes of Account as applicable					

- e. Entry in Cash Book : In practice, the above entry shall be passed in the Cash Book (Form GEN-1), in the “Bank” column on the “Payment” side as follows:

Cash Book of _____ the name of the ULB

Receipt						Payment							
Sr. No.	Date	Rept. Vchr. No.	Code of Account	Particulars of Receipt	L/F	Bank Amount (Rs.) Illustrative figures	Sr. No.	Date	Pymt. Vchr. No.	Code of Account	Particulars of Payment	L/F	Bank Amount (Rs.) Illustrative figures
								25/5/06		350-10-(a)	By Contractors Control Account		10,000

- f. Posting in the ledger: From the Cash Book, posting in the ledger shall be made to the ledger (Form GEN -3) as follows:

Contractors Control Account

Dr.					Cr.				
Date	Code of Account	Particulars	Folio	Amount (Rs.) (Illustrative figure)	Date	Code of Account	Particulars	Folio	Amount (Rs.) (Illustrative figure)
25/5/06	450-21- (a)	To Bank Account *		10,000	←				

(a) Insert Minor Head Codes of Account as applicable

- g. Updation of Subsidiary Ledgers for expenditures. The Accounts Department shall maintain separate Subsidiary Ledger for each of the Major expense head in Form GEN – 34. The Subsidiary Ledgers would provide function-wise break-up of above-mentioned expenses incurred by the ULB on a daily basis. Separate folios shall be maintained for each function. When some expenditure is incurred, it will be first recorded in the Cash Book on the payment side or in the credit side from journal bills submitted. Thereafter the entry will be posted to the credit of the appropriate expense account in the Main Ledger. Simultaneously, the amount will also be recorded in the folio for the concerned function in the Subsidiary Ledger under the respective expense column.
- h. This is illustrated with reference to the Function Public works, which have incurred various types of expenses as listed below.
- Day 1
Salaries of staff Rs. 10,000
Books & Periodicals Rs. 1,000
Consumption of stores Rs.3,000
- Day 2
Repairs to Roads Rs.20,000
Communication expenses Rs.1,000
Computer consumables Rs.2,000
- i. The folio for the Expense in the Subsidiary Ledger shall provide for separate columns for various major heads of expenses. The details of expenses incurred, after being posted in the general ledger under the respective expense head, shall be posted in the relevant Subsidiary Ledger as follows:

Table 5.4
Function wise Expenses Subsidiary Ledger
Function: Public works

Date	Ref. No.	Particulars	Total Amount	Major Heads of Expenses			
				Establishment	Administration	Operations & maintenance	...
1	1	Salaries of staff	10,000	10,000			
	2	Books & Periodicals	1,000		1,000		
	3	Consumption of Stores	3,000			3,000	
2	4	Repairs to Roads	20,000			20,000	
	5	Communication expenses	1,000		1,000		
	6	Computer Consumables	2,000		2,000		
	:						
	:						
		Total for the month	37,000	10,000	4,000	23,000	
		Cum. total at the beginning of the month	NIL	NIL	NIL	NIL	NIL
		Cum. Total at the end of the month	37,000	10,000	4,000	23,000	

- j. Each of the above entries will be first posted in the respective ledger accounts in the Main Ledger. Thus, *the Main Ledger will be a complete record from which a Trial Balance can be prepared.* However, *for ascertaining function-wise details the Subsidiary Ledger will need to be referred.*
- k. Summary of major head wise expenses for each of the function may be prepared from the Subsidiary Ledgers in the following format (Table 5.5).

Table 5.5
Summary of major head wise expenses

Sl. No.	Function code	Functions Head	Total Income	Major Heads of Expenses			
				Establishment	Administration	Operations & maintenance	...
1		Public Works	37,000	10,000	4,000	23,000	
2							
3						
Total for the major Heads of Expenses			37,000	10,000	4,000	23,000	

1. Summary total of major heads of Expenses prepared as stated above must agree with the major expenses detailed head wise schedules prepared from Trial Balance.

ACCOUNTING FOR JOURNAL ENTRIES (Refer Para 5.9 to 5.11 of NMAM)

5.10 For transactions other than those involving cash and/or bank, the Accounts Department shall prepare a Journal Voucher (Form GEN-7) for recording the entry in the Journal Book. The following example illustrates the recording of entry in the Journal Book.

5.11 Assume that the ULB has raised a demand in respect of Property and Other taxes amounting to Rs 12,000 on 14th June 2006.

- a. Recording the entry in respect of the raising of demand: In respect of Property and Other Taxes, the Accounts Department shall prepare a Journal Voucher (Form GEN-7) and pass the following entry in the Journal Book (Form GEN-2):

Journal Book of name of the ULB

Sr. No	Date	Jrnl. Vchr. No.	Code of Account	Particulars	Dr/ Cr	Debit Amount(Rs) Illustrative figure	Credit Amount(Rs) Illustrative figure
1	14/6/06	xxx	431-10-(a)	Receivables for Property Taxes (Year...)	Dr	12,000	
			110-01-(a)	To Property tax – Residential Properties	Cr		12,000
(a) Insert Detailed Head Codes of Account as applicable							

- b. Posting in the Ledger: From the Journal Book, a posting shall be made to the Ledger (Form GEN-3) as shown:

Receivables for Property Tax (Year...) Account

Dr.					Cr.				
Date	Code of Account	Particulars	Folio	Amount (Rs.) (Illustrative figure)	Date	Code of Account	Particulars	Folio	Amount (Rs.) (Illustrative figure)
14/6/06	110-01-(a)	To Property Tax - residential Properties		12,000	←				

Property tax – Residential properties Account

Dr.					Cr.				
Date	Code of Account	Particulars	Folio	Amount (Rs.) (Illustrative figure)	Date	Code of Account	Particulars	Folio	Amount (Rs.) (Illustrative figure)
					14/6/06	431-10-(a)	By Receivables of Property Taxes (Year...)		12,000 ←

* Insert Detailed Head Codes of Account as applicable.

PERMANENT/OFFICIAL ADVANCE (Refer Para 5.12 to 5.14 of NMAM)

5.12 For permanent advance (imprest cash) provided to the various officers/departments of the ULB, such payments shall be initially recorded as an advance provided. The details of the expenditure incurred against the advance shall be recorded in a Register of Permanent Advance maintained at the various departments in Form GEN-17. The details of the advances given shall be recorded in the Register of Advance maintained in Form GEN-16. The concerned department shall prepare Payment Order (Form GEN-14) for replenishment of the permanent advance.

5.13 Similarly, the employees of the ULB to whom official advances are provided for incurring expenditure on behalf of the ULB, shall prepare a Payment Order for the expenditure incurred as soon as the purpose for which the advance was provided is accomplished.

5.14 The Payment Order prepared for expenditure incurred against the permanent advance or against the official advance shall be approved in the same manner as the Payment Order prepared for normal expenditure.

5.15 Refer Chapter 16 of NMAM – “Other Revenue Expenditure” for the Accounting entries to be passed in respect of Permanent advance and Miscellaneous advance.

BANK CHARGES (Refer Para 5.15 to 5.16 of NMAM)

5.16 Based on the nature of banking services availed by an ULB, service charges or transaction processing charges (for example demand draft commission, outstation cheque clearing charges, etc) are charged by the Banks.

5.17 The Bank through an Advice gives details of their charges. ULBs shall account for the Bank Charges based on the Debit Advices. In the absence of receipt and accounting for bank charges, these will be listed in the bank reconciliation statements prepared as explained in Chapter 29 on Reconciliation Procedures, as items not accounted by the ULB. Accounting entry for Bank Charges shall be as follows:

Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs) Illustrative Figure	Credit Amount(Rs) Illustrative Figure	Books to be entered in to
240-70-(a)	Bank Charges	Dr	1,000		Cash book, Ledger
450-21-(a)	To Bank Account *	Cr		1,000	
* Specify name of the Bank and Account number (a) Insert Minor Head Codes of Account as applicable					

STALE/OBSOLETE CHEQUES (Refer Para 5.17 to 5.20 of NMAM)

5.18 The normal validity period of a cheque is six (6) months or such shorter period as specified on the cheque, from the date of the cheque. On expiry of the validity period, in case the cheque has not been presented, it becomes a stale cheque.

5.19 At period end, the Accounts Department shall review the Cheque Issue Register (Form GEN-15) and the Bank Reconciliation Statements (format provided in Table 24. 2 of Chapter 24 on Reconciliation Procedures) to identify the cheques, which have become stale. It shall prepare a Bank Receipt Voucher (Form GEN-4) for recording a notional receipt in respect of the stale cheques. The necessary details shall be updated in the Cheque Issue Register (Form GEN-15). In respect of the stale cheques, the Accounts Department shall pass the following entry.

Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs) Illustrative figure	Credit Amount(Rs) Illustrative Figure	Books to be entered in to
450-21-(a)	Bank Account	Dr	1,000		Cash book, Ledger
350-80-(a)	To Other Liability – Others Liability in respect of Stale cheques	Cr		1,000	
* Specify name of the Bank and Account number (a) Insert Minor Head Codes of Account as applicable					

5.20 When the cheques are revalidated or a fresh cheque is issued against the stale cheques, the Accounts Department shall prepare a Bank Payment Voucher (Form GEN-5). After approval and signing of the Bank Payment Voucher by the concerned authorities, the Accounts Department shall pass the following entry:

Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs) Illustrative figure	Credit Amount(Rs) Illustrative Figure	Books to be entered in to
350-80-(a)	Other Liability – Others Liability in respect of Stale cheques	Dr	1,000		Cash book, Ledger
450-21-(a)	To Bank Account	Cr		1,000	
* Specify name of the Bank and Account number (a) Insert Minor Head Codes of Account as applicable					

5.21 Liability in respect of Stale Cheques account shall be reviewed periodically and those Stale cheques which were not revalidated for a period of 3 years or such period as may be specified by the state government from the date of original issue shall be reversed as 'Write back of Liability for Stale Cheques' under Other incomes of the ULB. Accounts Department shall pass the following entry for recognition of other income:

Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs) Illustrative figure	Credit Amount(Rs) Illustrative Figure	Books to be entered in to
350-80-(a)	Other Liability – Others Liability in respect of Stale cheques	Dr	500		Journal book, Ledger
450-21-(a)	To Unclaimed Liabilities written back – stale cheques	Cr		500	
* Specify name of the Bank and Account number (a) Insert Minor Head Codes of Account as applicable					

ACCOUNTING FOR CONTRA ENTRIES (Refer Para 5.29 & 5.30 of NMAM)

5.22 Contra entry means an Accounting Entry that is recorded on both the sides of a Cash Book, showing inflow and outflow of funds at the same time. Contra entries are the entries for recording deposit of cash in the bank, withdrawal of cash from the bank or transfer of funds from one bank to another. For example, cash deposited with bank would be reflected as inflow in "Bank" Column on "Receipt" side and simultaneously as outflow in "Cash" Column on "Payment" side. Similarly, balances transferred from one bank account to another would be shown as inflow in "Bank" Column on "Receipt" side in the receiving bank account and simultaneously as outflow in "Bank" Column on "Payment" side in the paying bank account. For recording of a Contra Entry, the Accounts Department shall prepare a Contra Voucher (Form GEN-6). In respect of Contra Entries, the following entries shall be passed:

Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.) Illustrative figures	Credit Amount (Rs.) Illustrative figures	Books to be entered into
For recording cash deposited into bank					
450-21- (a)	Bank Account*	Dr.	10,000		Cash Book
450-10-(a)	To Cash	Cr.		10,000	
For recording cash withdrawn from bank					
450-10-(a)	Cash	Dr	10,000		Cash Book
450-21-(a)	To Bank Account*	Cr		10,000	
For recording transfer of funds from one bank to another					
450-21-(a)	Main Bank Account*	Dr	10,000		Cash Book
450-21-(a)	To Designated Bank Account*	Cr		10,000	

* Specify name of the Bank and Account number

(a) Insert Detailed Head Codes of Account as applicable

5.23 Contra Entries shall also be recorded for rectification of entries involving cash and/or bank transactions. For example, if the amount deposited in the Designated Property Tax Bank Account has been wrongly debited to Designated Water Supply Bank Account, then the following entry shall be passed to rectify the error:

Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs) Illustrative figure	Credit Amount(Rs) Illustrative Figure	Books to be entered in to
450-21-(a)	Designated Property Tax Bank Account*	Dr	10,000		Cash book, Ledger
450-21-(a)	To Designated Water supply Bank Account*	Cr		10,000	

* Specify name of the Bank and Account number
(a) Insert Minor Head Codes of Account as applicable

5.24 Refer Chapter 5 – “General Accounting Procedures” of NMAM for instructions to be followed in respect of Payments.

INTERNAL CONTROLS (Refer Para 5.33 & 5.34 of NMAM)

5.25 The following general internal controls shall be observed by the ULB:

- The closing balance of cash as per the Cashier’s Cash Book shall be verified daily with the physical cash balance at all the Collection Offices and must be signed by the person verifying the cash.
- The cash chest should have two keys. One key will be with the cashier of the collection office and the other will be with another officer designated for this purpose by the ULB.
- Cash in chest should be insured for theft, fire etc.
- The officers designated by the ULB for operating the Designated Bank Accounts shall co-ordinate with the banks on a daily basis and ascertain the status of the cheques/drafts deposited by them.
- Bank reconciliation shall be carried out monthly by the officers of the ULB designated for the purpose of handling the bank accounts and the same shall be duly verified and signed by the designated senior officer.

- f. Original copy of the cancelled Receipt shall be attached with the duplicate copy with the words “Cancelled” marked on it.
 - g. At the time of approving payment, the Accounts Department shall ensure that the Payment Order provides reference of Register of Bills for Payment, Measurement Book, Stock Ledger or Fixed Asset Register, as the case may be, depending on the purpose for which payment is made.
 - h. At the time of recording collections, the Accounts Department shall ensure that the total amount of collections as per the collection register tallies with the total amount as per Receipt register for cheques received and total of cash collections as per Summary of Daily Collection in form GEN - 12.
 - i. Original copies of all the cancelled documents such as receipts, payment vouchers shall be retained in the office file with reasons / justification for cancellation written on the cancelled documents.
 - j. At the end of each month, the Accounts Department shall ensure compliance with the month-end procedure described in Chapter 11 – Rents, Fees and Other Incomes in respect of Fees & User Charges and Sale & Hire Charges, reference to which is invited.
 - k. At the end of each month, the Accounts Department shall comply with the month-end procedure in respect of:
 - Operations and Maintenance Expenses as described in Chapter 12 – Public Works,
 - Employee related expenses as described in Chapter 14 – Employee Related Transactions, and
 - Administrative Expenses as described in Chapter 16 – Other Revenue Expenditures.
 - l. ‘Liability for Stale Cheques’ account should be reviewed at the end of every quarter and all the stale cheques dated more than 3 years or such period as may be specified by the state government from the date of original issue shall be identified and reversed as other income of the ULB.
 - m. The Head of Accounts Department shall ensure stamping of all the bills once approved for approval and then for payment to ensure the same bill is not processed once again.
 - n. The Head of the Accounts Department shall ensure that all the bank charges accounted based on the bank reconciliation statement is supported with original bank debit advises.
- 5.26 The Head of Accounts Department shall certify all Reconciliation Statements.

SUMMARY

1. Accounting procedures are procedures to followed under the accrual based accounting system.
2. The following books of accounts shall be maintained each financial year:
 - a. Cash book (Form GEN -1)
 - b. Journal book (Form GEN – 2)
 - c. Ledger (Form GEN – 3)
3. Vouchers prepared at the ULB shall form the base documents for recording the transactions in the Books of Original Entry.
4. The following are the vouchers that need to be prepared by the ULBs.
 - a. Cash/Bank Receipt Voucher (Form GEN – 4)
 - b. Cash/Bank Payment Voucher (Form Gen – 5)
 - c. Contra Voucher (Form GEN – 6)
 - d. Journal Voucher (Form GEN – 7)
5. The procedure to be followed for accounting of collections are as follows:
 - a. Preparation of bank receipt voucher
 - b. Entry in Cash book
 - c. Posting in the Ledger
 - d. Updation of Subsidiary ledgers etc.
6. The procedure to be followed for accounting of payments are as follows:
 - a. Receipt of bills/claims
 - b. Preparation of payment order
 - c. Bill passing/Approval of bills
 - d. Forwarding for payment
 - e. Preparation of Cash/Bank payment voucher
 - f. Preparation of cheque
 - g. Recording of entry for payment
 - h. Entry in cash book
 - i. Posting in ledger
 - j. Updation of subsidiary ledgers
7. Accounting treatment for others routine transactions like bank charges, stale cheques etc are discussed in this chapter.

EXERCISE**1. Indicate the correct alternative in each of the following cases:**

- a. Document that shall be prepared for recording transactions involving deposit of cash into the bank, withdrawal of cash from bank or transfer of amount from one bank to another.
 - i. Cash Voucher
 - ii. Bank Voucher
 - iii. Contra Voucher
- b. The book of original entry that shall be used for recording all transactions other than those involving cash & bank is
 - i. Journal book
 - ii. Ledger
- c. Cash deposited with bank would be reflected
 - i. as inflow in bank column on the receipt side and outflow in cash column on the payment side
 - ii. as outflow in bank column on the payment side and inflow in the cash column on the receipt side.

2. Match the following

S. No.	Form	Description
a.	GEN – 4	Register of immovable property
b.	GEN – 12	Journal voucher
c.	GEN – 30	Deposit register
d.	GEN – 18	Summary of daily collections
e.	GEN – 7	Cash/bank receipt voucher

BROAD STRUCTURE FOR PREPARING PRESENTATION SLIDES

- Introduction on the Accounting Procedures
- Books of Accounts
- Accounting documents
- Procedure for Accounting of collections
- Procedure for Accounting of payments
- Accounting for Journal entries
- Accounting for Contra Entries

CHAPTER 6

PROPERTY AND OTHER TAXES

LEARNING OBJECTIVE

At the end of this Chapter, the reader will...

- *Be familiar with the accounting principles governing the accounting for property & other taxes*
- *Understand the entries for raising of demand, collection of taxes, refunds and remissions.*
- *Understand the entries for provisions, write offs etc.*
- *Be familiar with the internal controls relating to property & other taxes*
- *Be familiar with how the transactions relating to these incomes are presented in the financial statements*

CHAPTER OVERVIEW

This chapter contains the recommended accounting system for Property and Other Taxes related transactions. This chapter focuses on the Accounting Principles governing the accounting of transactions relating to Property tax. The chapter also illustrates the entries to be passed for raising of demand, collection of taxes, refunds and remission with respect to property tax. Internal Control to the extent they relate to Property tax are covered in this chapter. The chapter is intended to act as a tool for the reader to understand the basic principles relating to the accounting for transactions relating to property tax and it is advised that the reader refer to “Chapter 6” of “NMAM” for detailed coverage of the subject

INTRODUCTION [*\(Refer Para 6.1 to 6.4 of NMAM\)*](#)

6.1 Property tax is levied on residential and commercial properties. Property tax is collected from the citizens and organisations, which own the properties. In respect of property tax on State or Central Government departments or undertakings, the property tax is received from the State or Central Government, as the case may be and in respect of Government undertakings, property tax is received directly from such undertakings or from the State or Central Government.

6.2 Property Tax may comprise of the following:

- i. General Tax
- ii. Water Tax
- iii. Water Benefit Tax
- iv. Conservancy Tax or Sewerage Tax
- v. Sewerage Benefit Tax
- vi. Education Cess
- vii. Development Cess
- viii. Street Tax
- ix. Fire Brigade Tax
- x. Tax on Vehicles, Boats and Animals
- xi. Light Tax
- xii. Health Tax
- xiii. Dog Tax

- xiv. Tree Cess
- xv. Fire Cess
- xvi. Any other taxes

6.3 In addition to the taxes referred above, following may be collected by the Property Tax Department:

- a. Property Transfer Charges
- b. Notice Fee, Warrant Fee, Other Fees and interest and penalties charged for delays and defaults made by the taxpayers

ACCOUNTING PRINCIPLES ([Refer Para 6.5 of NMAM](#))

6.4 The following Accounting Principles shall govern the recording, accounting and treatment of transactions relating to Property and Other Taxes:

- a. Revenue in respect of Property and Other Taxes shall be recognised in the period in which they become due and demands are ascertainable.
- b. In case of new or changes in assessments, tax can be accrued in the month in which the demand is served;
- c. Interest element and Penalties, if any, in demand shall be reckoned only on collection;
- d. Revenue in respect of Notice Fee, Warrant Fee, and Other Fees charged shall be recognised when the bills for the same are raised;
- e. Revenue in respect of Property Transfer Charges shall be recognised on actual receipt;
- f. Collections to be made on behalf of state Government i.e., State Education Cess, Employment Guarantee Cess and Library Cess and included in the Property tax demand shall be reckoned together with Property tax demand and credited to a control account called "State Government Levies in Taxes- Control Account."
- g. The liability towards dues to the State Government for collections on its behalf shall be recognised as and when they are collected;
- h. Revenue in respect of Rebate from State Government for collection made on their behalf shall be recognised at the rates prescribed by the State Government at the time of creating the liability to the State Government;
- i. In respect of the demand outstanding beyond two (2) years, provision shall be made in the Demand, based on the following provisioning norms:
 - Outstanding for more than 2 year but not exceeding 3 years: 25%
 - Outstanding for more than 3 years but not exceeding 4 years: 50% (additional 25%)
 - Outstanding for more than 4 years but not exceeding 5 years: 75% (additional 25%)
 - Outstanding for more than 5 years: 100% (additional 25%)
- j. While making provision for receivables as stated above, the relevant proportion 'State Govt. Cesses/ levies in Property Taxes - Control account' shall also be provided by debiting to a separate account.
- k. Any additional provision for demand outstanding (net on overall basis) required to be made during the year shall be recognised as expenditure of the current year and any excess provision written back during the year shall be recognised 'as other income' of the ULB for the current year.
- l. Refunds, remissions of taxes for the current year shall be adjusted against the income and if it pertains to previous years, then it shall be treated as prior period item.
- m. Write-offs of taxes shall be adjusted against the provisions made and to that extent recoverable and 'State Government dues control' account balance gets reduced.

- n. Any subsequent collection or recovery of 'Receivables for Property Taxes which were already written off' shall be recognised as a 'Prior Period Income'.
- o. Demands raised with retrospective effect will be treated as prior period income to the extent it pertains to earlier years.
- p. Part-payments received in respect of Property and Other Tax levies shall be adjusted as per applicable Act of the state.
- q. Wherever self-assessment of taxes are prevalent, income can be accrued based on records available with the ULB when it becomes due as per the provisions of the respective Municipal Acts. Further changes arising out of self-assessment will be treated as 'Change in Demand' and will be accounted accordingly.

ACCOUNTING TREATMENT

6.5 This section explains the Accounting Treatment for Property and Other taxes. Continuing with our "Model Municipal Corporation (MMC)", the transactions relating to Property and other taxes are explained in terms of raising of demand, collection, refunds, provision for unrealized revenues etc.

6.6 The opening balance sheet of Model Municipal Corporation (MMC) had following information with respect to property tax.

Asset	Code of Account	Amount (Rs)
Property tax receivable on Residential buildings (2005)	431-10-(a)	10,000
Property tax receivable on commercial buildings (2004)	431-10-(a)	7,000
Property tax receivable on Residential buildings (2003)	431-10-(a)	3,000
Property tax receivable on Residential buildings (2002)	431-10-(a)	1,500
Provision for outstanding property tax receivable (2002)	432-10-(a)	1,500
Provision for outstanding property tax receivable (2003)	432-10-(a)	1,500
Provision for outstanding property tax receivable (2004)	432-10-(a)	1,750

TAX BILLS *(Refer Para 6.7 of NMAM)*

6.7 MMC issued property tax bill amounting to Rs 12,20,000 for the month of June 2006 which comprised the following.

Property tax residential – Rs 300,000

Property tax Commercial – Rs 400,000

Water tax – Rs 350,000

Sewerage tax – Rs 1,50,000

State government Cesses/levies – Rs 20,000

The collections in respect of the above demands were made on 5th July 2006.

6.8 **Recording of bills raised:** A Summary Statement of Bills Raised shall be prepared ward-wise and tax-head-wise, in Form P&OT-1 on a monthly basis within seven days from the end of the previous month. This forms the base for accounting and the following entry shall be passed.

Date	Code of Account	Accounting Entry	Dr. Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
1 st July 2006	431-10-(a)	Receivable for property tax (2007)	Dr	12,20,000		Journal book, Ledger
	110-01-(a)	To Property tax – Residential	Cr		3,00,000	
	110-01-(a)	To Property tax – Commercial	Cr		4,00,000	
	110-02-(a)	To Water tax	Cr		3,50,000	
	110-03-(a)	To Sewerage tax	Cr		1,50,000	
	431-91-(a)	To State Govt. Cesses/levies In Property taxes – Control account**	Cr		20,000	
** specify the name of the cess (a) Insert Detailed Head Codes of Account as applicable						

6.9 Cesses/Levies collected on behalf of State Government together with property tax demand shall be reckoned and credited to control account, “State Govt. Cesses/ levies in Property Taxes - Control account”. However the liability to the State Government arises only upon collection. The treatment of this is discussed subsequently.

Recording of demand raised in case of new assessment (Refer Para 6.7(1)(b) of NMAM)

6.10 MMC raised demand for property tax – residential & Commercial amounting to Rs 2,000 & 4,000 respectively pertaining to financial year 2005 on 19th of July 2006.

6.11 In case of new assessments, demand may be raised for a period earlier to the financial year in which the assessment is made. In such case the demand should be split according to the period to which it relates and income related to earlier period has to be accounted as Prior period Income as provided below:

Date	Code of Account	Accounting Entry	Dr. Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
19 th July 2006	431-10-(a)	Receivable for property tax (Year - 2005)	Dr	6,000		Journal book, Ledger
	280-10-(a)	To Prior Period Income Property tax - Residential	Cr		2,000	
	280-10-(a)	To Prior Period Income Property tax – Commercial Commercial	Cr		4,000	
(a) Insert Detailed Head Codes of Account as applicable						

Recording of Change in Assessment (Refer Para 6.7(1) (c) of NMAM)

6.12 Any demand raised earlier may undergo changes by court order / by the order of Commissioner / by any other competent authority. This may either lead to increase or decrease in demand amount. A summary statement of all changes in Demand Raised shall be prepared, in Form P&OT- 2 on monthly basis within 7 days from the end of the previous month. This forms the base for accounting.

6.13 In case the revised demand is more than what was recorded earlier, then, the entry to be passed is same as accounting of existing demand, for the difference amount.

6.14 In case the revised demand is less than what was recorded earlier, the entry passed earlier has to be reversed for the difference. The reversal shall be reflected in the current year revenue incase the revision in demand relates to the current year and in any other case the reversal shall be accounted as prior period expenses. The remission / refund amount shall be adjusted against Receivables if the demand is outstanding

6.15 If the demand is already paid, it will either be taken as credit and adjusted against future payments or will be paid to the tax payee as refund depending on the governing principle of the ULB. The amount of refunds/remissions shall be credited to the account 'Advance Collection of Revenues' with account code 350-41-(a) (instead of 431-10-(a)) when it is to be adjusted against future payments. If it is to be refunded then it shall be credited to the Refunds payable account with account code 350-40-(a).

6.16 Refer Chapter 6 – "Property & Other Taxes" of NMAM for the Accounting entry to be passed for recording increase or decrease in demand.

COLLECTION OF TAXES (Refer Para 6.10 of NMAM)

6.17 The procedure for accounting of collections is described below:

- a. Recording of tax collections. Based on Summary of Daily Collection (Form GEN-12) received from the various Collecting Offices / Centers, the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
5 th July 2006	450-21-(a) 431-80-(a)	Bank Account* To Receivable control Accounts – Property taxes (2007)	Dr Cr	12,20,000	12,20,000	Cash book, Ledger

* Specify the name of the bank and account number
(a) Insert Detailed Head Codes of Account as applicable

- b. The Summary of daily collection (Form GEN-12) does not provide the details in respect of the year-wise head-wise collections made in respect of Property and Other Taxes. Hence, the total amount collected should be credited to "Receivables Control Accounts - Property Taxes" Account. The collection made shall be segregated into year wise, head wise collection on a monthly basis.
- c. Recording of break-up of collections: A Summary Statement of Year-wise/ Head-wise Collection of Property & Other Taxes in Form P&OT- 3 on a monthly basis shall be prepared and sent to the Accounts Department to record the details of collection. Interest on delayed payment may be charged to the taxpayer in accordance with relevant provisions. Interest shall be recognised as income only on collection.
- d. To record the break-up of collections into year-wise recovery, tax received in advance and to record the interest income the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
5 th August 2006	431-10-(a) 431-10-(a)	Receivable Control Accounts – property tax To Receivables for property taxes (2007)	Dr Cr	12,20,000	12,20,000	Journal book, Ledger

(a) Insert Detailed Head Codes of Account as applicable

RECOGNITION OF LIABILITY AND PAYMENT OF SPECIFIC STATE GOVERNMENT DUES (Refer Para 6.11 to 6.12 of NMAM)

6.18 **Recording of liability to State Government** The specific head-wise liability in respect of the amount collected on behalf of the State Government shall be recognised on collection based on the Summary Statement of Year-wise Head-wise Collection of Property & Other Taxes (Form P&OT 3). Further the ULB may be entitled to a rebate for the collections made on behalf of the State Government. It shall be accounted as income on creation of specific head wise liability. To record the liability and income the Accounts Department shall pass the following entry

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
5 th August 2006	431-10-(a)	State Govt. Cesses/levies in Property taxes – control account*	Dr	2,000		Journal book, Ledger
	350-30-(a)	To Government dues payable*	Cr		2,000	
(a) Insert Detailed Head Codes of Account as applicable						

6.19 **Recording of payment made to State Government:** A Payment Order (Form GEN-14) is made for remittance of payment of collections made on behalf of the State Government. Based on Payment Order the following entry shall be made to record the payment order.

6.20 Remittances to the Government towards the collection made on behalf of them were made on 5th August 2006.

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
5 th August 2006	350-30-(a)	Government dues payable*	Dr	2,000		Cash book, Ledger
	450-21-(a)	To Bank Account**	Cr		2,000	
** specify the name of the Cess						
* specify the name of the bank and account number						
(a) Insert Detailed Head Codes of Account as applicable						

Discount allowed (Refer Para 6.13 of NMAM)

6.21 The ULB may provide for discount on property & other taxes for payment within a certain period, if allowed by its rules. Discount allowed shall be reckoned along with the details of collection and be recorded from the Summary Statement of Year-wise Head-wise Collection of Property & Other Taxes. Refer Chapter 6 – “Property & Other taxes” of NMAM for accounting entries to be passed for discount allowed.

NOTICE FEE, WARRANT FEE, OTHER FEES AND PENALTIES (Refer Para 6.13 of NMAM)

6.22 Notices of demand and warrants shall be issued and penalties may be charged as per the relevant provisions. Refer Chapter 6 “Property & Other taxes” in NMAM for the accounting entries to be passed in respect of Notice Fee, Warrants and other fees.

REFUNDS AND REMISSIONS (Refer Para 6.16 to 6.18 of NMAM)

6.23 MMC had on 1st September 2006, received refund order for Rs 5,000 towards refund of Property tax collected by them, out of this Rs 2,000 pertains to previous period.

6.24 All refunds and remissions arising under eligible circumstances as provided in the Act and regulations governing the revenues shall be duly recorded in the Demand registers maintained and the details of the same shall also be communicated to the Accounts Department. It is to be noted that refund/remission on account of the reasons referred above are generally granted for the tax amounts only and the portion of any other levy/cess in the original demand is not refunded/remitted. The reversal shall be reflected in the current year revenue incase the revision in demand relates to the current year and in any other case the reversal shall be accounted as prior period expenses.

6.25 Recording of refunds/remissions payable: A Summary Statement of Refunds and Remissions in Form P&OT- 4 on a monthly basis shall be prepared. Refunds/Remissions pertaining to prior period shall be identified separately from the current period based on which the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
1 st September 2006	110-90-(a)	Tax Remission and Refund – Property taxes	Dr	3,000		Journal book, Ledger
	280-50-(a)	Prior period expenses- Refund of taxes - property taxes	Cr	2,000		
	350-40-(a)	To Refunds Payable - Taxes			5,000	
(a) Insert Detailed Head Codes of Account as applicable						
<i>*Refunds/Remissions arising on account of change in provisions shall be either passed for 'Payment' (Refund payable account) or credited to the account 'Advance collection of Revenues' (under the account code 350-41-(a)) in accordance with the principles of the ULB.</i>						

6.26 Recording of payment refunds/remissions granted: The Accounts Department shall prepare a Payment Order (Form GEN-14) in respect of the refunds and communicate the details of refunds made to the Tax Department for updating the Register of Demand and other registers. To record payment of refunds/remissions granted, the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
1 st September 2006	350-40-(a)	Refunds Payable – Taxes	Dr	5,000		Cash book, Ledger
	450-21-(a)	To Bank Account*	Cr		5,000	
* specify the name of the bank and account number						
(a) Insert Detailed Head Codes of Account as applicable						

PROVISION FOR UNREALISED PROPERTY AND OTHER TAX RECEIVABLES AND WRITE-OFFS *(Refer Para 6.21 to 6.30 of NMAM)*

6.27 Recording of provision for unrealised tax. The demand outstanding beyond two years shall be provided for as per provisioning norms given below:

- Outstanding for more than 2 year but not exceeding 3 years: 25%
- Outstanding for more than 3 years but not exceeding 4 years: 50% (additional 25%)
- Outstanding for more than 4 years but not exceeding 5 years: 75% (additional 25%)
- Outstanding for more than 5 years: 100% (additional 25%)

6.28 Based on the provisioning policy applicable to ULBs, MMC reviewed its receivables with respect to property tax income and decided to provide for old outstanding in the following manner.

Table 6.1
Computation of Additional Provision at the Period end

Particulars	Amount Receivable (Rs)	Provision required	Opening Provision	Additional Provision
Property tax receivable on Residential buildings (2005)	10,000	2,500	Nil	2,500
Property tax receivable on commercial buildings (2004)	7,000	3,500	1,750	1750
Property tax receivable on Residential buildings (2003)	3,000	2,250	1,500	750
Total amount provided	20,000	8,250	3,250	5000

6.29 While making provision for receivables as stated above, the relevant proportion 'State Govt. Cesses/ levies in Property Taxes - Control account' shall also be provided by debiting to a separate account.

6.30 The amount required being provided as per provisioning norms stated above, shall be compared with the balance lying in the Provision for outstanding Tax-PTD. If the amount to be provided is more than the balance, then additional provision shall be made for the difference amount. If the amount to be provided is less than the balance, it reflects the amounts provided for has been collected, and the provision made towards that can be written back. This process has to be carried over at every period/yearend.

6.31 For any additional provision to be made for the period as computed in Table 6.1, the following entry shall be passed by the Accounts Department:

Date	Code of Account	Accounting Entry	Dr Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
31 st March 2007	270-10-(a) 432-10-(a)	Provisions for doubtful Receivables – Property taxes To Provision for outstanding Property taxes	Dr Cr	5,000	5,000	Journal book, Ledger
(a) Insert Detailed Head Codes of Account as applicable						

6.32 It was decided in MMC that, property tax receivable of the year 2002 could not be recovered and it was decided to write off the same.

6.33 Recording of write-offs: If for any reason, it is decided by the ULB to write-off property and other taxes, which was earlier treated as an income, the write off shall be adjusted against the provision made and the following entry will be passed based on summary statement of write off in form P & OT-5.

Date	Code of Account	Accounting Entry	Dr Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
31 st March 2007	432-10-(a) 431-10-(a)	Provisions for outstanding Property taxes (2002) To Receivable for property taxes - residential (2002)	Dr Cr	1,500	1,500	Journal book, Ledger
(a) Insert Detailed Head Codes of Account as applicable						

ADJUSTMENT OF TAX RECEIVED IN ADVANCE ([Refer Para 6.33 of NMAM](#))

6.34 The Tax Department shall intimate the Accounts Department of the advance adjusted against the subsequent demand raised through the Summary Statement of Bills Raised (Form P&OT-1). Refer Chapter 9 – “Property & Other Taxes” of NMAM for the accounting entries to be passed for write offs and subsequent recovery of amount written off.

RECOVERY OF PROPERTY AND OTHER TAXES THROUGH LEGAL PROCEEDINGS ([Refer Para 6.34 to 6.40 of NMAM](#))

6.35 Refer Chapter 6 – “Property & Other Taxes” of NMAM for accounting treatment relating to recovery of property and other taxes through legal proceedings.

PROPERTY TRANSFER CHARGES ([Refer Para 6.41 to 6.43 of NMAM](#))

6.36 On 23rd December 2006, an application was received by MMC for registering transfer of property and a transfer fee of Rs 5,000 was received on 25th December 2006 for the same.

6.37 The ULB may charge fees for transfer of property. The revenue for the Property Transfer Charges levied shall be recognised on collection.

6.38 Recording of collection. On the basis of the Summary of Daily Collection (Form GEN-12) received from the various Collection Offices and Collection Centres, the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
25 th December 2006	450-21-(a)	Bank Account*	Dr	5,000		Cash book, Ledger
	431-80-(a)	To Receivable Control Accounts - property taxes	Cr		5,000	
(a) Insert Detailed Head Codes of Account as applicable						

6.39 Recording of specific income in respect of Property Transfer Charges: Based on the Summary Statement of Year-wise Head-wise Collection of Property & Other Taxes (Form P&OT-3) received from the Tax Department, the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
25 th December 2006	431-80-(a)	Receivable Control Accounts - property taxes	Dr	5,000		Journal book, Ledger
	140-40-(a)	To Other fees – Property Transfer Charges	Cr		5,000	
* specify the name of the bank and account number (a) Insert Detailed Head Codes of Account as applicable						

INTERNAL CONTROLS ([Refer Para 6.44 of NMAM](#))

6.40 The following internal controls shall be observed by the ULB in respect of Property and Other Taxes related transactions:

- a. The Tax Department shall ensure that Bills / Demands are raised on a quarterly/half yearly basis for Property and Other Taxes.

- b. The Head of the Accounts Department shall ensure that taxes are accrued in the month in which it is due and journalisation of all the demands/bills raised for property & other taxes before accounting for the collection.
- c. The Head of the Accounts Department and the Head of the Tax Department shall reconcile the balance at the beginning of the accounting year in respect of the year-wise Property and Other Tax Receivables (as appearing in the Balance Sheet of the previous year) with the year-wise total of the arrears recorded in the Demand Register.
- d. A quarterly reconciliation shall be carried out by the Head of the Accounts Department and the Head of the Tax Department in respect of the amount collected and the year-wise amount outstanding between the balances in the Ledger Accounts maintained at the Accounts Department and the Demand Register maintained at the Tax Department.
- e. The officers designated by the ULB for operating the Designated Property Tax Bank Account(s) shall co-ordinate with the banks on a daily basis and ascertain the status of the cheques/drafts deposited by them.
- f. The Tax Department shall ensure that the Receipt / Summary of daily collection prepared, provides reference to the Tax Collection Register.
- g. Write-off of Property Tax receivables should be based on specific procedures and authorisation levels. The State Government/ ULB to lay down the level of seniority of officers and the amounts, which they would be competent to write-off.
- h. The Chief Executive Officer/Head of the ULB shall specify such appropriate calendar of returns /reports for monitoring.

All Reconciliation Statements shall be certified by the Head of the Accounts Department.

PRESENTATION IN THE FINANCIAL STATEMENTS ([Refer Para 6.46 to 6.49 of NMAM](#))

6.41 The various heads of account used for the accounting of Property and Other Taxes related transactions shall be reflected in the Financial Statements or in the Schedules attached to the Financial Statements of the ULB. All these Financial Statements and schedules should be affixed with signature and seal of designated authorities.

6.42 The provision against the outstanding property tax receivable is to be disclosed under the major head Accumulated Provisions as a separate line item in the Balance Sheet below 'Sundry Debtors'.

6.43 The schedules that reflect the transactions relating to Property tax include

- a. Schedule I-1 – Schedule of Tax Revenue
- b. Schedule I-1 (a) - Refund /Remission of Revenues
- c. Schedule I-4- Schedule of Fees and User charges
- d. Schedule I-8 – Schedule of Interest Earned
- e. Schedule I-9 – Schedule of Other Income
- f. Schedule I-11- Administrative Expenses
- g. Schedule I– 13 – Interest and Financial charges
- h. Schedule I-16 – Schedule of Provisions and Write Offs
- i. Schedule I-18 – Prior Period Items
- j. Schedule B-9 – Schedule of Other Liabilities (Sundry Creditors)
- k. Schedule B-15- Schedule of Sundry Debtors (Receivables)
- l. Schedule B-17- Schedule of Cash and Bank balances

EXERCISE**1. Indicate the correct alternative in each of the following cases:**

- 1.1 Revenue that is recognized on accrual basis.
 - i. Property tax
 - ii. Property transfer charges
 - iii. Penalties

- 1.2 Unrealised property tax pertaining to the year 2002-03 amounts to Rs 5,000. As per the provisioning norms applicable to ULB, total provisioning at the end of the financial year 2006-07 would be.
 - i. 100% of the receivable
 - ii. 50% of the receivable
 - iii. 75 % of the receivable

- 1.3 Any subsequent collection or recovery of property tax (say property tax, water, sewerage etc) which was already written off shall be recognised as :
 - i. Prior period income.
 - ii. Current year income
 - iii. None of the above.

- 1.4 Demands raised with retrospective effect will be treated as
 - i. Current year income
 - ii. Prior period income
 - iii. Prior period income to the extent it pertains to earlier years.

- 1.5 Additional provision for previous years demand outstanding (net on overall basis) which is made during the current year shall be recognised as expenditure of.
 - i. Current year
 - ii. Prior period

- 1.6 Revenue in respect of property transfer charges shall be recognized
 - i. On accrual basis
 - ii. On receipt basis

2. Journalise the following transactions

- 2.1 Property tax demand for the first half year of 2006-07 amounts to Rs.4,50,000.
- 2.2 Advance collection of property tax amounted to Rs 50,000.
- 2.3 Refund of property tax amounting to Rs 20,000 out of which Rs 10,000 pertains to previous year.

2.4 Create provision for the following property tax receivables on 31st March 2007

Year	Amount (Rs)
2004-05	15,000
2003-04	12,000
2002-03	17,000

3. While reviewing the receivables position as on 31st March 2007, it was decided that the a receivable pertaining to 2001-02 amounting to Rs.25,000 will not be recovered and hence has to be written off. Identify the provision that would have been created and how the entry for write off will be made in 2006-07.

4. Answer the following questions

- 4.1 What is the current method of assessment of property tax?
- 4.2 For the property tax assessment of particular financial year at what point of time the demand is raised to the assessee?
- 4.3 At what point of time we can say the demand is due, whether at the time of service of notice of demand, or at the due date or by the end of the financial year.

BROAD STRUCTURE FOR PREPARING PRESENTATION SLIDES.

- Introduction to Property & Other Taxes
- Accounting Principles
- Accounting treatment of
 - Demand raised
 - Collection of taxes
 - Recognition of liability and payment of Government dues
 - Refunds and remissions
 - Provision for unrealized property and other tax receivables
 - Recording of property transfer charges
- Presentation in the financial statements

CHAPTER 7

OCTROI

LEARNING OBJECTIVE

At the end of this Chapter, the reader will

- *Be familiar with the accounting principles governing the accounting for Octroi*
- *Understand the Accounting entries for provisional & final assessment of Octroi.*
- *Understand the Accounting entries for maintaining Account Current.*
- *Understand the Accounting entries for Transit deposit, Transit fees, refunds and remission of Octroi.*
- *Be familiar with the internal controls relating to Octroi*
- *Be familiar with how transactions relating to Octroi are presented in the Financial statements.*

CHAPTER OVERVIEW

This chapter focuses on the Accounting Principles governing the accounting for transactions relating to Octroi. Accounting entries for Provisional, Final Assessment and Maintenance of Account Current facility are covered in this chapter. The Chapter concludes with the way Octroi is presented in the Financial Statements. The chapter is intended to act as a tool for the reader to understand the basic principles relating to the accounting for Octroi and it is advised that the reader refer to “Chapter 7” of NMAM for detailed coverage of the subject

INTRODUCTION [*\(Refer Para 7.1 to 7.4 of NMAM\)*](#)

7.1 For determining the liability of Octroi, a valuation / assessment of the goods is carried out at the point of entry.

7.2 Octroi may be collected in one of the following ways:

- a. On valuation/assessment of the goods at the point of entry into the city and spot collection of the entire amount payable.
- b. On provisional valuation/assessment of the goods at the point of entry into the city and spot collection of a substantial amount payable, subject to confirmation and final valuation/assessment at the Octroi Head Office. In such cases, it is possible that a deposit may be collected towards the octroi payable on final assessment.
- c. On valuation/assessment of the goods at the point of entry into the city, but collected periodically. This facility available through Account Current is extended to regular importers whose goods are allowed to pass without spot payment of Octroi.
- d. In addition to octroi, following may be collected by the Octroi Department:
 - i. Transit Fees form vehicles plying across the Municipal areas.
 - ii. Penalties in the event of octroi under recovery or evasion
 - iii. Octroi on Consumption of Electricity
 - iv. Miscellaneous receipts, e.g., escort fees, toll, etc.

7.3 Most of the transactions of the Octroi Department relate to tax revenues and fees & user charges. The Octroi Department incurs the usual administrative expenses such as establishment expenses, rent, printing & stationery, office expenses, etc. In addition, it may incur the following expenses:

- Performance Bonus payable to octroi staff;
- Compilation fees paid to the railway and postal authorities.
- Security charges to the Police Department or Security Agencies.

ACCOUNTING PRINCIPLES *(Refer Para 7.5 of NMAM)*

7.4 The following Accounting Principles shall govern the recording, accounting and treatment of transactions relating to octroi and other income:

- a. Revenue in respect of octroi payable on spot assessment for non-current account importers shall be recognised on actual receipt.
- b. Revenue in respect of penalties, transit fees, etc., shall be recognised on actual receipt.
- c. In case of account current facility holders, revenue in respect of octroi shall be recognised on a valuation/assessment being done at the time of the entry of the goods within the municipal limits.
- d. In cases where a provisional assessment is made, revenue shall be recognised in respect of the entire amount received provisionally or by way of deposit. At the time of final assessment, the additional amount recovered, if any, shall be recognised as revenue when recovered.
- e. Refunds shall be recognised as expenditure as and when the amounts are determined.
- f. Transit Deposits and/or any other deposits collected, including Security Deposit collected from account current importers, shall be recognised as a liability when received and such liability shall be settled on its refund.
- g. Transit Deposit and/or any other deposit received shall be forfeited and recognised as income when the right for claiming refund of deposit has expired.
- h. Octroi on Consumption of electricity shall be recognised as income on actual receipt during the year. However, at year-end alone, it shall be accrued if sanction order (or proceedings) is passed and the amount is ascertained

ACCOUNTING TREATMENT

7.5 This section explains the Accounting Treatment for transactions involving Octroi. Continuing with our “Model Municipal Corporation (MMC)”, the transactions involving Octroi are explained in terms of provisional, final assessments and maintenance of Account current.

7.6 The opening Balance Sheet of MMC contains the following information relating to Octroi.

Account Head	Code of Account	Amount (Rs)
Receivables for other taxes	431-19-(a)	
Octroi receivable - Account Current		3,000

Final Assessment cases at Octroi Nakas *(Refer Para 7.8 of NMAM)*

7.7 On April 5th 2006, the Octroi collection of MMC on final assessment was Rs 10,000 (As per Form OC-1 Summary of collection of Octroi & Form GEN -12 Summary of Daily collections) collected at various Nakas points and octroi offices.

7.8 In cases where a final assessment of octroi is made at the octroi naka, the steps in accounting shall be as follows:

- a. Goods imported to the ULB limits for consumption, use or sale shall be assessed for octroi at the various octroi nakas. The amount assessed shall be collected on the spot and a receipt shall be issued.
- b. The procedure to be followed for remittance and deposit of collections made at the nakas and at the octroi office shall be as given in Chapter 5 – “General Accounting Procedures” of NMAM.

7.9 Recording of Octroi received: On receipt of Summary of daily collection, the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register To be entered In to
5 th April 2006	450-21-(a) 110-51-(a)	Bank Account* To Octroi & Toll - Octroi	Dr Cr	10,000	10,000	Cash book, Ledger
<p>* Specify the name of the bank and Account number (a) Insert Detailed Head Codes of Account as applicable. Source Document: Form GEN-12 –Summary of Daily collection, Form GEN-11 – Collection register(Accounts copy)</p> <p>Internal Controls: The following controls shall be observed by the ULB: (a) The amount remitted by the Octroi Department shall be reconciled every day with the statement of collections and the Summary of daily collection furnished;</p>						

Provisional Assessment cases at the Octroi Nakas ([Refer Para 7.8 of NMAM](#))

7.10 On April 10th 2006, the Octroi collection of MMC based on Provisional assessment was Rs 7,500 (as per Form OC-2 ‘Summary Statement of Final assessment of provisional’ and Form GEN -12 Summary of Daily collections).The Final Assessment was made on 15th April 2006 and the liability was fixed at Rs.8000/-

7.11 Entry on making provisional assessment: On receipt of details of Octroi collection in Form OC-2(Summary Statement of Final assessment of provisional) and Form GEN -12 (Summary of Daily Collections), the Accounts Department shall pass the following entry.

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register To be entered In to
10 th April 2006	450-21-(a) 110-51-(a)	Bank Account* To Octroi & Toll – Provisional Octroi	Dr Cr	7,500	7,500	Cash book, Ledger
<p>* Specify the name of the bank and Account number (a) Insert Detailed Head Codes of Account as applicable. Source Document: Form GEN-12 –Summary of Daily collection, Form OC-2 – Summary Statement of Final assessment of Provisional.</p> <p>Internal Controls: The following controls shall be observed by the ULB: The internal control for provisional assessment shall be the same as mentioned for final assessment.</p>						

7.12 Entry for recovery of additional Octroi: The Accounts Department shall pass the following entry for recovery of additional Octroi determined on final assessment.

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register To be entered In to
15 th April 2006	450-21-(a) 110-51-(a)	Bank Account* To Octroi & Toll – Provisional Octroi	Dr Cr	500	500	Cash book, Ledger
* Specify the name of the bank and Account number (a) Insert Detailed Head Codes of Account as applicable.						
Source Document: Form GEN-12 –Summary of Daily collection, Form OC-2 – Summary Statement of Final assessment of Provisional.						

Note: In case the Octroi collected at the time provisional assessment is more than what was assessed at final assessment, then the excess amount collected would have to be refunded. The accounting entry for the same would be exactly the reverse of the above entry.

7.13 Entry for transfer of Provisional Octroi to Octroi Income on final assessment: The Accounts department shall pass the following entry for making transfer from Provisional Octroi to Octroi Income.

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register To be entered In to
15 th April 2006	110-51-(a) 110-51-(a)	Octroi & Toll – Provisional Octroi To Octroi & Toll – Octroi	Dr Cr	8000	8000	Journal book, Ledger
(a) Insert Detailed Head Codes of Account as applicable.						
Source Document: Form GEN-12 –Summary of Daily collection, Form OC-2 – Summary Statement of Final assessment of Provisional.						

Account Current facility ([Refer Para 7.9 of NMAM](#))

7.14 As per the rules of the relevant State Act, Account Current facility may be provided to importers.

7.15 MMC decides to extend the Account current facility to some of the importers. For the purpose it received Rs 10,000 as Security Deposit from Current Account holder ABC & Co on 1st May 2006. ABC & Co was assessed to Octroi of Rs 4,000 for goods imported on 15th May 2006. It paid Rs 3,000 on 20th of May and defaulted in making the balance payment and on 31st of May, ULB decided to recover the amount from the deposit made by the Account Holder.

7.16 Recording of receipt of Security Deposit from Account Current importer: The Octroi Department may collect Security Deposit for extending the Account Current facility. The details of the Security Deposit shall be recorded in a 'summary statement of collection/refund' in Form OC – 1. The Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register To be entered In to
1 st May, 2006	450-21-(a) 340-20-(a)	Bank Account* To Deposit Revenues – Octroi Account Current	Dr Cr	10,000	10,000	Cash book, Ledger, Deposit Register Form GEN-18
* Specify the name of the Bank and Account number (a) Insert Detailed Head Codes of Account as applicable.						
Source Document: Deposit Register(Form GEN-18), Form GEN-12 –Summary of Daily collection						

Internal Controls: The following controls shall be observed by the ULB:

- (a) The balance in the Octroi Deposit ledger account shall be reconciled quarterly with the Register of Deposits maintained at the Octroi Department;

7.17 Recording of octroi due from the Account Current importers: The assessment details of goods under current facility shall be forwarded to the Accounts Department in Form OC -3 (Summary statement of Assessment of Account Current) and the following entry shall be passed:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register To be entered In to
1 st May, 2006	431-19-(a) 110-51-(a)	Receivables for Other Taxes- Octroi from Account Current To Octroi & Toll – Account Current Importers	Dr Cr	4,000	4,000	Journal book, Ledger

- (a) Insert Detailed Head Codes of Account as applicable.

Internal Controls: The following controls shall be observed by the ULB:

- (a) For Octroi outstanding in respect of account current holders, accounts shall be reconciled with the amount of octroi remaining unrealised as per the records maintained by the Octroi Department on a monthly basis;
- (b) The balance in the account current of the importer who has been extended the account current facility shall be reconciled on a monthly basis with the Statement of Accounts received from the importers;

7.18 Recording of Octroi received: The details of the consolidated recoveries from Account Current importers shall be entered in Form OC – 3 which shall be sent to the Accounts Department, on the basis of which following entry shall be passed:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register To be entered In to
20 th May, 2006	450-21-(a) 431-19-(a)	Bank Account* To Receivables for Other Taxes- Octroi from Account Current importer	Dr Cr	3,000	3,000	Cash book, Ledger

* Specify the name of the Bank and Account number

- (a) Insert Detailed Head Codes of Account as applicable.

Source Document: Form GEN-12 –Summary of Daily collection. Form OC-3-Summary statement of Assessment of Account Current

7.19 Recording of adjustment of Security Deposit against Octroi due: In case of non payment of part or whole of the dues within a specified period, the ULB can adjust the same against the security deposit received. The details of the amount forfeited shall be sent to the Accounts Department in Form OC – 3, based on which the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register To be entered In to
31 st May, 2006	340-20-(a) 431-19-(a)	Deposit Revenues – Octroi Account Current To Receivables for Other Taxes- Octroi from Account Current importer	Dr Cr	1,000	1,000	Journal book, Ledger and deposit register GEN 18
(a) Insert Detailed Head Codes of Account as applicable.						

7.20 Recording of refund of Octroi Security Deposit. On payment of the security deposit, the Accounts Department shall pass the following entry (Rs 10,000 – 1000 adjusted).

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register To be entered In to
31 st May , 2006	340-20-(a) 450-21-(a)	Deposit Revenues – Octroi Account Current To Bank Account*	Dr Cr	9,000	9,000	Cash book, Ledger, Deposit Register Form GEN-18
* Specify the name of the Bank and Account number (a) Insert Detailed Head Codes of Account as applicable.						
Internal Controls: The following controls shall be observed by the ULB: (a) At the time of refund of octroi or any deposit, it shall be ensured no amount is due from the concerned applicant;						

Transit Fee & Transit Deposit (Refer Para 7.11 to 7.13 of NMAM)

7.21 In accordance with the Rules framed by the ULB in this behalf, Transit Fees and refundable Transit Deposit may be collected for goods imported in the City for immediate exportation.

7.22 MMC collects from an importer XYZ & Co a Transit deposit of Rs 5,000 and Transit fee of Rs 2,000 on 15th June 2006, the day of import. XYZ Re exports the goods on 1st August 2006.

Transit Fee

7.23 The accounting for transit fee shall be carried out based on Statement of collection in Form OC-1 and is as follows:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register To be entered In to
15 th June , 2006	450-21-(a) 140-12-(a)	Bank Account* To Fees for Grant of Permit- Transit fee	Dr Cr	2,000	2,000	Octroi Cash book, Ledger
* Specify the name of the Bank and Account number (a) Insert Detailed Head Codes of Account as applicable.						

7.24 The collection and accounting for transit deposit shall be carried out as follows:

- The details of the transit deposit collected by the octroi nakas shall be recorded in the Deposit Register maintained.
- At the time of exit, the exit octroi naka shall refund the transit deposit (as per the Rules prescribed by the ULB) on presentation of the Transit Pass and obtain a confirmation of receipt from the party.

- c. The exit naka shall enter the details of transit deposit refunded.
- d. A Consolidated statement for Transit Collection and Refunds in Form OC – 4 shall be forwarded to the Accounts Department, and the accounting entry passed is as follows.

7.25 To record transit deposit collected: On receipt of the statement, the Accounts Department shall pass the following entry.

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register To be entered In to
15 th June, 2006	450-21-(a) 340-20-(a)	Bank Account* To Deposit Revenues – Transit Deposit	Dr Cr	5,000	5,000	Cash book, Ledger, Deposit Register Form GEN-18

* Specify the name of the Bank and Account number

(a) Insert Detailed Head Codes of Account as applicable.

Source Document: Deposit Register(Form GEN-18), Form GEN-12 –Summary of Daily collection

Internal Controls: The following controls shall be observed by the ULB:

(a) The Octroi Department shall reconcile on a weekly basis the transit deposit collected and refunded by the octroi nakas;

7.26 To record transit deposit refunded: The Accounts department shall the following entry for refund of deposit.

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register To be entered In to
1 st August, 2006	340-20-(a) 450-21-(a)	Deposit Revenues – Transit Deposit To Bank Account*	Dr Cr	5,000	5,000	Cash book, Ledger, Deposit Register Form GEN-18

* Specify the name of the Bank and Account number

(a) Insert Detailed Head Codes of Account as applicable.

Source Document: Deposit Register - Form GEN-18, Form GEN-12 –Summary of Daily collection

PRESENTATION IN THE FINANCIAL STATEMENTS (Refer Para 7.30 to 7.32 of NMAM)

7.27 The various heads of accounts used for the accounting of Octroi related transactions shall be reflected in the Financial Statements or the Schedules attached to the Financial Statements of the ULB.

7.28 The schedules that reflect the transactions relating to Octroi are:

- a. Schedule I-1 – Schedule of Tax Revenues
- b. Schedule I-4 – Schedule of Income from Fees & User Charges
- c. Schedule B-15 – Schedule of Sundry Debtors(Receivables)
- d. Schedule B-7 – Schedule of Deposits Received
- e. Schedule B-17- Cash & Bank Balances.

SUMMARY

1. Octroi is collected in one of the following ways.
 - a. Valuation/assessment of the goods at the point of entry into the city and spot collection of the entire amount payable.
 - b. On provisional valuation/assessment of the goods at the point of entry into the city and final valuation/ assessment at the Octroi Head Office.
 - c. valuation/assessment of the goods at the point of entry into the city, but collected made periodically
2. The major accounting principles governing the accounting for transaction relating to octroi are as follows:
 - d. Revenue in respect of octroi payable on spot assessment for non-current account importers shall be recognised on actual receipt.
 - e. Revenue in respect of penalties, transit fees, etc., shall be recognised on actual receipt.
 - f. In case of account current facility holders, revenue in respect of octroi shall be recognised on a valuation/assessment being done at the time of the entry of the goods within the municipal limits.
 - g. In cases where a provisional assessment is made, revenue shall be recognised in respect of the entire amount received provisionally or by way of deposit. At the time of final assessment, the additional amount recovered, if any, shall be recognised as revenue when recovered.
 - h. Transit Deposits and/or any other deposits collected, including Security Deposit collected from account current importers, shall be recognised as a liability when received and such liability shall be settled on its refund.
3. The accounting treatment with respect to Provisional assessment, Final assessment and maintenance of account current facility are discussed elaborately in this chapter.
4. The accounting treatment for receipt of transit fees and transit deposit are discussed in this chapter.
5. The presentation in the financial statement of transactions relating to Octroi income are provided in this chapter.

EXERCISE**Fill in the Blanks:**

1. Revenue in respect of octroi payable on spot assessment for non-current account importers shall be recognised on
2. Refunds shall be recognised as expenditure as and when the amounts are.....
3. For the amount received on provisional assessment of octroi, revenue shall be recognized for (for amount received provisionally, entire amount receivable)
4. Octroi on Consumption of electricity shall be recognised as..... (Income (or) Expenditure) on actual..... (Payment (or) receipt) during the year.
5. Transit Deposit can be recognised as income when the of deposit has expired.

6. Journalise the following:

- a) On 10th June 2006, Octroi collection based on provisional assessment amounted to Rs 2,50,000. and on 5th August, 2006 final assessment was made and the liability was fixed at Rs 2,75,000.
 - b) An amount of Rs 60000 receivable as Octroi is adjusted against Security deposit of Rs. 80,000.
 - c) Pass an entry for repayment of the above balance of Security Deposit (Rs. 20000) at the end of the Financial Year 2006-07.
 - d) An amount of Rs 8000 as transit deposit and Rs 5000 as transit fee respectively was received from an importer towards import of goods on 15th July 2006. The same goods were exported on 1st September 2006. Pass an entry for receipt and refund of Transit deposit at the time of import and export.
7. From the below choices, choose the schedule number in the financial statements under which the Octroi Security Deposit is reflected
- a) Schedule I-1 – Schedule of Tax Revenues.
 - b) Schedule I-4 – Schedule of Income from Fees & User Charges.
 - c) Schedule B-15 – Schedule of Sundry Debtors (Receivables).
 - d) Schedule B-7 – Schedule of Deposits Received.
 - e) None of the above.

BROAD STRUCTURE FOR PREPARING PRESENTATION SLIDES

- Introduction
- Accounting Principles
- Accounting treatment of
 - Final assessment
 - Provisional assessment
 - Account current
 - Transit fee and transit deposit
- Presentation in the financial statements

CHAPTER 8

CESS

LEARNING OBJECTIVES

At the end of this Chapter, the reader will

- *Be familiar with the procedure for collection of Cess.*
- *Be familiar with the accounting principles governing the accounting for Cess*
- *Understand the entries for collections, write offs, refunds and remission of Cess*
- *Be familiar with the internal controls relating to Cess revenue.*
- *Be familiar with how the transactions relating to Cess are presented in the financial statements.*

CHAPTER OVERVIEW

Cess is the tax levied along with any other tax or in lieu of tax and is considered income of ULB .This chapter draws attention to the accounting principles governing the accounting of cess and the entries to be passed for collections, write off, refunds etc. It also covers the internal controls to the extent it relates to transactions relating to Cess. The chapter is intended to act as a tool for the reader to understand the basic principles relating to the accounting for Cess and it is advised that the reader refer to “Chapter 8” of NMAM) for detailed coverage of the subject.

INTRODUCTION ([Refer Para 8.1 to 8.6 of NMAM](#))

8.1 Cess is normally collected by self-declaration made in the returns filed under the relevant provisions.

8.2 The procedure for levy and collection of Cess is discussed in [“Chapter 8 – Cess” of NMAM.](#)

8.3 It may be noted that the provisions covered in this chapter are not applicable to cesses collected on behalf of the State Government. For e.g. Library Cess. Accounting treatment in respect of these Cess are detailed in Chapter 6 on Property and Other taxes.

8.4 In addition to Cess, following may be collected by the Cess Department:

- a. Cess Registration Fee at the prescribed rates from the dealers applying for registration.
- b. Penalties and/or interest in the event of evasion and for delays and defaults made by the dealers.

ACCOUNTING PRINCIPLES ([Refer Para 8.7 of NMAM](#))

8.5 The following Accounting Principles shall govern the recording, accounting and treatment of transactions relating to Cess:

- a. Revenue in respect of collection of Cess Income with Returns (on filing of returns by the dealers) shall be recognised on actual receipt.
- b. Revenue in respect of Cess Income on Assessment shall be recognised in the period in which they become due, i.e., when the demand is raised.
- c. Revenue in respect of Cess Registration Fee, Interest and Penalties levied on assessment shall be recognised on actual receipt.

- d. In respect of the demand outstanding beyond two (2) years, provision shall be made to the extent of income of ULB, based on the following provisioning norms:
 - Outstanding for more than 2 years but not exceeding 3 years: 50%
 - Outstanding for more than 3 years: 100% (additional 50%)
- e. Any additional provision for demand outstanding (net on overall basis) required to be made during the year shall be recognised as expenditure and any excess provision written back during the year shall be recognised as income of the ULB.
- f. Refunds, remissions of Cess for the current year shall be adjusted against the income and if it pertains to previous years then it shall be treated as prior period item.
- g. Write-offs of taxes shall be adjusted against the provisions made and to that extent recoverable gets reduced.

ACCOUNTING ENTRIES

8.6 Continuing with our Model Municipal Corporation (MMC), accounting of transactions relating to Cess is explained in terms of collections, write offs, refunds and remission.

8.7 The Opening Balance Sheet of MMC contains the following information with regard to Cess

Assets	Code of Account	Amount (Rs)	Amount (Rs)
- Cess Receivable	431-20-(a)		
- 2006		4,500	
- 2005		4,000	
- 2004		6,000	
- 2003		2,000	16,500
Provision for Outstanding other taxes	432-12-(a)		
- 50 % of 2004 Receivable		(3,000)	
- 100 % of 2003 Receivable		(2,000)	(5,000)

CESS COLLECTION ON REGISTRATION AND FILING OF RETURNS ([Refer Para 8.9 of NMAM](#))

8.8 MMC through its various collection centres collects empanelment registration charges and education Cess totalling Rs 45,000 on 23rd July 2006 and a statement is sent in Form GEN 12(Summary of Daily collections) to the Accounts department.

8.9 Recording of collections relating to Cess: Since the Summary of Daily collection statement in Form GEN-12 does not provide details in respect of year-wise and head-wise collections made in respect of Cess, the Accounts Department would credit the entire income under the head “Gross Cess Income”. The accounting entry for the same would be as follows.

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register To be entered In to
23 rd July 2006	450-21-(a) 110-52-(a)	Bank Account* To Cess – Gross Income	Dr Cr	45,000	45,000	Cash book, Ledger

*Specify name of the Bank and Account number

(a) Insert Detailed Head Codes of Account as applicable

Source Document: Form GEN-12 – Summary of Daily Collections

Internal Control: The following internal controls shall be exercised by the ULB

- (a) The Cess Department shall ensure that the Receipt / Summary of Daily Collection prepared, provides reference to the Cess Collection Register.

8.10 The Cess department updates the Head wise & year wise collections in the register maintained (in Form CE – 2) for collection on a monthly basis based on the collection statement received from collection centers along with bills if any.

8.11 **Recording of break-up of collections :** Based on the statement (Form CE-2) received from the Cess Department, the Accounts Department shall record the head wise break up of the collections made and pass the following entry.

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register To be entered In to
1 st August 2006	110-52-(a)	Cess – Gross Income	Dr	45,000	10,000	Journal book, Ledger
	140-10-(a)	To Empanelment Registration Charges – Cess	Cr			
	110-52-(a)	To Cess- Net Income	Cr	35,000		

- (a) Insert Detailed Head Codes of Account as applicable

Source Document: Form GEN-12 – Summary of Daily Collections, Form CE-2 – Summary statement of year wise & Head wise collection of Cess.

Internal Control: The following internal controls shall be exercised by the ULB

- (a) The Head of the Cess Department shall annually co-ordinate with the department handling the Shop and Establishment registrations and ascertain that the dealers who have been granted new registrations and are liable to Cess have registered with the Cess Department.

RAISING OF DEMAND FOR ADDITIONAL CESS, INTEREST AND PENALTIES ON ASSESSMENT (Refer Para 8.10 to 8.12 of NMAM)

8.12 Assume that in our example, the Cess Department on completion of the assessment of the dealers for the month of July has raised an additional demand of Cess of Rs 10,000.

8.13 **Recording of demand raised:** On completion of assessment of the dealers, the Cess Department shall prepare a Summary Statement of Demand Raised on Assessment in Form CE-1 on a monthly basis and send it to the Accounts Department within 7 days from the beginning of the month. The demand raised could be on account of additional cess, interest, penalties and/or fines charged as per the applicable provisions. Income in respect of demand raised for interest, penalties and/or fines charged shall be recognised as income on actual collection.

8.14 Based on the statement received, the Accounts Department shall pass the following entry to record the demand raised in respect of additional Cess.

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register To be entered In to
5 th August 2006	431-20-(a)	Receivables for Cess (Current)	Dr	10,000	10,000	Journal book, Ledger
	110-52-(a)	To Cess – Net Income	Cr			

- (a) Insert Detailed Head Codes of Account as applicable

Source Document: Form CE-1-Summary Statement of Demand raised on Assessment

Internal Control: The following internal controls shall be exercised by the ULB

- (a) The Head of the Accounts Department and the Head of the Cess Department shall reconcile the balance at the beginning of the accounting year in respect of the year-wise Cess Receivable (as appearing in the Balance Sheet of the previous year) with the year-wise total of the arrears recorded by the Cess Department.
- (b) A quarterly reconciliation shall be carried out by the Head of the Accounts Department and the Head of the Cess Department in respect of the amount collected and the year-wise amount outstanding between the balances standing in the relevant Ledger Accounts maintained at the Accounts Department and the records/registers maintained at the Cess Department.

8.15 Assume that in our example, based on the demand raised by the Cess Department, collection was made at various collection centres on August 14th 2006.

8.16 Recording of collections in respect of demand raised: On the basis of the Summary of Daily Collection (Form GEN – 12) received from the various Collection Offices and Collection Centres, the Accounts Department shall pass the following entry to record collections in respect of demand raised:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register To be entered In to
14 th August 2006	450-21-(a) 431-80-(a)	Bank Account* To Receivables Control Account – Cess	Dr Cr	10,000	10,000	Cash book, Ledger

*Specify name of the Bank and Account number

(a) Insert Detailed Head Codes of Account as applicable

Internal Control: The following internal controls shall be exercised by the ULB

- (a) The officers designated by the ULB for operating the Designated Cess Bank Account shall co-ordinate with the banks on a daily basis and ascertain the status of the cheques/drafts deposited by them.

8.17 Recording of break-up of collections.: On the basis of monthly Summary Statement of Year-wise Head-wise Collection of Cess (Form CE-2) received from the Cess Department, the Accounts Department shall pass the following entry to record the break-up of the collections made:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register To be entered In to
1 st September 2006	431-80-(a) 431-20-(a)	Receivables Control Account – Cess To Receivables for Cess (Current)	Dr Cr	10,000	10,000	Journal book, Ledger

(a) Insert Detailed Head Codes of Account as applicable.

REFUNDS/REMISSIONS (Refer Para 8.13 to 8.15 of NMAM)

8.18 The Cess Department shall duly grant refunds/remissions on account of change in rules applicable for Cess or any other reasons as applicable. The details of the same shall be communicated to the Accounts Department. Refer Chapter 8 –“Cess” of NMAM for the entries to be passed for accounting of Refund and Remission of Cess.

PROVISION FOR UNREALISED CESS RECEIVABLES (Refer Para 8.16 to 8.22 of NMAM)

8.19 MMC at the end of the Accounting year 2006-07 reviewed its Receivables relating to Cess income and decides to make provision to bring it in line with its Accounting principles.

8.20 Based on the accounting principles (Refer Para 8.5 (d) above), the provisioning required would be as follows.

- For 2005 outstanding – 50% of the receivable (i.e.) Rs 2,000.
- For 2004 outstanding- 50% of Rs 6,000 (i.e.) Rs 3,000 since 50% provision would have been made in the previous year.
- Hence total provision required is Rs 5,000.

8.21 For making the provision, the following entry shall be passed by the Accounts Department.

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register To be entered In to
31 st March 2007	270-10-(a)	Provision for Doubtful Receivables – Cess	Dr	5,000		Journal book, Ledger
	432-20-(a)	To Provision for Outstanding Cess	Cr		5,000	

(a) Insert Detailed Head Codes of Account as applicable.

Note1: The amount required to be provided as per provisioning norms shall be compared with the balance lying in the Provision for outstanding Cess. If the amount to be provided is more than the balance, then additional provision shall be made for the difference amount. If the amount to be provided is less than the balance, it reflects the amounts provided for has been collected, and the provision made towards that can be written back. This process has to be carried over at every period/year end.

Note2: The effect of the above entry will be as follows:

- Provision for Doubtful Receivables- Cess shall be shown as an expense under the schedule Provision & write offs.
- Provision for Outstanding Cess will be shown as a deduction from Receivables for Cess in the Balance Sheet.

WRITE-OFFS (Refer Para 8.23 & 8.24 of NMAM)

8.22 **Recording of Write-offs.** : If for any reason, it is decided by the ULB to write-off any Cess Income dues, the details of the write off has to be entered in the ‘Statement of Write off’ by the respective departments in Form CE – 4. This form has to be prepared on a monthly basis and forwarded to the Accounts Department and based on which, the write off shall be adjusted against the provision made.

8.23 The Cess Department of MMC has decided to write off the receivables of the year 2003, as the recoverability of the amount is remote.

8.24 In this case the Cess Department has to mention the details in the ‘Statement of Write off’ in Form CE-4 and send it to the Accounts Department based on which the following entry would be passed.

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register To be entered In to
31 March 2007	432-20-(a)	Provision for Outstanding Cess	Dr	2,000		Journal book, Ledger
	431-20-(a)	To Receivables for cess (year 2003)	Cr		2,000	

(a) Insert Detailed Head Codes of Account as applicable.

Recording of subsequent collection/ recovery of ‘Receivables of Cess Income’ written off

8.25 In case of a ‘Receivables of Cess Income’ written off already were recovered/collected during the year, then the recovered income shall be taken to the Account ‘Prior Period Income-Recovery of revenues Written off – Cess’. Please refer Chapter 8 – “Cess” of NMAM for the accounting entry to be passed.

ADJUSTMENT OF CESS RECEIVED IN ADVANCE (Refer Para 8.27 of NMAM)

8.26 The Cess Department shall intimate the Accounts Department of the advance adjusted against the subsequent demand raised by the Cess Department through the Summary Statement of Demand Raised on Assessment CE-2. Please refer Chapter 8 – “Cess” of NMAM for the Accounting entries to be passed for adjustment of Cess against advance.

PRESENTATION IN THE FINANCIAL STATEMENTS (Refer Para 8.31 to 8.34 of NMAM)

8.27 The various heads of account used for the accounting of Cess related transactions shall be reflected in the Financial Statements or in the Schedules attached to the Financial Statements of the ULB. All such Financial Statements and schedules should be affixed with signature and seal of designated authorities.

8.28 The schedules that reflect the transactions relating to fixed assets include

- a. Schedule I-1 – Schedule of Tax Revenues
- b. Schedule I-4 – Schedule of Income from Fees & User Charges
- c. Schedule I-16 – Schedule of Provisions and write off
- d. Schedule B-15 – Schedule of Sundry Debtors(Receivables)
- e. Schedule B-17 – Schedule of Cash & Bank Balances

SUMMARY

1. Cess is the tax levied along with any other tax or in lieu of tax and is considered income of ULB.
2. Major accounting principles that govern the transactions relating to cess are as follows:
 - a. Revenue in respect of collection of Cess Income with Returns (on filing of returns by the dealers) shall be recognised on actual receipt.
 - b. Revenue in respect of Cess Income on Assessment shall be recognised in the period in which they become due, i.e., when the demand is raised.
 - c. In respect of the demand outstanding beyond two (2) years, provision shall be made as per the norms specified in para 8.5 (d).
 - d. Refunds, remissions of Cess for the current year shall be adjusted against the income and if it pertains to previous years then it shall be treated as prior period item.
3. Accounting treatment of transactions relating to cess like recording of collections, refunds, provisioning for unrealised cess, write offs, are discussed elaborately in this chapter.
4. Presentation in the financial statements of transactions relating to cess is also discussed.

EXERCISE**Fill in the Blanks:**

1. Revenue in respect of Cess collected at the time of filing of Returns, shall be recognised on a
2. Cess income when demand is raised, shall be recognized on basis
3. Cess income in respect of Cess registration fee, interest etc on assessment shall be recognized on basis.
4. Any additional provision for demand outstanding required to be made during the year shall be recognised as.....
5. Excess provision which is no longer required and hence written back during the year shall be recognised asof the ULB.
6. Journalise the following:
 - a) Cess collection made at various collection centres on 31st January 2007 amounted to 20,000/-.
 - b) Additional demand raised after completion of final assessment for the month of October 2006 amounted to Rs 25,000.
 - c) Following is status of receivable for Cess
 - a. 2004 – 05 – Rs 1,00,000
 - b. 2003 – 04 – Rs 55,000Compute the provision that would be required to be made as per the provisioning norms of the ULB and pass the entry for recording in the books.
7. Under which of the following Schedule, Cess receivable at the end of the year would be reflected?
 - a) Schedule I-1 (Schedule of Tax Revenues)
 - b) Schedule I-16 (Schedule of Provisions and write off)
 - c) Schedule B-15 (Schedule of Sundry Debtors(Receivables))
 - d) None of the above

BROAD STRUCTURE FOR PREPARING PRESENTATION SLIDES

- Introduction
- Accounting Principles
- Accounting treatment for
 - Cess collection on registration and filing of returns
 - Raising of demand for additional cess
 - Refunds/Remissions
 - Provision for unrealized cess receivables
 - Write offs
- Presentation in the financial statements

CHAPTER 9

WATER SUPPLY

LEARNING OBJECTIVE

At the end of this Chapter, the reader will

- *Be familiar with the accounting principles governing the accounting for transactions related to water supply.*
- *Understand the entries for raising of demand, collection, refunds and remissions, deposits etc with respect to water supply.*
- *Understand the entries for provisioning of unrealised incomes with respect to water supply income.*
- *Be familiar with the internal controls relating to water supply transactions*
- *Be familiar with how the transactions relating to water supply are presented in the financial statements.*

CHAPTER OVERVIEW

Water supply is one the most important service provided by the ULB and it is a major source of revenue of the ULB. This chapter focuses on the Accounting Principles governing the accounting for transactions relating to Water supply. This chapter also deals with the Accounting treatment of various incomes like Water tax, Sewerage tax, Water supply charges, Water tanker charges levied by ULB with respect to provision of various services with respect to water supply. It also focuses on the internal control to the extent they relate to water supply transactions and the also the presentation of water supply income in the financial statements. The chapter is intended to act as a tool for the reader to understand the basic principles relating to the accounting for transactions relating to water supply and it is advised that the reader refer to “Chapter 9” of NMAM for detailed coverage of the subject

INTRODUCTION [*\(Refer Para 9.1 to 9.4 of NMAM\)*](#)

9.1 ULB have an obligation to make reasonable and adequate provision for the management and maintenance of all municipal water works and the construction or acquisition of new works necessary for a sufficient supply of water for public and private purposes.

9.2 ULB are entitled to charge the users for the provision of these services. The charges for the water supply are recovered as a Tax along with the Property Tax, based on the Assessment Value of the property or as a charge based on measurement or at a fixed amount or both.

9.3 The following are the revenue sources in relation to water supply:

- i. Water Tax
- ii. Sewerage Tax
- iii. Water supply Charges
- iv. Sewerage Charges
- v. Meter Rent for Water Supply;
- vi. Connection Charges for Water Supply and
- vii. Water Tanker Charges.
- viii. Road Damage Recovery Charges.

ACCOUNTING PRINCIPLES (Refer Para 9.5 of NMAM)

9.4 The following Accounting Principles shall govern the recording, accounting and treatment of transactions relating to **Water Supply and Sewerage**:

- a. Revenue in respect of Water Tax, Water Benefit Tax, Water Supply Charges, Water Meter Rent, Sewerage Charges, shall be recognised in the period in which they become due. It is to be noted that the water tax and the related taxes may also be included in the bill raised for property tax.
- b. Revenue in respect of Notice Fee, Warrant Fee, and Other Fees shall be recognised when the bills for the same are raised.
- c. Revenue in respect of Connection Charges for Water Supply shall be recognised on actual receipt.
- d. Revenue in respect of Water Tanker Charges and Road Damage Recovery Charges, Penalties shall be recognised on actual receipt.
- e. In respect of the demand outstanding beyond two (2) years, provision shall be made to the extent of income of the ULB as follows
 - If water tax is collected as a component in Property Tax, provisioning shall be made in the same way as unrealised Property Tax, which is as follows:
 - Outstanding for more than 2 year but not exceeding 3 years: 25%
 - Outstanding for more than 3 years but not exceeding 4 years: 50% (additional 25%)
 - Outstanding for more than 4 years but not exceeding 5 years: 75% (additional 25%)
 - Outstanding for more than 5 years: 100% (additional 25%)
 - If water tax demand is raised separately, the taxes and charges shall be provided as follows:
 - Outstanding for more than 2 year but not exceeding 3 years: 50%
 - Outstanding for more than 3 years: 100% (additional 50%)
- f. Any additional provision for demand outstanding (net on overall basis) required to be made during the year shall be recognised as expenditure and any excess provision written back during the year shall be recognised as income of the ULB.
- g. Refunds, remissions of taxes for the current year shall be adjusted against the income and if it pertains to previous years then it shall be treated as prior period item.
- h. Write-offs in respect of water supply income shall be adjusted against the provisions made and to that extent recoverable gets reduced.
- i. Any subsequent collection or recovery of 'Receivables of Water Supply Income' which were already written off it shall be recognised as a 'Prior Period Income'.

ACCOUNTING TREATMENT

9.5 This section explains the Accounting Treatment for transactions relating to water supply. Continuing with our "Model Municipal Corporation (MMC)", the transactions relating to water supply income are explained in terms of raising of demand, collection, provision for unrealized revenues etc.

9.6 The opening balance sheet of Model Municipal Corporation (MMC) had following information with respect to water supply.

Asset	Code of Account	Amount (Rs)
Receivables for fees & User charges – water supply:	431-30-(a)	
- 2006		14,000
- 2005		8,000
- 2004		6,000
Total Receivable		28,000
Provision for outstanding fees & User charges – water supply	432-30-(a)	3,000

9.7 The demand raised by MMC for the month of June 2006 with respect to Water supply charges, Sewerage charges and Meter charges amounted to Rs 12,500, 4,000 and 3,000 respectively. The collection was made on 5th July 2006.

RAISING OF DEMAND (Refer Para 9.8 & 9.9 of NMAM)

9.8 A Summary Statement of Bills Raised shall be prepared ward-wise and income -head-wise, in Form WS-1 on a monthly basis within 7 days from the end of the previous month. These form the base for accounting and the following entry shall be passed.

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
1 st July 2006	431-30-(a)	Receivable for Fees & User charges – water supply (2007)	Dr	19,500		Journal book, Ledger
	140-50-(a)	To User charges – water supply	Cr		12,500	
	140-50-(a)	To User charges – Sewerage charges	Cr		4,000	
	140-50-(a)	To User charges – Meter charges	Cr		3,000	

(a) Insert Detailed Head Codes of Account as applicable

COLLECTION OF WATER SUPPLY INCOME (Refer Para 9.10 of NMAM)

9.9 The procedure for accounting of collections is as follows.

9.10 Recording of Water Supply collections. Based on the Summary of Daily Collection (Form GEN 12) received from various Collecting Offices/Centers, the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
5 th July 2006	450-21-(a)	Bank Account*	Dr	19,500		Cash book, Ledger
	431-80-(a)	To Receivables control Account – Water supply	Cr		19,500	

* Specify the name of the bank and account number
(a) Insert Detailed Head Codes of Account as applicable

9.11 The Summary of Daily collection (Form GEN-12) does not provide the details in respect of the year-wise head-wise collections made in respect of Water Supply. Hence, the total amount collected should be credited to “Consolidated Receivables of Water Supply Income” Account. The collection made shall be segregated into year wise, head wise collection on a monthly basis and maintained as ‘Summary statement of year-wise head-wise collection of water and related taxes’ in Form WS-2.

9.12 **Recording of break-up of collections:** A Summary statement of year-wise/head-wise collection of water and related taxes in Form W-2 as explained above shall be prepared on a monthly basis and sent to the Accounts Department to record the details of collections. To record the break-up of collections into year-wise recovery and to record income received in advance the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
5 th July 2006	431-80-(a)	Receivables Control	Dr	19,500		Journal book, Ledger
	431-30-(a)	Account water supply To Receivables for Fess & User charges – (2007)	Cr		19,500	
(a) Insert Detailed Head Codes of Account as applicable						

NOTICE FEE, WARRANT FEE AND OTHER FEES

9.13 Refer Chapter – 9 “Water Supply” of NMAM for accounting entries to be passed in respect of Notice Fee, Warrant and Other Fees.

REFUNDS/REMISSION

9.14 On 10th August 2006, a refund order was received by water supply department with respect to water supply charges collection amounting to Rs 2,500, out of which Rs 500 pertains to previous year’s collection. The refund was made on 12th August 2006.

9.15 **Recording of refunds/remissions payable.** A Summary Statement of Refunds and Remissions in Form WS-3 shall be prepared on a monthly basis. Refunds/Remissions pertaining to prior period should be identified separately from the current period based on which the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
10 th Augu st 2006	140-90-(a)	Fees Remission & Refund – water supply	Dr	2,000		Journal book, Ledger
	280-60-(a)	Prior Period expenses refund of other Revenues – water supply	Dr	500		
	350-40-(a)	To Refund Payable – water supply *	Cr		2,500	
(a) Insert Detailed Head Codes of Account as applicable						
*Refunds/Remissions arising on account of change in the applicable rules shall be either passed for ‘Payment’ (refund payable account) or credited to the ‘Advance Collection of Revenues’ (under the account code 350-41-(a)) in accordance with the accounting principles of the ULB.						

9.16 **Recording of payment of refunds/remissions granted.** The Accounts Department shall prepare a Payment Order (Form GEN-14) in respect of the refunds and communicate the details of refunds/remissions made to the Water Supply Department for updating the Register of Demand and other registers. To record refunds/remissions payment, the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
12 th August 2006	350-40-(a) 450-21-(a)	Refund Payable – water supply To Bank Account*	Dr Cr	2,500	2,500	Cash book, Ledger
(a) Insert Detailed Head Codes of Account as applicable						

PROVISION FOR UNREALISED REVENUE RECEIVABLES ([Refer Para 9.16 to 9.22 of NMAM](#))

9.17 Recording of provision for unrealised Water Tax Income. The provisioning policy for unrealised Water supply income will be dependent on the basis of its charge. Refer Para 9.4(e) above for provisioning norms.

9.18 Based on the provisioning policy applicable to ULBs, MMC reviewed its receivables with respect to water supply income and decided to provide for old outstandings in the following manner.

Particulars	Receivable Amount (Rs)	Provision required	Opening Provision	Additional provision
Receivables for fees & User charges – water supply (2005)	8,000	4,000	Nil	4,000
Receivables for fees & User charges – water supply (2004)	6,000	6,000	3,000	3,000
Total provision required	14,000	10,000	3,000	7,000

9.19 This process has to be carried over at every Period-end. The amount required to be provided as per provisioning norms stated above, shall be compared with the balance lying in the Provision for Outstanding Fees & User Charges -Water Supply Account. If the amount to be provided is more than the balance, then additional provision shall be made for the difference amount. If the amount to be provided is less than the balance, it reflects the amounts provided for, has been collected and the provision made towards that can be written back.

9.20 Additional provision or reversal of excess provision for the current period shall be calculated similar to computations explained in Tables 6.1 & 6.2 in Chapter 6 – “Property & Other Taxes” of NMAM.

9.21 For making the provision, the following entry shall be passed by the Accounts Department:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
31 st March 2007	270-10-(a) 432-30-(a)	Provision for Doubtful receivables – Fees & User charges To Provision for Outstanding Fees & User charges – water supply	Dr Cr	7,000	7,000	Journal book, Ledger
(a) Insert Detailed Head Codes of Account as applicable						

Note: The above entry can be passed separately for each year’s receivables.

Write offs (Refer Para 9.23 & 9.24 of NMAM)

9.22 **Recording of Write-offs.** If for any reason, it is decided by the ULB to write-off any Water Supply Income dues, which were earlier treated as an income, the details of the write off has to be entered in the 'Statement of Write off' by the respective departments in Form WS – 4. This form has to be prepared on a monthly basis and forwarded to the Accounts Department and based on which, the write off shall be adjusted against the provision made. Refer Chapter 9 – “Water Supply” of NMAM for the accounting entries to be passed for write offs and subsequent recovery of amount written off.

ADJUSTMENT OF WATER SUPPLY INCOME RECEIVED IN ADVANCE (Refer Para 9.27 of NMAM)

9.23 The Water Supply Department shall intimate the Accounts Department of the advance adjusted against the subsequent demand raised by the Water Supply Department through the Summary Statement of Bills Raised (Form GEN – 22). Refer Chapter 9 - “Water Supply” of NMAM for the accounting entries to be passed for adjustment of advance received against demand raised.

INCOME TO BE ACCOUNTED ON ACTUAL RECEIPT BASIS

9.24 The following incomes in respect of Water Supply shall be accounted on actual receipt basis:

- Connection Charges for Water Supply;
- Water Tanker Charges;
- Road Damage Recovery Charges; and
- Penalties levied in respect of Water Supply related matters.

9.25 MMC had supplied 1000 litres of water through water tankers to various business establishments during the month of December 2006. The total amount collected on 5th January 2007 in respect of these supplies amounted to Rs 15,000.

9.26 **Recording of collection.** On the basis of the Summary of Daily Collection (Form GEN-12) received from the various Collection Offices and Collection Centres, the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
5 th January 2007	450-21-(a) 140-50-(a)	Bank Account* To User Charges – Water tankers	Dr Cr	15,000	15,000	Cash book, Ledger
* Specify the name of the Bank and account number (a) Insert Detailed Head Codes of Account as applicable						

Note: The accounting entry shall be passed only on 5th January 2007(date of actual receipt)

Water Deposits (Refer Para 9.32 to 9.36 of NMAM)

9.27 MMC had collected deposit of Rs 5,500 during the month of September for new water supply connection given during the month and also Rs 3,000 towards new meter installed at various business and residential premises during the month.

9.28 The Water Supply Department may receive deposits towards Water Connection, Water Meter, Water Tankers, etc. The Collection Offices and Collection Centres authorised to collect Water Deposits shall prepare a Summary of Daily collection (Form GEN-12) and send it to the Water Supply Department and the Accounts Department.

9.29 **Recording of collection.** The Accounts Department shall pass the following entry on the basis of the Summary of Daily Collection (Form GEN- 12) received from the various Collection Offices and Collection Centres:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
30 th September 2007	450-21-(a) 340-20-(a)	Bank Account* To Deposit Revenues water supply	Dr Cr	8,500	8,500	Cash book, Ledger
* Specify the name of the Bank and account number (a) Insert Detailed Head Codes of Account as applicable						

9.30 During the month of February 2007, some of the customers from whom deposits were received for supply of water through tankers had to be adjusted against water supply charges of Rs 5,500.

9.31 **Recording of adjustment of deposits.** The Water Supply Department shall send details of deposits adjusted in the Summary Statement of Deposits Adjusted (Form GEN-19) to the Accounts Department on a monthly basis. To record the adjustment of Water Deposit, the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
28 th February 2007	340-20-(a) 431-30-(a)	Deposit Revenue – water supply To Receivables for Fees & User charges – water supply (2007)	Dr Cr	5,500	5,500	Journal book, Ledger
(a) Insert Detailed Head Codes of Account as applicable						

9.32 For recording the income in respect of water supply charges, the accounts department shall pass the entry as provided in Para 9.8 above.

Internal controls ([Refer Para 9.38 & 9.39 of NMAM](#))

9.33 The following internal controls shall be observed by the ULB in respect of Water Supply related transaction:

- The Head of the Accounts Department and the Head of the Water Supply Department shall reconcile the balance at the beginning of the accounting year in respect of the year-wise Water Supply Income receivable (as appearing in the Balance Sheet of the previous year) with the year-wise total of the arrears recorded in the Demand Register.
- A quarterly reconciliation shall be carried out by the Head of the Accounts Department and the Head of the Water Supply Department in respect of the amount collected and the year-wise amount outstanding between the balances in the Ledger Accounts maintained at the Accounts Department and the Demand Register maintained at the Water Supply Department.
- A quarterly reconciliation shall be carried out by the Head of the Accounts Department and the Head of the Water Supply Department in respect of the deposits outstanding, between the balances in the Ledger Accounts maintained at the Accounts Department and the Deposit Register maintained at the Water Supply Department.

- d. The officers designated by the ULB for operating the Designated Water Supply Bank Account shall co-ordinate with the banks on a daily basis and ascertain the status of the cheques/drafts deposited by them.
- e. The Water Supply Department shall ensure that the Receipt / Summary of Daily Collection prepared, provides reference to the Water Supply Income Collection Register.
- f. The Chief Executive Officer/Head of the ULB shall specify such appropriate calendar of returns /reports for monitoring.

Presentation in the financial statements [*\(Refer Para 9.40 to 9.43 of NMAM\)*](#)

9.34 The various heads of account used for the accounting of Water Supply related transactions shall be reflected in the Financial Statements or in the Schedules attached to the Financial Statements of the ULB. All such Financial Statements and schedules should be affixed with signature and seal of designated authorities.

9.35 The provision against the outstanding water taxes receivable is to be disclosed under the major head Accumulated Provisions as a separate line item in the Balance Sheet below the 'Sundry Debtors'. The schedules that reflect the transactions relating to water supply include :

- a. Schedule I-4 – Schedule of Income from Fees & User Charges
- b. Schedule I-9 – Schedule of Other Income
- c. Schedule I-11 – Administrative Expenses
- d. Schedule I-16 – Schedule of Provisions and write offs
- e. Schedule I-18 – Schedule of Prior Period Items
- f. Schedule B-7 – Schedule of Deposits received
- g. Schedule B-9 – Schedule of Other Liabilities
- h. Schedule B-15 – Schedule of Sundry Debtors (receivables)
- i. Schedule B-17 – Schedule of Cash and Bank balances

SUMMARY

1. ULB are entitled to charge the users for the provision of these services. The charges for the water supply are recovered as a Tax along with the Property Tax, based on the Assessment Value of the property or as a charge based on measurement or at a fixed amount or both.
2. The major accounting principles governing the accounting for transactions relating to water supply are as follows:
 - a. Revenue in respect of Water Tax, Water Benefit Tax, Water Supply Charges, Water Meter Rent, Sewerage Charges, shall be recognised in the period in which they become due.
 - b. Revenue in respect of Notice Fee, Warrant Fee, and Other Fees shall be recognised when the bills for the same are raised.
 - c. Revenue in respect of Connection Charges for Water Supply shall be recognised on actual receipt.
 - d. Revenue in respect of Water Tanker Charges and Road Damage Recovery Charges, Penalties shall be recognised on actual receipt.
 - e. In respect of the demand outstanding beyond two (2) years, provision shall be made as per the norms given in para 9.4(e)
3. The accounting treatment for transactions relating to supply of water like raising of demand, collection, refund, provisioning for unrealized water tax income are discussed elaborately in this chapter.
4. The presentation in the financial statement of the transactions relating to water supply income are discussed in this chapter.

EXERCISE**1. Indicate the correct alternative in each of the following cases:**

- 1.1 Revenues that are recognized on actual receipt basis are
 - i. Water connection charges
 - ii. Water supply charges
 - iii. Rental income from municipal properties

- 1.2 Unrealised water charges pertaining to the year 2004 amounts to Rs 4,000. As per the provisioning norms applicable to ULB, total provisioning at the end of the financial year 2006-07 would be.
 - i. 100% of the receivable
 - ii. 50% of the receivable
 - iii. 75% of the receivable

- 1.3 Revenue in respect of Notice fee, warrant fee shall be recognized on
 - i. Accrual basis
 - ii. Receipt basis

2. Journalise the following transactions.

- 2.1 Water supply charges demand for the half year of 2006-07 amounted to Rs 2,50,000
- 2.2 Advance collection of water supply charges amounted to Rs 55,000.
- 2.3 Collection of water supply charges pertaining to the year 2005-06 amounted to Rs 1,30,000.
- 2.4 Refund of Water charges amounted to Rs 12,500 pertaining to the year 2005.
- 2.5 Write off of water charges receivable pertaining to the year 2006 amounted to Rs 10,000.
- 2.6 Collection of water supply deposit amounted to Rs 50,000.
- 2.7 An amount of Rs 20,000 receivable as water supply charges was adjusted against the above deposit of Rs.50,000/-

BROAD STRUCTURE FOR PREPARING PRESENTATION SLIDES

- Introduction
- Accounting Principles
- Accounting treatment for
 - Raising of demand
 - Collection of water supply income
 - Refunds/Remission
 - Provision for Unrealised receivables
 - Write offs
 - Incomes to be accounted on actual receipt basis
 - Water deposits
- Presentation in the financial statements

CHAPTER 10

ASSIGNED REVENUES

LEARNING OBJECTIVE

At the end of this Chapter, the reader will

- *Understand what Assigned Revenues are.*
- *Be familiar with the Accounting principles governing the accounting of Assigned revenues.*
- *Understand the entries to be passed for accounting of Assigned revenues.*
- *Be familiar with how the transactions relating to Assigned revenues are presented in the financial statements.*

CHAPTER OVERVIEW

This chapter contains the recommended Accounting System for transactions relating to assigned revenues and shared taxes. It focuses on the Accounting Principles governing the accounting for transactions relating to assigned revenues. Presentation of these revenues in the financial statements is also covered in this chapter. The chapter is intended to act as a tool for the reader to understand the basic principles relating to the accounting for assigned Revenues and it is advised that the reader refer to “Chapter 10” of NMAM for detailed coverage of the subject.

INTRODUCTION [*\(Refer Para 10.1 & 10.2 of NMAM\)*](#)

10.1 Assigned Revenues are usually in the nature of a share in the revenues of the State Government, to compensate for certain losses in revenue and arrangement of resources of the ULB. The ratio of the share in revenues is determined on the basis of the revenues collected by ULB and the recommendations of the State Finance Commissions and devolution of funds to ULB.

ACCOUNTING PRINCIPLES [*\(Refer Para 10.3 of NMAM\)*](#)

10.2 The following Accounting Principles shall govern the recording, accounting and treatment of transactions relating to Assigned Revenues:

- a. Assigned revenues like Entertainment Tax, Duty / Surcharge on transfer of Immovable properties shall be accounted during the year only upon actual collection. However, at year-end alone, these shall be accrued if sanction order (or proceedings) is passed and the amount is ascertained.
- b. Based on the review of recoverable position of the ‘Receivables of Assigned Revenues’, the amount of outstanding assigned revenues to be provided or written off shall be ascertained and accounted accordingly on obtaining the relevant approval.

ACCOUNTING TREATMENT [*\(Refer Para 10.5 to 10.8 of NMAM\)*](#)

10.3 Model Municipal Corporation (MMC) had received a share of Entertainment Tax and duties on Transfer of Property amounting to Rs 50,000 and Rs 75,000 respectively on 25th September 2006 vide sanction order no. 0001 dated 15th September 2006 from the State Government. State Government had sanctioned one more share of its Entertainment tax revenue to the MMC amounting to Rs 25,000 vide

letter dated March 15 2007. Though this was sanctioned, the payment was not received before the end of the Financial Year.

10.4 Recording of receipt of Assigned Revenue: Details of Assigned revenues received shall be entered in the Receipt Register (Form GEN-9) maintained at the Accounts Department and deposited into the Main Bank Account and also a Receipt (Form GEN-8) shall be issued to the State Government. To record the receipt of Share of Entertainment tax and duties on Transfer of Property, the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register to be entered In to
25 th September 2006	450-21-(a)	Bank Account*	Dr	1,25,000		Cash book, Ledger
	120-10-(a)	To Taxes and Duties Collected by others- Entertainment Tax	Cr		50,000	
	120-10-(a)	To Taxes and Duties Collected by others-Duty on Transfer of Properties	Cr		75,000	
* specify the name of the Bank and the Account number (a) Insert Detailed Head Codes of Account as applicable Source Document: Summary of Daily Collection – Form GEN – 12						

10.5 Recording of accruing of assigned revenues: At the end of the accounting period, the Accounts Department shall verify whether any proceedings or sanction order is passed and for which money is not received as at the end of the accounting period. The amount of such receivable as quantified in the proceedings or sanction order shall be accrued as income of the ULB. The Accounts Department shall pass the following entry to record the share of entertainment tax due but not received at the end of the year:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register To be entered In to
31 March 2007	431-50-(a)	Receivables from Government	Dr	25,000		Journal book, Ledger Grant Register
	120-10-(a)	To Taxes and Duties Collected by others- Entertainment Tax	Cr		25,000	
(a) Insert Detailed Head Codes of Account as applicable Source Document: Sanction order from Government						

Recording of reversal for Accrued Assigned Revenues

10.6 At the end of the period, the Accounts Department shall verify whether any accrued revenue has been collected during the period and credited to income account. If so, the accrued income shall be reversed. For accounting entry to be passed for reversal of accrued assigned revenue, refer Para 10.7 of NMAM.

PERIOD END PROCEDURES [\(Refer Para 10.9 & 10.10 of NMAM\)](#)

10.7 At the period end, it shall be ensured that all the doubtful Receivables of Assigned revenues be reviewed and write off if considered necessary be made are provided for as per the period end review of the cumulative provisions. Further, the accounts department shall also ensure that the necessary reversal entries are made for assigned revenues received in the current accounting period, which were accrued for in the previous period.

PRESENTATION IN FINANCIAL STATEMENTS *(Refer Para 10.11 to 10.13 of NMAM)*

10.8 The various heads of account used for the accounting of Assigned revenues related transactions should be reflected in the Financial Statements or in the Schedules attached to the Financial Statements of the ULB. All such Financial Statements and schedules should be affixed with signature and seal of designated authorities.

- 10.9 The schedules that reflect the transactions relating to Assigned revenues include
- a. Schedule I-2 – Assigned Revenues & Compensation
 - b. Schedule B-15 – Schedule of Sundry Debtors
 - c. Schedule B-17 – Schedule of Cash & Bank

SUMMARY

1. Assigned Revenues are usually in the nature of a share in the revenues of the State Government, to compensate for certain losses in revenue and arrangement of resources of the ULB.
2. Major accounting principles that govern the transactions relating to assigned revenues are as follows.
 - a. Assigned revenues like Entertainment Tax, Duty / Surcharge on transfer of Immovable properties shall be accounted during the year only upon actual collection.
 - b. At year-end alone, these shall be accrued if sanction order (or proceedings) is passed and the amount is ascertained.
3. The accounting treatment for recording of receipt, accrual etc are discussed in this chapter.
4. The presentation in the financial statement of transactions relating to assigned revenues are discussed in this chapter.

EXERCISE

1. Journalise the following transactions

1. Municipal Corporation was due to receive its share of entertainment and surcharge on transfer of immovable properties from State Government amounting to Rs 10,000 & 20,000 respectively on 1st May 2007. An amount of Rs 7,500 & 16,000 was received against the aforesaid dues on 1st June 2007.
2. Another share of entertainment tax amounting to Rs 10,000 was sanctioned on 10th March 2007 and the sanction order for the same was also received.
3. Assuming that the above collection was made in the next financial year (say on 2nd April 2007), pass the entry that would be made in the books of 2007-08.

BROAD STRUCTURE FOR PREPARING PRESENTATION SLIDES

- Introduction
- Accounting Principles
- Accounting treatment for
 - Receipt of Assigned revenues
 - Recording Accrual of Assigned revenues
- Presentation in the financial statements

CHAPTER II

RENTALS, FEES & OTHER INCOME

LEARNING OBJECTIVE

At the end of this Chapter, the reader will...

- *Be familiar with the accounting principles governing the accounting for Other Income.*
- *Be familiar with the method of recording Other Income like rent, License fee in account books and year end provisioning for receivables.*
- *Be familiar with the internal controls relating to Other Income*
- *Be familiar with how the transactions relating to Other Income are presented in the financial statements.*

CHAPTER OVERVIEW

This chapter focuses on the basic principles governing the accounting for Incomes other than Property tax, water charges etc. This chapter illustrates the accounting entries to be passed for recording other income in the books of accounts. Internal Controls to the extent they relate to Other Income and the presentation of the same in the financial statements are also discussed in this chapter. The chapter is intended to act as a tool for the reader to understand the basic principles relating to the accounting for Other incomes and it is advised that the reader refer to “Chapter 11” of NMAM for detailed coverage of the subject.

INTRODUCTION [*\(Refer Para 11.1 to 11.3 of NMAM\)*](#)

11.1 ULB derive substantial portions of their revenue from Property & other taxes, Water Tax/Water Charges and Grants. In addition, they also have certain additional sources of revenue like Rentals from Municipal Properties, Advertisement Taxes, License Fees, etc.

11.2 Some of the Incomes under these categories that may arise to ULB are Crematorium charges, Burial ground charges, Parking charges, Library charges, Sale of Forms & documents etc.

INCOMES TO BE ACCOUNTED ON ACCRUAL BASIS [*\(Refer Para 11.4 & 11.5 of NMAM\)*](#)

11.3 Income for which demand is raised shall be accounted on accrual basis. These include Rental income from Municipal Properties, Trade License Fee, and professional tax etc.

11.4 The various aspects relating to Incomes to be accounted on accrual basis include:

- Entry in the Demand Register
- Raising of Bills
- Collection of dues
- Refunds, Remissions and write-offs.

ACCOUNTING PRINCIPLES [*\(Refer Para 11.6 of NMAM\)*](#)

11.5 The following Accounting Principles shall govern the recording, accounting and treatment of transactions relating to Other Incomes:

- a. Revenue in respect of Advertisement rights shall be accrued either based on Demand or based on the contract.
- b. Revenue in respect of Trade License Fees shall be accrued in the year to which it pertains and where the Demand is raised based on applicable Acts of the state.
- c. Revenues in respect of Profession Tax on Organisations / entities shall be accrued in the year to which it pertains where the demand is raised based on applicable Acts of the state.
- d. Revenues in respect of rents from properties shall be accrued based on terms of agreement.
- e. The Other Income, in respect of which demand is ascertainable and can be raised in regular course of operations of the ULB, shall be recognised in the period in which they become due, i.e., when the bills are raised.
- f. The Other Incomes, which are of an uncertain nature or for which the amount is not ascertainable or where demand is not raised in regular course of operations of the ULB, shall be recognised on actual receipt.
- g. Revenue in respect Notice Fee, Warrant Fee, Other Fees shall be recognised when the bills for the same are raised.
- h. Interest element and Penalties, if any, in demand shall be reckoned only on collection.
- i. In respect of the demand outstanding beyond two (2) years, provision shall be made to the extent of income of ULB, based on the following provisioning norms:
 - Outstanding for more than 2 year but not exceeding 3 years: 50%
 - Outstanding for more than 3 years: 100% (additional 50%)
- j. Any additional provision for demand outstanding required to be made during the year shall be recognised as expenditure and any excess provision written back during the year shall be recognised as income of the ULB.
- k. Refunds, remissions of Rents, Fees & Other Incomes for the current year shall be adjusted against the income and if pertain to previous years then it shall be treated as prior period item.
- l. Write-offs of Other Incomes shall be adjusted against the provisions made and to that extent recoverable gets reduced.
- m. Any subsequent collection or recovery of 'Receivables of Rental, Fees and Other Incomes' which were already written off shall be recognised as a 'Prior Period Income'.

ACCOUNTING TREATMENT

11.6 Continuing with our Model Municipal Corporation (MMC), the transactions involving Other income are explained in terms of Incomes that are accounted on Actual receipt, Deposits, Income accounted on Accrual basis, License fee and Advertisement income

ACCOUNTING FOR INCOMES TO BE ACCOUNTED ON ACTUAL RECEIPT BASIS ([Refer Para 11.8 to 11.11 of NMAM](#))

Collection

11.7 The total collections of Parking fees of MMC for the month of June 2006 amounted to Rs 7,500.

11.8 Recording of income. The Parking Fees received shall be accounted by the Accounts Department based on Form GEN 12 (Summary of Daily Collections). The Accounting entry shall be

Date	Code of Accounts	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register to be entered in to
1 st July 2006	450-21-(a) 140-50-(a)	Bank Account* To Parking Fees – (Fees & User charges)	Dr Cr	7,500	7,500	Cash book, Ledger
* Specify the name of the bank and Account number (a) Insert Detailed Head Codes of Account as applicable Source Document: Summary of Daily Collection - Form GEN-12						

Receipt of Incomes in Advance

11.9 In cases where the Incomes that are accounted on actual receipt basis are received in advance, i.e., before providing the services/goods, they shall be recorded as income on collection. In case the amount collected is to be refunded, the refund shall be recorded as expenditure. Please refer Chapter 11 – “Rentals, Fees & Other Incomes” for accounting entries to be passed for receipt of income in advance.

Deposits (Refer Para 11.12 to 11.17 of NMAM)

11.10 In respect of certain Incomes (including incomes accounted for on accrual basis), a deposit is taken at the time of receiving the application for providing the services/goods, e.g., Rent Deposit, etc. The accounting for the different transactions in respect of deposits received in respect of Incomes, have been discussed below, using the example of Rent Deposit.

11.11 MMC had received Rs 3,000 as Rent deposits from tenants of various Municipal Properties during the month of April 2006.

11.12 Recording of receipt of deposits. On receipt of deposit, the same shall be treated as a liability. The Accounts Department shall pass the following entry.

Date	Code of Accounts	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register to be entered in to
30 th April 2006	450-21-(a) 340-20-(a)	Bank Account* To Deposit Revenues – Rent	Dr Cr	3000	3,000	Cash book, Ledger,
* Specify the name of the Bank and the Account number (a) Insert Detailed Head Codes of Account as applicable Source Document: Summary of Daily Collections Form GEN-12						

11.13 Out of the above Rent deposit received during the beginning of the year, deposit to the extent of Rs 2,000 was refunded during the month of December 2006.

11.14 Recording of refund of deposits. The deposits shall be refunded when an application is made for it as per the rules prescribed for the same. A Payment Order (GEN – 14) shall be prepared by the respective departments for the refund of the deposits. On refund of the Rent Deposit, the Accounts Department shall pass the following entry:

Date	Code of Accounts	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register to be entered in to
1 st December 2006	340-20-(a) 450-21-(a)	Deposit Revenues – Rent To Bank Account*	Dr Cr	2,000	2,000	Cash book, Ledger
* Specify the name of the Bank and the Account number (a) Insert Detailed Head Codes of Account as applicable Source Document: Payment Order – Form GEN – 14						

ACCOUNTING FOR INCOMES TO BE ACCOUNTED ON ACCRUAL BASIS

A. Rental income (Refer Para 11.19 to 11.24 of NMAM)

Demand Raised

11.15 MMC had issued bills on May 25 2006, in respect of Municipal Properties let out on rent amounting to Rs 3000.

11.16 Recording of demand raised. The demand raised for Incomes shall be recognised as an income for the ULB and correspondingly as a current asset. Accordingly, based on the Summary Statement of Bills Raised (Form OTH –1) received from the respective departments, the Accounts Department shall pass the following entry:

Date	Code of Accounts	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register to be entered in to
25 th May 2006	431-40-(a) 130-90-(a)	Receivables from other Sources – Rent (2007) To Rental Income from Municipal Properties	Dr Cr	3000	3,000	Journal book, Ledger
(a) Insert Detailed Head Codes of Account as applicable Source Document: Summary Statement of Bills Raised – Form OTH – 1						

Collection of accrued incomes

11.17 Recording of Income collections. To record the income based on the Summary of Daily Collections (Form GEN-12) received from the various Collection Offices and Collection Centers, the Accounts Department shall pass the following entry:

Date	Code of Accounts	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register to be entered in to
25 th May 2006	450-21-(a) 431-80-(a)	Bank Account* To Receivables Control Account – Rent	Dr Cr	3,000	3,000	Cash book, Ledger
(a) Insert Detailed Head Codes of Account as applicable Source Document: Summary statement of Daily Collection - Form GEN-12						

11.18 Recording of break-up of collections. A Summary Statement of Year-wise/ Head-wise Collection of various other incomes in Form OTH-2 shall be prepared on a monthly basis by the respective departments and sent to the Accounts Department to record the details of collection. To record the break-up of the collections made in respect of Incomes accounted for on accrual basis, into current and arrears recovery and to record any income collected in advance, the Accounts Department shall pass the following entry:

Date	Code of Accounts	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register to be entered in to
5 th June 2006	431-80-(a)	Receivables Control Account – Rent	Dr	3,000		Journal book, Ledger
	431-40-(a)	To Receivables from Other sources – Rent (2007)	Cr		3,000	
(a) Insert Detailed Head Codes of Account as applicable						
Source Document: Summary Statement of Head wise collection of Rentals, Fees and Other Income Form OTH -2						

Notice Fee, Warrant Fee and other Fees ([Refer Para 11.25 to 11.27 of NMAM](#))

11.19 Notices of demand and warrants shall be issued and other fees may be charged as per the relevant provisions. Please refer Chapter 11 – “Rentals, Fees & Other Incomes” of NMAM for accounting entry to be passed in respect of Notice fee, warrant fee etc.

Refunds and Remissions ([Refer Para 11.28 to 11.30 of NMAM](#))

11.20 All refunds and remissions arising on account of certain changes or amendments of the provisions or acts governing the revenues shall be duly recorded in the Demand Registers maintained and the details of the same shall also be communicated to the Accounts Department.

11.21 An Amendment was made to the Municipal Act relating to rent chargeable by ULB. Due to this Amendment rent collected from the tenant to the extent of Rs 2,000 had to be refunded, out of which Rs 500 pertains to previous year. The refund of rental income was made on 15th of July. The following entries shall be passed to effect the aforesaid transaction.

11.22 Recording of refunds/remissions payable. A Summary Statement of Refunds and Remissions in Form OTH – 3 shall be prepared on a monthly basis. Refunds / Remissions pertaining to prior period shall be identified separately from the current period based on which the Accounts Department shall pass the following entry:

Date	Code of Accounts	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register to be entered in to
4 th July 2006	130-90-(a)	Rent Remission & Refund	Dr	2,500		Journal book, Ledger
	280-60-(a)	Prior Period Expenses Refund of Other Revenues - Rent	Cr	500		
	350-40-(a)	To Refund Payable	Cr		3,000	
(a) Insert Detailed Head Codes of Account as applicable						
Source Document: Summary Statement of Refunds and Remissions in Form OTH – 3						

11.23 Recording of payment of refunds/remissions granted: The Accounts Department shall prepare a Payment Order (Form GEN-14) in respect of the refunds and communicate the details of refunds/remissions payments to the concerned departments for updating the Register of Demand and other registers. To record refunds made, the Accounts Department shall pass the following entry:

Date	Code of Accounts	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register to be entered in to
15 th July 2006	350-40-(a)	Refund Payable – Rent	Dr	3,000		Cash book, Ledger
	450-21-(a)	To Bank Account*	Cr		3,000	
(a) Insert Detailed Head Codes of Account as applicable						
Source Document: Payment Order –Form GEN-14						

Provision for Unrealised Revenues Receivables ([Refer Para 11.35 to 11.41 of NMAM](#))

11.24 Computation of Provision for unrealized Incomes shall be similar to Provision for Unrealised Cess as given in Para 8.19 to 8.21 of Chapter 8 – “Cess”.

License Fees ([Refer Para 11.45 to 11.48 of NMAM](#))

11.25 The license fees are charged for granting license to any trade, shops, markets etc. Similar to accruing of rental income, license fees shall also be accrued based on raising a demand in form OTH – 1.

11.26 MMC raised a demand of Rs 4,000 for the month of February 2007 on Shops and bazaars as license fees.

Demand Raised

11.27 Recording of demand raised. The demand raised for Income shall be recognised as an income for the ULB and correspondingly as a receivable. Accordingly, based on the Summary Statement of Bills Raised (Form OTH –1) received from the respective departments, the Accounts Department shall pass the following entry:

Date	Code of Accounts	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register to be entered in to
2 nd March 2007	431-30-(a)	Receivables for fees & User charges - License Fees (Current)	Dr	4,000		Journal book, Ledger
	140-11-(a)	To Licensing fees – Shops, Bazaars.	Cr		4,000	

(a) Insert Detailed Head Codes of Account as applicable
Source Document: Summary Statement of Bills Raised -Form OTH –1

Collection of accrued incomes

11.28 The following shall be the procedure for accounting of the collections made in respect of accrued Incomes:

11.29 Recording of Income collections. To record the income based on the Summary of Daily Collections (Form GEN-12) received from the various Collection Offices and Collection Centres, the Accounts Department shall pass the following entry:

Date	Code of Accounts	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register to be entered in to
2 nd March 2007	450-21-(a)	Bank Account*	Dr	4,000		Cash book, Ledger
	431-30-(a)	To Receivables Control Accounts – License Fees	Cr		4,000	

* Specify the name of the Bank and Account number
(a) Insert Detailed Head Codes of Account as applicable
Source Document: Summary of Daily Collections -Form GEN-12

11.30 For Other Incomes to be accounted on accrual basis, the Summary of Daily Collection (Form GEN- 12) does not provide the break-up of the collections into arrears collected, collections received in advance and collection made in respect of the current year's demand. Hence, the total amount collected is credited to “Consolidated Receivables of License Fees” Account which shall be segregated on a monthly basis.

11.31 **Recording of break-up of collections.** A Summary Statement of Year-wise/ Head-wise Collection of various other incomes in Form OTH-2 shall be prepared on a monthly basis by the respective departments and sent to the Accounts Department to record the details of collection. . To record the break-up of the collections made in respect of Incomes accounted for on accrual basis, into current and arrears recovery and to record any income collected in advance, the Accounts Department shall pass the following entry:

Date	Code of Accounts	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register to be entered in to
2 nd March 2007	431-80-(a)	Receivables Control Accounts – License Fees	Dr	4,000		Journal book, Ledger
	431-30-(a)	To Receivables for Fees & User Charges – License Fees (Current)	Cr		4,000	
(a) Insert Detailed Head Codes of Account as applicable						
Source Document: Summary Statement of Head-wise Collection of Rentals, Fees and Other incomes in Form OTH-2						

Advertisement Fees ([Refer Para 11.49 to 11.52 of NMAM](#))

11.32 The advertisement fees are charged towards advertisement rights. Similar to accruing of rental income and license fees, advertisement fees shall also be accrued based on raising a demand in form OTH – 1. The Accounting entries for demand raised, collection would be similar to License fees given above.

INTERNAL CONTROLS ([Refer Para 11.53 of NMAM](#))

11.33 The following internal controls shall be observed by the ULB in respect of transaction related to Other Incomes:

- The Head of the Accounts Department and the head of the respective departments shall reconcile the balance at the beginning of the accounting year in respect of the Sundry Income Receivables Arrears (as appearing in the Balance Sheet of the previous year) with the year-wise total of the arrears recorded in the Demand Registers.
- A quarterly reconciliation shall be carried out by the Head of the Accounts Department and the head of the respective departments in respect of the amount collected and the arrears outstanding between the balances standing in the Ledger maintained at the Accounts Department and the Demand Registers maintained at the respective departments.
- A monthly reconciliation shall be carried out by the Head of the Accounts Department and the head of the respective departments in respect of the various deposits collected, between the balances standing in the Ledger maintained at the Accounts Department and the Deposits Registers maintained at the respective departments.
- The head of the respective departments shall ensure that the Receipt / Chalan for Remittance of Money prepared, provides reference to the Consolidated Collection Register.
- The Chief Executive Officer/Head of the ULB shall specify such appropriate calendar of returns /reports for monitoring.

PRESENTATION IN FINANCIAL STATEMENTS ([Refer Para 11.55 to 11.58 of NMAM](#))

11.34 The various heads of account used for the accounting of Other Incomes related transactions should be reflected in the Financial Statements or in the Schedules attached to the Financial Statements of the ULB. All such Financial Statements and schedules should be affixed with signature and seal of designated authorities.

11.35 The provision against the Outstanding Rental and Other Incomes receivable is to be disclosed under the major head Accumulated Provisions as a separate line item in the Balance Sheet below the 'Sundry Debtors'.

- 11.36 The schedules that reflect the transactions relating to Other Income include
- a Schedule I-3 – Rental income from Municipal properties
 - b Schedule I-4 – Schedule of Income from Fees & User Charges
 - c Schedule I-18 – Schedule of Prior Period Items
 - d Schedule B-7 – Schedule of Deposits Received
 - e Schedule B-9 – Schedule of Other Liabilities (Sundry Creditors)
 - f Schedule B-17 – Schedule of Cash and Bank Balances

SUMMARY

1. This chapter discusses on the incomes other than the main source of income of the ULB like rent, advertisement tax, license fee etc.
2. With respect to other incomes, the income for which demand is raised shall be accounted on accrual basis. Example rental income from municipal properties, trade license fee, advertisement tax etc.
3. The major accounting principles with respect to other income are as follows:
 - a. Revenue in respect of Advertisement rights shall be accrued either based on Demand or based on the contract.
 - b. Revenue in respect of Trade License Fees shall be accrued in the year to which it pertains and where the Demand is raised based on applicable Acts of the state.
 - c. Revenues in respect of Profession Tax on Organisations / entities shall be accrued in the year to which it pertains where the demand is raised based on applicable Acts of the state.
 - d. Revenues in respect of rents from properties shall be accrued based on terms of agreement.
 - e. The Other Income, in respect of which demand is ascertainable and can be raised in regular course of operations of the ULB, shall be recognised in the period in which they become due, i.e., when the bills are raised.
 - f. The Other Incomes, which are of an uncertain nature or for which the amount is not ascertainable or where demand is not raised in regular course of operations of the ULB, shall be recognised on actual receipt.
 - g. In respect of the demand outstanding beyond two (2) years, provision shall be made as per the provisioning norm given in para 11.5(i).
4. The accounting treatment for collection of income in advances, rental income , license fee, advertisement tax etc are discussed in detail in this chapter.
5. The presentation in the financial statement of transactions relating to other income are provided in this chapter.

EXERCISE

1. State whether the following statements are '**Right**' or '**wrong**':
 - a. Revenue in respect of Advertisement rights shall be accrued based either on Demand or as per contract.
 - b. Revenues in respect of rental income shall be recognized as per the terms of agreement.
 - c. Other incomes which are of uncertain nature or for which the amount is not ascertainable or for which the demand is not raised, shall be recognized on actual basis.
 - d. Any additional provision for demand outstanding, required to be made during the year shall be recognized as expenditure.
 - e. Any subsequent recovery of incomes which were already written off shall be recognized as 'Prior period income'.

2. **Journalise the following transactions**
 - a. Demand raised for Municipal properties let out amounts to Rs 20,000.
 - b. Rental deposits from municipal properties let out amounting to Rs 2,00,000.
 - c. Out of the above deposit, Rs 50,000 was refunded at the end of the year.
 - d. The total collections of parking fees for the month of December 2006 amounts to Rs 1,25,000.

BROAD STRUCTURE FOR PREPARING PRESENTATION SLIDES

- Introduction
- Accounting Principles
- Incomes to be accounted on Accrual basis
- Accounting treatment for
 - Incomes to be accounted on Actual receipt
 - Deposits
 - Incomes to be accounted on Accrual basis
 - Refunds & remission
 - Provisions for Unrealised revenue receivables
- Presentation in the financial statements

CHAPTER 12

PUBLIC WORKS

LEARNING OBJECTIVE

At the end of this Chapter, the reader will...

- *Understand the meaning and treatment of public works.*
- *Be familiar with the accounting principles governing the accounting for Public Works*
- *Be familiar with the types, treatment and accounting impact of public work transactions.*
- *Be familiar with the internal controls relating to public works transactions.*
- *Be familiar with how the transactions relating to public works are presented in the financial statements*

CHAPTER OVERVIEW

This chapter contains the recommended accounting system for Public Works transactions undertaken by the ULB. This chapter focuses on the basic principles governing the accounting for Public works. The chapter also illustrates the entries to be passed for transactions relating to public works like original works, repairs and maintenance, fees, user charges & deposit works. Internal Controls to the extent they relate to public works and the presentation of the same in the financial statements. The chapter is intended to act as a tool for the reader to understand the basic principles relating to the accounting for public works and it is advised that the reader refer to “Chapter 12” of NMAM for detailed coverage of the subject.

INTRODUCTION ([Refer Para 12.1 to 12.6 of NMAM](#))

12.1 Public works would generally include construction/expansion/major modification of buildings, development of land, construction of roads, construction of water works, construction of drainage systems or other public utilities. Repairs and maintenance of these would also constitute Public Works. Apart from these, any non-civil contracts (e.g., for furniture) undertaken by the ULB through the Public Works Department would also be covered here.

12.2 The Public Works may be carried out in a municipal area either from Municipal Funds or from Grants or Special Funds. The accounting procedure for dealing with the various transactions of Public Works would be similar irrespective of the source of funds.

12.3 ‘Original Works’ includes all new constructions or additions and alterations to existing works. Repairs to newly purchased or previously abandoned buildings, which are required for bringing them into use, should be classified as Original Works. Where a portion of an existing structure is dismantled and replaced and if the cost of such replacement represents a genuine increase in the permanent value of the property as an asset, the work should be classified as ‘Original Works’.

12.4 ‘Repairs and Maintenance’ includes works, other than those specified under Original Works, required to maintain buildings, roads, water work assets, drainage system and other works in proper condition for ordinary use.

12.5 ‘Fees & User Charges’: Where the Public Works Department issues any permission for road digging or any other activity for private purpose, it recovers the charges incurred for repair of the damaged road or any other structure from the person seeking permission.

ACCOUNTING PRINCIPLES ([Refer Para 12.7 of NMAM](#))

12.6 The following Accounting Principles shall govern the recording, accounting and treatment of transactions relating to public works:

- a. The cost of fixed assets shall include cost incurred/money spent in acquiring or installing or constructing fixed assets, interest on borrowings attributable to acquisition or construction of qualifying fixed assets up to the date of commissioning of the assets and other incidental expenses incurred up to that date.
- b. Any addition to or improvement to the fixed asset that results in increasing the utility or capacity or useful life of the asset shall be capitalised and included in the cost of asset. Revenue expenditure in the nature of repairs and maintenance incurred to maintain the asset and sustain its functioning or the benefit of which is less than for a year, shall be charged off.
- c. Assets under erection/installation on existing projects and capital expenditures on new projects (including advances for capital works and project stores) shall be shown as "Capital Work-in-Progress".
- d. The Earnest Money Deposit and Security Deposit received if forfeited shall be recognised as income when the right for claiming refund of deposit has expired.
- e. Deposit received under Deposit works shall be treated as a liability till such time the projects for which money is received is completed. Upon completion of the projects, the cost incurred against it shall be reduced from the liability.
- f. Revenues (percentage charges) in respect of Deposit works shall be accrued along with expenditure of Deposit works.

ACCOUNTING TREATMENT OF PUBLIC WORKS

12.7 Continuing with our Model Municipal Corporation, the transactions relating to Public Works are explained in terms of accounting for Earnest Money Deposit (EMD), Security Deposit, Capital work-in progress (CWIP), Repairs and maintenance works and Deposit works.

12.8 MMC had the following projects under execution at the beginning of the year.

Particulars	Code of Account	Amount (Rs)
Capital Work in progress		
Parks and Play ground	412-10-(a)	10,000
School buildings	412-10-(a)	14,000

12.9 As against the aforementioned projects, the advance provided to the contractors and outstanding at the end of the previous accounting year was as follows.

Particulars	Code of Account	Amount (Rs)
Advance given for-		
Parks and Play ground	460-40-(a)	2,000
School buildings	460-40-(a)	4,000

12.10 Further Security Deposit furnished by the contractors was as follows.

Particulars	Code of Account	Amount (Rs)
Security Deposit for		
Parks and Play ground	340-10-(a)	1,000
School buildings	340-10-(a)	1,800

ACCOUNTING FOR RECEIPT OF EARNEST MONEY DEPOSIT ([Refer Para 12.10 of NMAM](#))

12.11 MMC floated a tender for construction of a foot bridge. In response to the tender, several bidders have submitted their tenders along with Earnest Money Deposit (EMD). The total EMD received on 12th August 2006 was Rs 15,000.

12.12 The procedure to be followed for collection of EMD and its remittance and/or deposit to the Accounts Department or in the Bank shall be the same as provided in the Chapter 5 on “General Accounting Procedures” of NMAM. The following entry for the amount received is passed:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
12 th August 2006	450-21-(a)	Bank Account*	Dr	15,000		Bank book, Ledger
	340-10-(a)	To Contractors/ Suppliers – EMD	Cr		15,000	

* Specify the name of the bank and account number.

(a) Insert Detailed Head Codes of Account as applicable

Source Document: Summary of Daily Collections Form GEN-12

12.13 MMC accepted the bid of AB & Co and the EMD amounting to Rs 5,000 was converted in to Security deposit and the EMD of other unsuccessful bidders amounting to Rs 10,000 were refunded on 1st September 2006.

ACCOUNTING FOR REFUND OF EARNEST MONEY DEPOSIT ([Refer Para 12.11 & 12.12 of NMAM](#))

12.14 Recording of refund of Earnest Money Deposit. After the receipt of approval for payment and upon payment, the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
1 st September 2006	340-10-(a)	Contractors/ Suppliers - EMD	Dr	10,000		Bank book, Ledger
	450-21-(a)	To Bank Account*	Cr		10,000	

* Specify the name of the bank and account number.

(a) Insert Detailed Head Codes of Account as applicable

Source Document: Payment Order Form GEN -14

Accounting of conversion of Earnest Money Deposit in to Security Deposit (Refer Para 12.13 of NMAM)

12.15 Recording of conversion of Earnest Money Deposit into Security Deposit. On receipt of intimation for conversion of EMD of the successful bidder into Security Deposit, the following entry shall be passed:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
1 st September 2006	340-10-(a)	Contractors/ Suppliers - EMD	Dr	5000		Journal book, Ledger
	340-10-(a)	To Contractors/ Suppliers – Security Deposit	Cr		5,000	

* Specify the name of the bank and account number.
(a) Insert Detailed Head Codes of Account as applicable
Source Document: Summary Statement of Deposits Adjusted – Form GEN – 19

Advances (Refer Para 12.16 of NMAM)

12.16 MMC sanctioned Rs 10,000 as advance for construction of the Foot bridge to AB & Co and the same was paid on 15th September 2006.

12.17 Recording of payment of advance for work carried out from Municipal Fund, Grant and Special Fund. As per the terms of agreement, advance may be paid to the contractor. Advance may be provided either in cash or in kind, i.e., by way of supply of materials. On receipt of approval for payment, and on payment, entries will be made for money advanced in Cheque Issue Register in Form GEN –15 and in Register of Advance in Form GEN – 16 for the cheques issued to the contractor. The accounting entries to be passed are :

12.18 For recording advance sanctioned for payment

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
15 th September 2006	460-40-(a)	Advance to Suppliers & Contractors	Dr	10,000		Journal book, Ledger
	350-10-(a)	To Creditors contractors Advance Control Account	Cr		9,500	
	350-20-(a)	To Recoveries Payable – TDS from contractors	Cr		500	

* Specify the name of the bank and account number.
(a) Insert Detailed Head Codes of Account as applicable
Source Document: Payment Order – Form GEN – 14

12.19 For recording disbursement of advance in cash/cheque,

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
15 th September 2006	350-10-(a)	Creditors – Contractor Advance control Account	Dr	9,500		Bank book, Ledger
	450-21-(a)	To Bank Account	Cr		9,500	

* Specify the name of the bank and account number.
(a) Insert Detailed Head Codes of Account as applicable
Source Document: Payment Order – Form GEN – 14

12.20 Refer Chapter 12 – “Public Works” of NMAM for accounting entries to be passed for advance provided by way of supply of materials.

EXPENDITURE (*Refer Para 12.17 to 12.26 of NMAM*)

12.21 Preparation of Bill for payment. On the basis of work completed as per governing rules, a bill shall be prepared and sent for payment. The amount of security deposit, income tax deducted at source, works contract tax and any other recovery or deduction, including recovery for supply of material by the Stores and money advanced to the contractor, should be specified in the Bill. Running bills are submitted during the progress of work and final bill is normally submitted on completion of work. The Contract Completion Certificate shall be annexed to the final bill.

12.22 AB & Co (Contractor) issued a bill of Rs 25,500 on 15th March 2007 for work completed and PG & Co who is executing the Park & play ground project had raised an additional bill of Rs 15,000 on March 1st 2007, for work completed as on that date.

12.23 Recording of Contractor’s bill in respect of Original Work, on receipt of the processed bill, the particulars would be entered in a Register of Bills for Payment in Form GEN – 13. To record the liability in respect of contractor’s bill for Original Works undertaken and for transfer of advances received to capital work in progress account , the following entry shall be passed:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
15 th March 2007	412-(b)	Capital Work in Progress – Foot bridge	Dr	25,500		Journal book, Ledger
	350-10-(a)	To Creditors – Contractors	Cr		12,500	
	460-40-(a)	To Advance to Suppliers & Contractors	Cr		10,000	
	350-20-(a)	To recoveries payable from TDS contractors – Foot bridge	Cr		1,000	
	350-20-(a)	To Recoveries payable – Works contract tax – Foot bridge	Cr		2,000	
(a) Insert Detailed Head Codes of Account as applicable (b) Insert Minor & Detailed Head Codes of Account as applicable Source Document: Measurement Book and Bill received from the Engineering Department, Contract agreement.						

Note: The figures given for TDS and Works contract tax are illustrative only, hence the users have to compute the TDS and Work contract tax as per the relevant Act.

12.24 For recording the liability in respect of bill raised by PG & Co for Parks & Play ground project, the Accounts Department shall pass the following entry.

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
1 st March 2007	412-(b)	Capital Work in Progress – Park & Play ground	Dr	15,000		Journal book, Ledger
	350-10-(a)	To Creditors - Contractors	Cr		12,000	
	460-40-(a)	To Advance to Suppliers & Contractors	Cr		2,000	
	350-20-(a)	To recoveries - TDS contractors	Cr		750	
	350-20-(a)	To Recoveries payable – Works contract tax	Cr		250	
(a) Insert Detailed Head Codes of Account as applicable (b) Insert Minor & Detailed Head Codes of Account as applicable Source Document: Measurement Book and Bill received from the Engineering Department, Contract agreement.						

12.25 Recording of payment made to Contractors. The procedure to be followed for approval of a contractor's bill for payment and making payment shall be the same as provided in Chapter 5 on "General Accounting Procedures" of NMAM to which reference is invited. The Accounts Department shall, on receipt of Payment Order in Form GEN – 14 together with the Work Sheet and Contract Completion Certificate, where applicable, after making the payment, enter the details of the payment in the Work Sheet (Form PW – 2) and pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
15 th September 2006	350-10-(a)	Creditors- Contractors Account	Dr	12,500		Cash book, Ledger
	450-21-(a)	To Bank Account*	Cr		12,500	

* Specify the name of the bank and account number.
(a) Insert Detailed Head Codes of Account as applicable
Source Document: Work Sheet – Form PW-2, Contract Completion Certificate, Payment Order – Form GEN – 14.

12.26 Recording of payment of TDS Payable and Works Contract Tax Payable. The income tax and works contract tax deducted from the bills of the contractors shall be paid by the Accounts Department to the concerned authorities as and when due as per the relevant laws in force. On payment of Income Tax and Works Contract Tax deducted, the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
15 th September 2006	350-20-(a)	Recoveries Payable – TDS	Dr	1,000		Cash book, Ledger
	350-20-(a)	Recoveries Payable – Works Contract Tax	Dr	2,000		
	450-21-(a)	To Bank Account*	Cr		3,000	

* Specify the name of the bank and account number.
(a) Insert Detailed Head Codes of Account as applicable
Source Document: Payment Order – Form GEN – 14

Note: The figures given for TDS and Works contract tax are illustrative only, hence the users have to compute the actual TDS and Work contract tax as per the Act.

CAPITALISATION OF CAPITAL WORK IN PROGRESS ([Refer Para 12.27 to 12.33 of NMAM](#))

12.27 On completion of construction of the asset, the asset becomes ready for use. Thus, it becomes necessary to transfer the cost incurred for construction (which is temporarily accounted in capital work-in-progress account) to the relevant asset account. This process is called capitalisation.

12.28 Recording of capitalisation of Capital Work-in-progress. On receipt of Contract Completion Certificate, the Accounts Department shall capitalise the amount lying in the Capital Work-in-Progress Account and convert the amount pertaining to the Capital Work-in-Progress and lying in the Capital Work-in-Progress Account into a Fixed Asset. The Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
31 st March 2007	410-30-(a)	Fixed Assets – Foot bridge	Dr	25,500		Journal book, Ledger, Register of Movable/ Immovable Assets
	412-(b)	To Capital Work in Progress (Foot bridge)	Cr		25,500	

(a) Insert Detailed Head Codes of Account as applicable
(b) Insert Minor & Detailed Head Codes of Account as applicable
Source Document: Contract Completion certificate

12.29 MMC had financed the School building project through borrowings from bank. The total borrowings were Rs 20,000 and the interest cost for the current year amounted to Rs 2,500. The building construction was completed on 31st March 2007.

12.30 Where any loan has been borrowed for the construction of any qualifying fixed asset, i.e., Original Works, the cost of construction of qualifying fixed asset shall also include the interest paid on that loan till the date of capitalisation of the asset. The accounting procedure to be followed and accounting entries to be recorded for receipt of loan, payment of interest on funds borrowed and repayment of loan has been provided in Chapter 18 - “Borrowings” of NMAM.

12.31 The amount of interest to be charged to the Original Works under consideration shall bear the same proportion to the total interest payable on loan as the project cost of the concerned work bears to the total project cost for which funds have been borrowed. However, in case where the loan has been specifically borrowed for the execution of a particular work, the entire amount of interest payable on that loan shall be capitalised. The accounting entry for capitalisation of interest shall be passed for the interest accrued, whether paid or not, till the date of capitalisation of the work.

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
31 st March 2007	412-(b)	Capital work in progress - School building project	Dr	2,500		Journal book, Ledger,
	360-20-(a)	To Interest & Finance Charges payable	Cr		2,500	
(a) Insert Detailed Head Codes of Account as applicable						
(b) Insert Minor & Detailed Head Codes of Account as applicable						
Source Document: Calculation Sheet for interest on loans borrowed						

ACCOUNTING FOR REPAIRS AND MAINTENANCE WORKS (Refer Para 12.37 to 12.48 of NMAM)

12.32 As per the principles framed by the ULB, tenders may be floated for award of repairs and maintenance work. . The accounting procedure to be followed, the accounting entries to be recorded and accounting records to be updated in respect of receipt of Earnest Money Deposit, refund of Earnest Money Deposit to the unsuccessful bidders and conversion of Earnest Money Deposit of successful bidders into Security Deposit shall be the same as provided in the section on “Accounting for Original Works” earlier in this chapter.

12.33 Where the terms of agreement entered into with the contractor provide for collection of a certain percentage of Security Deposit in advance, a receipt (Form GEN – 8) shall be issued for the amount collected to the successful bidder. The accounting procedure to be followed, accounting entries to be recorded and the accounting records to be updated in respect of receipt of Security Deposit and deduction of Security Deposit from the contractor’s bills shall be the same as provided in the section on “Accounting for Original Works” earlier in this chapter.

12.34 As per the terms of agreement, advance may be paid to the contractor. The accounting procedure to be followed, accounting entries to be recorded and the accounting records to be updated shall be the same as provided in the section on “Accounting for Original Works” earlier in this chapter.

12.35 The accounting procedure to be followed and the accounting records to be updated on receipt of bill shall be the same as provided in the section on “Accounting for Original Works” earlier in this chapter.

12.36 MMC awarded Repairs and Maintenance work of Roads to Contractor RD & Co. The first bill approved by Public works department and received at Accounts Department on 5th December 2006, contains the following.

- Bill Amount – Rs 14,500
- Security Deposit – Rs 1,500
- Income Tax deducted at source – Rs 4,000
- Recovery of materials supplied by municipal body – Rs 5,000

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
5 th December 2006	230-50-(a)	Repairs & Maintenance- Infrastructure Assets – Roads and pavement	Dr	25,000		Journal book, Ledger,
	350-10-(a)	To Creditors - contractors Control Account	Cr		14,500	
	340-10-(a)	To deposits received From contractors/suppliers Security deposit	Cr		1,500	
	350-20-(a)	To Recoveries Payable From TDS contractors	Cr		4,000	
	460-40-(a)	To Advance to contractors – Materials issued to contractors	Cr		5,000	
(a) Insert Detailed Head Codes of Account as applicable Source Document: Measurement Book and Bill received from the Engineering Department, Contract agreement.						

Note: Repairs and Maintenance Ledger Accounts shall be opened in respect of repairs & maintenance expenditure incurred for each class of assets. All the repairs and maintenance expenditure pertaining to a class of asset shall be debited to the Repairs and Maintenance Ledger Account maintained for that class of asset.

12.37 The Accounts Department would have passed the following entry for issue of materials in advance for Repairs & Maintenance works.

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
	460-10-(a)	Advance to contractors – Materials issued to contractors	Dr	5,000		Journal book, Ledger
	430-10-(a)	To Stock in hand – Engineering stores	Cr		5,000	
* Specify the name of the Bank and Account number (a) Insert Detailed Head Codes of Account as applicable						

12.38 Recording of payment to Contractor: On making of payment to the contractor, the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
5 th December 2006	350-10-(a)	Creditors – Contractors Control Account	Dr	14,500		Cash book, Ledger
	450-21-(a)	To Bank Account*	Cr		14,500	
* Specify the name of the Bank and Account number (a) Insert Detailed Head Codes of Account as applicable Source Document: Payment Order – GEN 14						

DEPOSIT WORKS (Refer Para 12.49 & 12.67 of NMAM)

12.39 MMC has received deposit of Rs 50,000 from State government for laying of underground water Pipe across the city for the new water project initiated by the state government. The laying work was outsourced by MMC to local contractor 'C'. A security deposit of Rs 5,000 was received from Mr 'C'.

12.40 The procedure involved in such works is briefly described below:

- Receipt of money from Governmental Departments as Deposits towards their works.
- Execution of works as in case of any other Public works
- Settlement of Accounts on completion of works

12.41 ULB are normally paid at some percentage of works as service charges. These service charges are accrued along with the bills for expenditure. The accounting procedures for these transactions are detailed in the subsequent paras.

12.42 The Accounts Department shall maintain a Deposit Works Register in Form PW-3 with separate registers for each kind of the Deposit works. (For example, Civil, Electrical, etc). Separate pages for each 'deposit work' for recording details of receipt of grant and expenditures incurred from it are maintained.

Receipt of Money

12.43 Receipt of money from Governments/Departments for 'Deposit works: The procedure to be followed for collection of 'Deposit works money' and its remittance and/or deposit to the Accounts Department or in the Bank shall be the same as provided in the Chapter 5 on "General Accounting Procedures" of NMAM . The details of the Deposit works contract (including names of the departments who have entrusted the deposit works) shall be recorded in the Deposit Works Register (in form PW – 3). The Accounts department shall pass the following entry for receipt of money:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
1 st January 2007	450-21-(a) 341-10-(a)	Bank Account* To Deposit Works- Civil Works	Dr Cr	50,000	50,000	Cash book, Ledger
* Specify the name of the Bank and Account number (a) Insert Detailed Head Codes of Account as applicable Source Document: Summary Statement of Daily Collection – Form GEN – 12, Government Order						

12.44 Accounting entries for receipt and refund of Earnest Money Deposit (EMD) with respect to deposit revenue shall be same as explained in Para 12.11 to 12.14 earlier.

12.45 Accounting entries for conversion of earnest money deposit into Security Deposit and receipt of Security Deposit shall be same as explained in Para 12.15 above.

12.46 Accounting for advances made to the contractors allotted for Deposit works shall be same as explained in Para 12.16 to 12.19 above.

Payment

12.47 MMC received a bill of Rs 21,000 from Mr 'C' for executing the work on 25th January 2007. Out of the bill submitted, Rs 5,000 was retained as Security deposit.

12.48 Recording of Contractor's bill in respect of Deposit Works: On receipt of the processed bill, the particulars will be entered in a Register of Bills for Payment in Form GEN – 13. To record the liability in respect of contractor's bill for Deposit Works undertaken and also for recording of income (as agreed with the Government/Department) for undertaking the work, the following entry shall be passed:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books to be entered In to
25 th January 2007	470-10-(a)	Deposit works - Expenditure	Dr	25,000	15,000	Journal book, Ledger
	350-10-(a)	To Creditors – Contractors Account	Cr			
	340-10-(a)	To Contractors/Suppliers- Security deposit	Cr			
	350-20-(a)	To Recoveries Payable – from TDS Contractors	Cr			
	140-70-(a)	To Service/Administration Charges - Percentage on Deposit Works	Cr			
					4,000	

* Specify the name of the Bank and Account number

(a) Insert Detailed Head Codes of Account as applicable

Source Document: Measurement Book and Bill received from the Engineering Department, Contract agreement

Final Payment to Contractors & refund of Security Deposit

12.49 Accounting entries for payment made to the contractors allotted for Deposit works shall be same as explained in Para 12.23.

12.50 Accounting entries for payment of TDS and Works Contract Tax shall be same as explained in Para 12.24.

12.51 There was a delay in the execution of the contract by the contractor and hence a liquidated damage of Rs 3,000 was deducted from the Security deposit made by the contractor on 1st February 2007.

12.52 Recording of refund of Security Deposit after adjusting for recoveries. Security Deposit shall be refunded after the expiry of the liability period, including defects liability period, as specified in the agreement entered into with the contractor. In case where any dues are recoverable from the contractor, after the receipt of approval, draw the cheque for net amount after deducting the recoveries to be made from the contractor. The accounting entry to be passed is as follows:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
1 st February 2007	340-10-(a)	Contractors/Suppliers	Dr	3,000	3,000	Journal book, Ledger
	341-10-(a)	- Security deposits To Deposit Works – civil work	Cr			

* Specify the name of the Bank and Account number

(a) Insert Detailed Head Codes of Account as applicable

Source Document: Payment Order – Form GEN – 14

12.53 For recording payment of net security deposit (Rs 5,000 – 3,000)

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
1 st February 2007	340-10-(a)	From Contractors/Suppliers	Dr	2,000	2,000	Cash book, Ledger
	450-21-(a)	- Security deposits To Bank Account*	Cr			

* Specify the name of the Bank and Account number

(a) Insert Detailed Head Codes of Account as applicable

Closure of deposit works- expenditure account

12.54 On completion of Deposit works, the assets under Deposit works becomes ready for use and will be handed over to the concerned government department and the balance if any shall be refunded. Thus, it becomes necessary to adjust the cost incurred for Deposit works against the money received.

12.55 The Account Department shall pass the following for transfer of Deposit expenses to Deposit Works account:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
28 th February 2007	341-10-(a)	Deposit works – Civil Works	Dr	25,000		Journal book, Ledger
	470-10-(a)	To Deposit Works – Expenditure	Cr		25,000	
(a) Insert Detailed Head Codes of Account as applicable Source Document: Statement/Certificate received from the Engineering Department						

Refund of balance ‘Deposit Works Money’

12.56 The balance amount after utilisation of the amounts for the Deposit works shall be refunded to the Governments/Government Departments by transferring the balance in ‘Deposit Works’ account to a liability account. The Accounts Department shall pass the following entry for creation of liability account: (Rs 25,000 + 3,000).

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
31 st March 2007	341-10-(a)	Deposit works – Civil Works	Dr	28,000		Journal book, Ledger
	450-40-(a)	To Refund Payable Deposit Works	Cr		28,000	
(a) Insert Detailed Head Codes of Account as applicable Rs 3,000 is the liquidated damage adjusted against the security deposit collected from the contractor.						

12.57 Accounting entry for recording of payment of ‘Deposit Works Refund payable after the above entry is as follows:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
31 st March 2007	350-40-(a)	Refund Payable Deposit Works	Dr	28,000		Bank book, Ledger
	450-21-(a)	To Bank Account*	Cr		28,000	
(a) Insert Detailed Head Codes of Account as applicable						

12.58 At the period-end, the Public Works Department shall ensure that all the bills received in respect of work executed before the last date of the accounting period, are processed and forwarded to the Accounts Department for accounting and payment within one month where the accounting period is a financial year and in other cases in 15 days from the end of the accounting period. The accounting entry to be recorded shall be the same as provided in Para. 12.23 above in case of Original Works and Para. 12.36 for Repairs and Maintenance Works.

12.59 At period-end, the departments incurring expenditure on Deposit Works shall submit a Summary Statement of Status on Deposit Works Expenditure maintained category wise as Civil, Electrical and Others in Form PW – 1 (similar to Capital work in progress) detailing total amount of works incurred till date on each of the Deposit Works. The details of total expenditure incurred on each of the Deposit Works can be collated from the Work Sheet (similar to Capital work in progress) in Form PW – 2.

Internal Controls ([Refer Para 12.75 to 12.85 of NMAM](#))

12.60 The following internal controls shall be observed by the ULB:

- a The Public Works Department and the Chief of Accounts or any other responsible officer as defined by the applicable Acts, shall ensure the availability of adequate budget allocation after considering all commitments made against that budget allocation before undertaking any new work, whether being an Original Work or Repairs and Maintenance Work.
- b The Head of the Accounts Department shall exercise the following internal controls:
 - A distinction should be maintained between the works of capital nature and revenue nature.
 - A quarterly reconciliation of the balance as per the Deposit Register maintained at the Public Works Department shall be carried out with the Deposit Ledger accounts.
- c On the completion of an Original Work, reconciliation should be carried out in respect of the amount expended as shown in the records maintained by the Public Works Department and the capital work-in-progress control ledger account maintained by the Accounts Department.
- d On receipt of Summary Statement of Status on Capital Work-in-Progress (Form PW – 1), the Accounts Department shall ensure that total expenditure incurred as stated in the Statement tallies with the cumulative total of several Capital Work-in-Progress Ledger Accounts.
- e The Accounts Department shall ensure that the tax deducted at source and works contract tax deducted from the contractor's bill, etc., is deposited with the Government in accordance with the provisions of the relevant Acts.
- f At the end of each month, the Accounts Department shall reconcile the total expenditure as per the Functional Expense (Repairs and Maintenance) Subsidiary Ledger (in form GEN –34) with the total expenditure recorded in the several Repairs and Maintenance Ledger Accounts.

12.61 The Public Works Department, Accounts Department and the Audit Department shall exercise the following internal controls:

- a. Ensure budget availability at the time of approval of the bill.
- b. Ensure that all the dues, including liquidated damages/penalties, are recovered from the contractor before making the final payment in respect of any contract.
- c. Ensure that no amount is due from suppliers/contractors, which may be otherwise adjusted before payment.
- d. Ensure that all the bills/invoices of contractors were journalised before release of the payments.

12.62 At period-end, the Head of the Accounts shall review the Work Sheets maintained for ascertaining whether any of the capital work in progress qualifies for capitalisation.

PRESENTATION IN THE FINANCIAL STATEMENTS ([Refer Para 12.86 to 12.89 of NMAM](#))

12.63 The various heads of accounts used for the accounting of Public Works shall be reflected in the Financial Statements or the Schedules attached to the Financial Statements of the ULB. All such Financial Statements and schedules should be affixed with signature and seal of designated authorities.

- 12.64 The schedules that reflect the transactions relating to Public Works include
- a. Schedule I-4 – Schedule of Fees & User Charges
 - b. Schedule I-5 – Schedule of Income from Sale & Hire Charges
 - c. Schedule I-9 – Schedule of Other Income
 - d. Schedule I-12 – Schedule of Operations and Maintenance
 - e. Schedule B-7 – Schedule of Deposits Received
 - f. Schedule B-8 – Schedule of Deposit Works
 - g. Schedule B-9 – Schedule of Other Liabilities (Creditors)
 - h. Schedule B-17 – Schedule of Cash & Bank Balances
 - i. Schedule B-18 – Schedule of Loans, Advances & Deposits

SUMMARY

1. Public works would generally include construction/expansion/major modification of buildings, development of land, construction of roads, construction of water works, construction of drainage systems or other public utilities. Repairs and maintenance of these would also constitute Public Works.
2. Major accounting principles governing the accounting for transactions relating to public works are as follows:
 - a. The cost of fixed assets shall include cost incurred/money spent in acquiring or installing or constructing fixed assets, interest on borrowings attributable to acquisition or construction of qualifying fixed assets up to the date of commissioning of the assets and other incidental expenses incurred up to that date.
 - b. Any addition to or improvement to the fixed asset that results in increasing the utility or capacity or useful life of the asset shall be capitalised and included in the cost of asset.
 - c. Assets under erection/installation on existing projects and capital expenditures on new projects (including advances for capital works and project stores) shall be shown as "Capital Work-in-Progress".
3. Accounting for transactions relating to public works like Receipt of EMD, payment of advance, expenditure relating to public works, capitalization of work in progress, accounting for repairs and maintenance works are discussed in detail in this chapter.
4. Accounting for transactions relating to deposit works are also discussed elaborately.
5. Presentation in the financial statement of transaction relating to public works are also discussed.

EXERCISE

1. State whether the following statements are **'Right'** or **'wrong'**:
 - a. Assets under erection/installation on existing projects and capital expenditures on new projects shall be shown as "Capital Work-in-Progress".
 - b. Earnest Money Deposit and Security Deposit received if forfeited shall be recognized as income when the right for claiming refund of deposit has expired.
 - c. Deposit received under deposit works shall be treated as a liability till such time the project for which the money is received is completed.
 - d. Revenues (percentage charges) in respect of Deposit works shall be accrued along with expenditure of Deposit works.

2. **Journalise the following transactions.**
 - 2.1 A sum of Rs 12,000 was received as EMD from bidders.
 - 2.2 EMD amounting to Rs 5000 was converted in to Security Deposit.
 - 2.3 Bill received from contractor for work executed amounted to Rs 7,500.
 - 2.4 An amount of Rs 3,500 was adjusted from Security deposit for delay in execution of contracted work.
 - 2.5 An amount of Rs 1,50,000 was received from the state government for execution of a work.
 - 2.6 Balance remaining in deposit works account amounts to Rs 17,000, which needs to be refunded.
 - 2.7 Pass an entry for advance of Rs 1,00,000 given to contractor after deducting TDS of Rs 5,000.
 - 2.8 Pass an entry for materials worth Rs 60,000 supplied to contractor.
 - 2.9 Amount of Rs 20,000 was transferred from Capital work in progress to Fixed Asset.

BROAD STRUCTURE FOR PREPARING PRESENTATION SLIDES

- Introduction
- Accounting Principles
- Accounting treatment for
 - Receipt of EMD
 - Refund of EMD
 - Conversion of EMD in to Security Deposit
 - Advance given
 - Recording of expenditure
 - Recording of payment to contractor
 - Capitalisation of Capital work in progress
 - Accounting for repairs and maintenance work
 - Deposit works
- Presentation in the financial statements

CHAPTER 13

STORES

LEARNING OBJECTIVE

At the end of this Chapter, the reader will understand:

- *Be familiar with the accounting principles governing the accounting for Stores.*
- *Understand the entries for material receipt, returns, valuation of closing stock, disposal and write off of material.*
- *Be familiar with the internal controls relating to stores.*
- *Be familiar with how transactions relating to stores are presented in the financial statements.*

CHAPTER OVERVIEW

This chapter focuses on the Accounting principles governing the accounting for transactions relating stores. This chapter also illustrates the entries to be passed for recording purchase of materials, purchase returns, valuation of stock at the year end and disposal of materials. Internal control to the extent it relates to stores are covered in this chapter and the presentation of the same in the financial statement are also discussed. The chapter is intended to act as a tool for the reader to understand the basic principles relating to the accounting for transactions relating to stores and it is advised that the reader refer to “Chapter 13” of NMAM for detailed coverage of the subject

INTRODUCTION [*\(Refer Para 13.1 to 13.3 of NMAM\)*](#)

13.1 The functions of Stores, involving procurement, storage, issue, disposal and accounting of materials, may be performed either centrally by Central Stores (referred to as Municipal Stores) or by the Department Stores empowered by the ULB to perform the aforesaid functions for specific departments of the ULB. Generally, the ULB empowers the Public Works, Health - Sanitation, Health - Medical, Water Works, Workshop for Vehicles and Machinery repairs and Public Lighting Departments to maintain their own stores.

ACCOUNTING PRINCIPLES [*\(Refer Para 13.4 of NMAM\)*](#)

13.2 The following Accounting Principles shall govern the recording, accounting and treatment of transactions relating to stores:

- a. Expenditure in respect of material, equipment, etc., procured shall be recognised on accrual basis, i.e., on admission of bill by the Local Body in relation to materials, equipment, etc., delivered.
- b. Accounting of ‘goods received & accepted but no bills received’ as at the cut off date shall be accounted based on purchase orders.
- c. The stock lying at the period-end shall be valued at cost in accordance with the First in – First out method.
- d. Revenue in respect of disposal of material shall be recognised on actual receipt.
- e. Finished goods and work-in-progress (WIP) related to goods produced for sale will be valued at cost or market value whichever is lower. Cost of finished goods and work-in-progress includes all direct costs and applicable production overheads to bring the goods to the present location and condition.

ACCOUNTING TREATMENT

13.3 Continuing with our Model Municipal Corporation (MMC), the transactions relating to Stores are explained in terms of receipt of material, return of materials and valuation of closing stock.

13.4 The following balances of stock appear at the beginning of the year in the books of MMC.

Nature of balance	Code of Account	Amount (Rs)
Stock on Hand		
Water Supply - Stores	430-10-(a)	10,000
Electricity Stores	430-10-(a)	14,000
Medical stores	430-10-(a)	8,000
Engineering stores	430-10-(a)	6,000
Advances		
Advances to suppliers & Contractors – Medical Stores	460-40-(a)	1,000

ACCOUNTING FOR EARNEST MONEY DEPOSIT (Refer Para 13.6 to 13.9 of NMAM)

13.5 In case tenders are floated for procuring materials, Earnest Money Deposit (EMD) may be collected from the bidders on such basis as prescribed by the ULB at the time of submitting their tenders. A receipt shall be issued for the amount collected in Form GEN – 8.

13.6 On 10th June 2006, a tender was floated by MMC for purchase of cement by water work stores and in response to the tender, two parties SD & Co and KS & Co showed interest and EMD of Rs. 1,000 was collected from each party on 13th of June 2006.

13.7 Recording of Earnest Money Deposit received: On receipt of Summary of Daily collections, the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register to be entered In to
10 th June 2006	450-21-(a) 340-10-(a)	Bank Account* To Contractors/ Suppliers – EMD Stores	Dr Cr	2,000	2,000	Cash book, Ledger
* Specify name of the Bank and account number (a) Insert detailed Head Codes of Account as applicable Source Document: Summary of Daily Collection - Form GEN – 12						

13.8 Assume that in the above example, KS & Co won the bid and the EMD received from SD & Co were refunded on 20th June 2006 and that of KS & Co was converted in to Security Deposit (as per the terms of the tender).

13.9 Recording of refund of Earnest Money Deposit: The EMD shall be refunded as per the terms of tender issued to the unsuccessful bidders. For procedure to be followed for refund of EMD, refer Chapter 13 on “Stores” of NMAM.

13.10 After the receipt of approval for payment and upon payment, the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register to be entered In to
20 th June 2006	340-10-(a)	Contractors/ Suppliers – EMD Stores	Dr	1,000		Cash book, Ledger
	450-21-(a)	To Bank Account*	Cr		1,000	

* Specify name of the Bank and account number
(a) Insert detailed Head Codes of Account as applicable
Source Document: Payment order – Form GEN – 14

13.11 Recording of conversion of Earnest Money Deposit into Security Deposit: On intimation from stores, the Accounts Department shall pass the following entry.

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register To be entered In to
20 th June 2006	340-10-(a)	Contractors/ Suppliers – EMD Stores	Dr	1,000		Journal book, Ledger
	340-10-(a)	To Contractors/ Suppliers- security deposit Stores	Cr		1,000	

(a) Insert detailed Head Codes of Account as applicable
Source Document: Summary Statement of Deposits Adjusted

RECORDING OF ADVANCE PAID TO SUPPLIERS (Refer Para 13.11 of NMAM)

13.12 On 15th July 2006, Machinery stores placed an order for purchase of machine spares with HJ & Co worth Rs 7,500 and an advance of Rs 2,500 was provided for the same.

13.13 As per the terms of agreement, advance may be provided to the supplier. On receipt of an application for grant of advance, the Stores shall prepare a Payment Order and forward it to the Accounts Department. On payment, the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register to be entered In to
15 th July 2006	460-40-(a)	Advance to Suppliers & Contractors – Machinery stores	Dr	2,500		Cash book, Ledger
	450-21-(a)	To Bank Account*	Cr		2,500	

* Specify name of the Bank and account number
(a) Insert detailed Head Codes of Account as applicable.
Source Document: Payment Order – Form GEN – 14

RECORDING OF RECEIPT OF MATERIALS (Refer Para 13.12 to 13.17 of NMAM)

13.14 On 25th August 2006, medical stores have received materials worth Rs 6,000 from 'AP Medicals'. Payment has to be made to the party after adjusting for advance of Rs 1,000. And on inspection of materials on 30th of August it was noticed that materials worth Rs 2,000 was not fit for consumption and had to be returned.

13.15 Recording of liability due in respect of materials purchased. On acceptance and approval of the material supplied and on receipt of the processed bill from the Stores Department, the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register to be entered In to
25 th August 2006	430-10-(a)	Stock in Hand-Purchase of Medical Stores	Dr	6,000		Journal book, Ledger
	350-10-(a)	To Creditors-Suppliers/ Contractors stores	Cr		5,000	
	460-40-(a)	To Advance to Suppliers & Contractors Medical Stores.	Cr		1,000	
(a) Insert Detailed Head Codes of Account as applicable. Source Document: Bill of the Supplier and Stores Ledger – Form ST – 2						

13.16 Recording of payment made to supplier On receipt of Payment Order (Form GEN – 14) together with the supporting documents and on making payment, the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register to be entered In to
25 th August 2006	340-10-(a)	Creditors – Suppliers/ Contractors Stores	Dr	5,000		Cash book, Ledger
	450-21-(a)	To Bank Account	Cr		5,000	
* Specify name of the Bank and account number (a) Insert detailed Head Codes of Account as applicable Source Document: Payment Order – Form GEN – 14						

RECORDING OF RETURN OF MATERIALS ([Refer Para 13.18 to 13.20 of NMAM](#))

13.17 If the materials supplied are found to be defective or not in accordance with the terms specified in the agreement, the Stores shall return it back to the supplier concerned and make an entry for return of material in the Issue Column of the relevant folio in the Stores Ledger (Form ST – 2). The details of the materials returned shall be communicated to the Accounts Department.

13.18 Recording of transactions for materials returned to Suppliers, if payment has been already made: On receipt of communication from the Medical Stores relating to return of materials, the Accounts Department shall pass the following entries:

(a) On raising of the claim:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register to be entered In to
30 th August 2006	350-10-(a)	Creditors – Suppliers/ Contractors Stores	Dr	2,000		Journal book, Ledger
	430-10-(a)	To Stock in Hand – Purchase of Medical stores	Cr		2,000	
(a) Insert detailed Head Codes of Account as applicable Source Document: Intimation from the Stores Department						

(b) On receipt of money from the supplier for materials returned

Assume that in our example, the money was received from the supplier for the defective materials on 1st of September.

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register To be entered In to
1 st September 2006	450-21-(a)	Bank Account*	Dr	2,000		Cash book, Ledger
	350-10-(a)	To Creditors-Suppliers/ Contractors Stores	Cr		2,000	
* specify the name of the Bank and account number (a) Insert detailed Head Codes of Account as applicable Source Document: Summary of Daily collection – Form GEN – 12						

VALUATION OF CLOSING STOCK AT PERIOD END ([Refer Para 13.21 to 13.30 of NMAM](#))

13.19 At the end of every accounting period, the Stores shall send a Statement of Closing Stock in Form ST – 3. Such a statement shall consist of two parts- Part A & Part B;

13.20 **Part A** shall show the items in respect of which the invoices/bills received from the suppliers have already been sent by the Stores to the Accounts Department after processing by the Stores.

13.21 **Part B** shall consist of the items for which the materials have been received and accepted by the Stores but for which the invoices/bills have not been processed as yet by the Stores. This Statement shall be drawn from the entries made in the Stores Ledger.

13.22 At the end of the financial year, reconciliation shall be carried out by the Stores-in-charge to match the physical stock with the book stock and discrepancies identified shall be incorporated in the Statement of Closing Stock.

13.23 The balances in various accounts of the item-wise Stores Ledger shall be extracted and valued as per First in First out (FIFO) Method. Under this method, the consignment of material, which has been received first, shall be issued first.

13.24 Medical stores of the MMC had the following transaction during the month of March 07 relating to Chlorine powder.

13.25 Opening Stock of Chlorine Powder as on 1st March 2007, was 200 kgs acquired at the rate of Rs.2 per kg. Subsequent purchase and issue transactions during the month of March were as follows:

Date	Transaction	Units	Rate
Mar 2	Purchase from ABC	200kgs	Rs. 3/- per Kg
Mar 4	Purchase from B	600kgs	Rs. 4/- per kg
Mar 6	Issued to Dept. X	500kgs	
Mar 10	Purchase from B	700kgs	Rs.4/- per kg
Mar 18	Issued to Dept. Y	800kgs	
Mar 20	Purchase from C	300kgs	Rs.5/- per kg
Mar 23	Issued to Dept. Z	100kgs	
Mar 31	Issued to Dept. Q	500kgs	
Mar 31	Purchase from ASD	200kgs	Rs 6/- per kg

Table 13.1
Entries in Stores Ledger for the financial year 2006 - 2007

Item Description: Chlorine Powder

Item Code: XXXXXXXXX

Date	Receipts				Issues				Balance			Remarks
	MRN No.	Qty. Kg	Rate (Rs.)	Value (Rs.)	MRIN No.	Qty. Kg	Rate (Rs.)	Value (Rs.)	Qty. Kg	Rate (Rs.)	Value (Rs.)	
Mar 1	Opening Stock	200	2	400								
Mar 2		200	3	600					200	2	400	
									<u>200</u>	3	<u>600</u>	
									400		1000	
Mar 4		600	4	2400					200	2	400	
									200	3	600	
									<u>600</u>	4	<u>2400</u>	
									1000		3400	
Mar 6						200	2	400	500	4	2000	
						200	3	600				
						<u>100</u>	4	<u>400</u>				
						500		1400				
Mar 10		700	4	2800					500	4	2000	
									<u>700</u>	4	<u>2800</u>	
									1200		4800	
Mar 18						500	4	2000	400	4	1600	
						<u>300</u>	4	<u>1200</u>				
						800		3200				
Mar 20		300	5	1500					400	4	1600	
									<u>300</u>	5	<u>1500</u>	
									700		3100	
Mar 23						100	4	400	300	4	1200	
									<u>300</u>	5	<u>1500</u>	
									600		2700	
Mar 31						300	4	1200	100	5	500	
						<u>200</u>	5	<u>1000</u>				
						500		2200				
Mar 31		200	6	1200					100	5	500	
									<u>200</u>	6	<u>1200</u>	
									300		1700	

MRN - Material Receipt Note

MRIN - Material Requisition-cum-Issue Note

Note: Details & break up of materials issued

13.26 Accordingly, the closing stock of 300 kgs of Chlorine Powder shall be valued at Rs. 5 for 100 kgs and at Rs. 6 for the remaining 200 kgs. This is because the Chlorine Powder received earlier is still there in Stock on the valuation date, which has to be valued at the rates applicable for that consignment.

13.27 On the basis of Statement of Closing Stock, the Accounts Department shall compute the Stores consumed in the following manner:

- Compute the total purchases made by the Stores during the accounting period. The value of the purchases made in the above illustration is Rs. 8500;
- Add the Opening Stock at the Stores valued at Rs. 400 to the total purchases made to determine the total stores available for consumption. Thus total stores available for consumption as per above illustration, is Rs. 8900 computed as Rs. 8500 (purchases) + Rs. 400 (opening stock) ;
- Deduct the Closing Stock valued at Rs. 1700, on the basis of Statement of Closing Stock, from the total stores available for consumption;
- The balance value represents the stores that have been consumed during the accounting period i.e. Rs. 8900 (total stores available for consumption) – Rs. 1700 (closing stock) = Rs. 7200 (consumption).

13.28 **Recording of Closing Stock.** On the basis of Statement of Closing Stock (Form ST – 3) received from Stores, for recording closing stock, the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register to be entered In to
31 st March 2007	230-30-(a)	Consumption of stores (1) Stock in Hand – stores Closing stock	Dr	7,200		Journal book, Ledger
	430-10-(a)	To Stock in Hand – Purchase Of Medical stores	Cr	1,700	8,500	
	430-10-(a)	To Stock in Hand – stores Opening stock – medical stores	Cr		400	

(a) Insert detailed Head Codes of Account as applicable
 (1) Consumption of stores is debited for value of materials consumed in relation to production of any goods for sale
Source Document: Statement of Closing Stock – Form ST – 3, Statement of Material Issues – Form ST – 4

13.29 Similar entries shall also be passed in respect of consumption/CWIP and closing stock at each of the other stores.

FINISHED GOODS & WIP RELATED TO GOODS PRODUCED FOR SALE (Refer Para 13.31 to 13.34 of NMAM)

13.30 For those ULBs which manufacture and sell goods, the method of valuation of finished goods is provided in Chapter 13 – “Stores” of NMAM.

Period end procedure (Refer Para 13.37 of NMAM)

13.31 At the period-end, the Stores Department shall ensure that all the bills in respect of stores received and accepted before the last date of the accounting period, are processed and forwarded to the Accounts Department for accounting and payment within one month where the accounting period is a financial year and in other cases in 15 days from the end of the accounting period. The accounting entry to be recorded shall be the same as provided above in Para 13.14 in the section on “Receipt of Materials”. In addition, in respect of ‘goods received & accepted but no bills received’ as at the cut off date shall be accounted based on purchase orders.

DISPOSAL OF MATERIAL (Refer Para 13.38 to 13.40 of NMAM)

13.32 On 1st March 2007, MMC scrapped Electrical stores worth Rs 4,000 and sold it for Rs 2,000.

13.33 **Recording of disposal of material.** An entry for the material disposed shall be made in the records maintained at the Stores. The accounting entries passed in respect of disposal of stores are as follows:

- a. **Recording of receipt of sale proceeds:** The Stores shall prepare a Summary of Daily Collection (Form GEN –12) for sale proceeds and forward it along with the collection to the Accounts Department. On receipt of Summary of Daily Collections, the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
1 st March 2007	450-21-(a) 350-90-(a)	Bank Account* To Sale proceeds from Stores	Dr Cr	2,000	2,000	Cash book, Ledger

* Specify the name of the Bank and the account number
(a) Insert detailed Head Codes of Account as applicable
Source Document: Summary of Daily Collection – Form GEN – 12

- b. **Recording of profit or loss on disposal:** For recording the loss in sale of stores, the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
1 st March 2007	350-90-(a) 430-10-(a)	Sale Proceeds from stores Loss on disposal of stores To Stock in Hand – Purchase of Electrical stores	Dr Dr Cr	2,000 2,000	4,000	Journal book, Ledger

(a) Insert detailed Head Codes of Account as applicable
Source Document: Summary of Daily Collection – Form GEN – 12

INTERNAL CONTROLS ([Refer Para 13.43 & 13.44 of NMAM](#))

13.34 The following internal controls shall be observed by the ULB in respect of Stores related transactions:

- The Head of the Accounts Department shall ensure budget availability with respect to the expenditure incurred at the time of accruing of the expenditure i.e. Budget monitoring shall be on accrual basis rather than payment basis.
- The Head of the Accounts Department shall ensure that all the purchase bills/invoices were journalised before release of the payments.
- At the end of the financial year, the Stores-in-charge, the Head of the Accounts Department and the Municipal Chief Auditor shall physically verify the stock lying in stores and compare it with the stock as per the book records and in case of any difference, appropriate remedial steps as prescribed by the ULB shall be taken.
- The Stores-in-charge shall ensure availability of adequate budget allocation before procuring any material, after considering all commitments made against the budget allocation.
- At the time of issue of any material to the Departments, the Stores-in-charge shall ensure that there is an adequate budget provision in respect of that department.
- The Head of the Accounts Department shall ensure that all the dues recoverable including advance provided to supplier has been recovered before making the final payment to the supplier. Further, it should be ensured that only net amount has been paid to the supplier, as may be applicable to the materials actually received or accepted.
- Before releasing payment to the supplier, the Head of the Accounts Department shall ensure that the material received is recorded in the Stores Ledger. Further, it shall be ensured that the Payment Order provides reference to the Stores Ledger where the entry for receipt of

material is recorded. In addition, at the time of payment to Suppliers/contractors and any other creditors it shall be ensured that no amount is due from them, which may be adjusted before payment.

- i. The Stores-in-charge shall ensure that materials in respect of which bills have been received but have not been forwarded to the Accounts Department are stated separately in the Statement of Closing Stock (Form ST – 3).
- j. The Head of the Accounts Department shall ensure that the ‘Purchase of Materials’ account has been reconciled at the period and the balance has become nil on accounting of stock entries for the closing stock (on the basis of Statement of Closing Stock in Form ST –3) and consumption of stores.
- k. Also the Head of Accounts Department shall ensure that the balance in the ‘Opening Stock’ account has become nil at the period end on accounting of stock entries and consumption based on the closing stocks.
- l. The Chief Executive Officer/Head of the ULB shall specify such appropriate calendar of returns /reports for monitoring.

PRESENTATION IN THE FINANCIAL STATEMENTS ([Refer Para 13.45 & 13.46 of NMAM](#))

13.35 The various heads of accounts used for the accounting of Stores shall be reflected in the Financial Statements or the Schedules attached to the Financial Statements of the ULB. All such Financial Statements and schedules should be affixed with signature and seal of designated authorities.

13.36 The schedules that reflect the transactions relating to stores include.

- a Schedule I-5 – Income from Sale & Hire Charges
- b Schedule I-12 – Schedule of Operations and Maintenance
- c Schedule B-7 – Deposits Received
- d Schedule B-9 – Schedule of Other Liabilities (Sundry Creditors)
- e Schedule B-14 – Stock in Hand (Inventories)
- f Schedule B-17 – Schedule of Cash and Bank
- g Schedule B -18 – Schedule of Loans, Advances & Deposits

SUMMARY

1. The functions of Stores, involving procurement, storage, issue, disposal and accounting of materials, may be performed either centrally by Central Stores (referred to as Municipal Stores) or by the Department Stores empowered by the ULB to perform the aforesaid functions for specific departments of the ULB.
2. Major accounting entries governing the accounting for transactions relating to stores are as follows:
 - a. Expenditure in respect of material, equipment, etc., procured shall be recognised on accrual basis
 - b. Accounting of 'goods received & accepted but no bills received' as at the cut off date shall be accounted based on purchase orders.
 - c. The stock lying at the period-end shall be valued at cost in accordance with the First in – First out method.
 - d. Revenue in respect of disposal of material shall be recognised on actual receipt.
 - e. Finished goods and work-in-progress (WIP) related to goods produced for sale will be valued at cost or market value whichever is lower.
3. The accounting treatment for transaction relating to stores like receipt of EMD, advance to suppliers, receipt and issue of materials and valuation of closing stock are discussed in detail in this chapter.
4. The schedules forming part of financial statement that reflect the transactions relating to stores are discussed in this chapter.

EXERCISE

1. State whether the following statements are '**Right**' or '**wrong**':
 - a Expenditure in respect of material, equipment etc., procured shall be recognized on accrual basis.
 - b The stock lying at the period end shall be valued at weighted average cost.
 - c Stores ledger records the movement of material from stores.
 - d Revenue in respect of disposal of material shall be recognized on actual receipt.
 - e Finished goods and work in progress relating to goods produced for sale will be valued at cost or market value which ever is less

2. Journalise the following transactions
 - 2.1 A tender was floated for purchase of stores materials and in response to the tender, EMD amounting to Rs 3,00,000 was received from parties.
 - 2.2 Out of the above, EMD to the extent of Rs 2,50,000 was converted in to Security deposit on award of the contract and the balance was refunded to the parties.
 - 2.3 Advance paid to the suppliers on 1st December 2006 for supply of stores materials amounted to Rs 50,000.
 - 2.4 Materials costing Rs.2,50,000/- were received on 5th January 2007.
 - 2.5 Issue of material for consumption from general stores amounted to Rs 4,000.
 - 2.6 Materials worth Rs 50,000 were later returned to the supplier.

BROAD STRUCTURE FOR PREPARING PRESENTATION SLIDES

- Introduction
- Accounting Principles
- Accounting treatment for
 - Receipt of EMD
 - Refund of EMD
 - Conversion of EMD in to Security Deposit
 - Recording of advances given to suppliers
 - Receipt of materials
 - Recording return of materials
 - Valuation of closing stock at the year end
 - Disposal of materials
- Presentation in the financial statements

CHAPTER 14

EMPLOYEE RELATED TRANSACTIONS

LEARNING OBJECTIVE

At the end of this Chapter, the reader will

- *Be familiar with the accounting principles governing the accounting for all employee related transactions.*
- *Understand the entries for payment of salaries, employee advances, contributions to provident fund and other retirement benefits.*
- *Be familiar with the internal controls relating to employee related transactions.*
- *Be familiar with how the transactions relating to employees are presented in the financial statements.*

CHAPTER OVERVIEW

Employee related expenditures constitute the major expenditure of ULB. This chapter deals with the principles and procedures relating to employee related expenditures like salaries, allowances, retirement benefits etc. It also touches upon the Internal Controls that needs to be observed on employee related transactions and also the presentation of the same in the financial statements. The chapter is intended to act as a tool for the reader to understand the basic principles relating to the accounting for employee related transactions and it is advised that the reader refer to “Chapter 14” of NMAM for detailed coverage of the subject.

INTRODUCTION ([Refer Para 14.1 of NMAM](#))

14.1 The Accounting principles and procedures explained below for maintaining the employee related transactions are on the following assumptions

- The employee related funds (for e.g. PF fund account) are maintained within the ULB.
- Processing of payroll and related approvals are decentralised.

ACCOUNTING PRINCIPLES ([Refer Para 14.2 of NMAM](#))

14.2 The following Accounting Principles shall govern the recording, accounting and treatment of employee related transactions:

- a. Expenses on Salaries and other allowances shall be recognised as and when they are due for payment (i.e. at the month end).
- b. Statutory deductions from salaries including those for income tax, profession tax, provident fund contribution, etc., shall be recognised as liability in the same period in which the corresponding salary is recognised as expense.
- c. Formation of Trusts shall be considered for management of Provident Funds. However it will be the responsibility of the ULB to form the trusts and meet the shortfall of the fund, if any.
- d. Provident Fund money shall be invested as per the guidelines applicable to any Employee Provident Fund.
- e. Separate Funds may also be formed for meeting the pension and other retirement benefits including Gratuity and Leave Encashment. The State Governments can decide on this and can define the modus operandi also. The State may form Trusts either at the state level or at the municipal level.

- f. Contribution due towards Pension and other retirement benefit funds shall be recognised as an expense and a liability. State Government to define the rate of contribution. One basis for such rate could be at the rate generally prescribed for state government employees on deputation. Actuarial valuation has not been considered due to practical limitations of the ULB. If an ULB wants to make an actuarial valuation, their applicable state laws can guide this.
- g. Interest receivable on loans given to employees shall be recognised as revenue at the end of the period in which these have accrued.
- h. In respect of loans to employees, penal interest leviable on default in repayment of principal or payment towards interest shall be recognised on accrual basis.
- i. Bonus, ex-gratia, overtime allowance, other allowances and reimbursements to the employees shall be recognised as an expense as and when they are due for payment.

PAY BILL & DEDUCTION *(Refer Para 14.4 to 14.7 of NMAM)*

14.3 The Chapter contains Accounting Treatment for employee related transactions. Continuing with our “Model Municipal Corporation (MMC)”, the employee related transactions are explained in terms of recording of salary, disbursement of salary, granting and recovery of loans, provision of retirement benefits etc.

14.4 The opening balance sheet of MMC contains the following balances with respect to employee related transactions.

Particulars	Account Code	Amount (Rs)
Provident Fund	311-71-(a)	55,000
Pension Fund	311-70-(a)	45,000

14.5 MMC monthly consolidated paybill contains the following information for June 2006

Salary Head	Amount (Rs)	Deductions	Amount(Rs)
Basic Salary	4,500	TDS on salaries	700
Dearness allowance	4,000	Professional tax	600
House rent allowance	2,000	Provident fund	300
Conveyance allowance	1,500	Loan recovery	
Medical allowance	1,000	- Housing	300
		PF loan recovery	250
Total	13,000	Total	2,150

14.6 Apart from the above, bonus and overtime amounting to Rs 1,500 and 1,000 respectively were also paid.

14.7 For procedure on preparation of Pay Bill and Consolidated Pay bill refer Chapter 14 – “Employee Related transactions” of NMAM.

14.8 Recording of salary, allowances and corresponding liability. For recognising the expense under various heads and the liability to the employees in respect of salaries, the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register To be entered In to
30 th June 2006	210-20-(a)	Basic salary Account	Dr	4,500		Journal book, Ledger
	210-20-(a)	Dearness allowance	Dr	4,000		
	210-20-(a)	House rent allowance	Dr	2,000		
	210-20-(a)	Conveyance allowance	Dr	1,500		
	210-20-(a)	Medical allowance	Dr	1,000		
	350-11-(a)	To Employee liabilities Gross salaries payable	Cr		13,000	
(a) Insert Detailed Head Codes of Account as applicable Source Document: Consolidated Pay Bill - Form ES – 1						

14.9 Recording of statutory and other deductions and recoveries from salaries. For accounting liabilities towards amounts payable to different authorities in respect of statutory deductions, and, dues towards settlement of obligations on behalf of employees (e.g. housing loan, contribution to various societies, loan recovery for external agencies, group insurance premium, investment by employees, etc.), recovery of installments of loans or interest levied on loan and/or advances from employees, etc., the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register To be entered In to
30 th June 2006	350-11-(a)	Employee liabilities Gross salaries payable	Dr	13,000		Journal book, Ledger
	350-20-(a)	To Recoveries Payable- TDS from employees	Cr		700	
	350-20-(a)	To Recoveries Payable- Professional tax	Cr		600	
	311-(b)	To Provident Fund (for own Employees)	Cr		300	
	460-10-(a)	To Loans to employees Housing	Cr		300	
	460-20-(a)	To Employee provident fund Loan	Cr		250	
	350-11-(a)	To Employee Liabilities – Net Salaries Payable	Cr		10,850	
(a) Insert Detailed Head Codes of Account as applicable Source Document: Consolidated Pay Bill – Form ES – 1						

Note: The amounts given for TDS and professional taxes are illustrative and the user shall compute the taxes as per the Act.

14.10 Recording of payment of salaries through bank. For accounting of payment of salary by cheque or direct credit of the salary to employee bank account, the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books/Register to be entered In to
30 th June 2006	350-11-(a)	Employees Liabilities – Net Salaries payable	Dr	10,850		Cash book, Ledger
	450-21-(a)	To Main Bank Account*	Cr		10,850	
* Specify the name of the bank and Account number (a) Insert Detailed Head Codes of Account as applicable Source Document: Payment Order – Form GEN – 14						

14.11 Recording of payment of statutory deductions made from salaries. For discharging liabilities towards statutory deductions (e.g., income tax, profession tax, etc.), on payment, the Accounts Department shall pass the following entries:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books/Register to be entered In to
30 th June 2006	350-20-(a)	Recoveries Payable – TDS from employees	Dr	700		Cash book, Ledger
	350-20-(a)	Recoveries Payable – Professional tax	Dr	600		
	450-21-(a)	To Bank Account*	Cr		1,300	

* Specify the name of the bank and Account number
(a) Insert Detailed Head Codes of Account as applicable
Source Document: Payment Order – Form GEN – 14

Unpaid salaries (Refer Para 14.8 to 14.11 of NMAM)

14.12 If the salary remains unpaid to the employees, it shall be recorded in the Unpaid Salary Register maintained in Form ES-4. The register shall have the details for unclaimed salary as well as subsequent payment of salary. Cheques remaining unpaid and cash withdrawn for payment of salary remaining unpaid for a period of three (3) months shall be re-deposited in the Bank Account and the details recorded in the Unpaid Salary Register.

14.13 Assume that out of the salary cheques issued by MMC, cheques worth Rs 1,000 were not encashed by the employees for more than three months.

14.14 Recording of unpaid salaries (bank). In case cheques issued to the employees have not been encashed for three months or such other period as may be prescribed by the State / applicable acts, such cheques shall be cancelled. On cancellation of cheques, the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books/Register to be entered In to
1 st October 2006	450-21-(a)	Bank Account*	Dr	1,000		Cash book, Ledger, unpaid Salary register
	350-11-(a)	To Employees Liabilities – Unpaid Salaries	Cr		1,000	

* Specify the name of the bank and Account number
(a) Insert Detailed Head Codes of Account as applicable
Source Document: Bank Reconciliation Statements

LOANS AND ADVANCES TO EMPLOYEES (Refer Para 14.12 to 14.18 of NMAM)

14.15 ULB may grant loans (interest bearing or interest free) and advances (temporary, standing, etc.) to the employees. On payment of loans and advances by the ULB, the Register of Employee Loans / Advances (Form ES-2) shall be updated by the Accounts Department.

14.16 MMC sanctions and disburses a housing loan of Rs 5,000 to an employee (Mr. “Z”) on 1st November 2006 repayable in 5 equal annual installments. This loan carries an interest of 8% p.a. Payment of principal assumes precedence over interest. The first installment is payable on March 31st 2007.

14.17 Recording of advances and loans to employees. For recording the above transaction, the Accounts Department shall pass the following entry.

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books/Register to be entered In to
1 st November 2006	460-10-(a)	Loans to employees	Dr	5,000		Cash book, Ledger, Register of loans to employees
	450-21-(a)	To Bank Account*	Cr		5,000	
* Specify the name of the bank and Account number (a) Insert Detailed Head Codes of Account as applicable Source Document: Payment Order – Form GEN – 14						

14.18 Recognising interest on loans and advances granted to the employees at the period-end. As per the terms and conditions of the loan agreement, interest is levied on the monthly outstanding balance of loans. The amount of interest accrued shall be communicated by the concerned department to the Accounts Department at the period-ends for which an entry shall be made in the Register of Interest on Loans to Employees (Form ES-3).

14.19 Normally as per the terms and conditions of service and loan agreement, recovery of the principal amount of loan assumes precedence over recovery of interest. Interest accrued for the intervening period, i.e., the period between the date of disbursement of loan and full repayment of loan shall be recognised as an asset, recoverable after the repayment of principal in full. The Accounts department shall pass the following entry (interest accrued for the period December 2006 to March 2007 amounts to Rs 135):

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
31 st March 2007	431-40-(a)	Receivables from Other Sources – interest accrued and not due on Employees Loans	Dr			Journal book, Ledger, Register of interest on loans to employees
	171-20-(a)	To Interest on Loans and Advances to employees	Cr	135	135	
(a) Insert Detailed Head Codes of Account as applicable Source Document: Calculation sheet of amount of interest						

Note: The recovery entry has been shown only for one month, user are advised to compute similar entries for other months.

Recovery of Loans and Advances

14.20 The entry for recovery of loan every month from the Pay Bill, have already been described above in Para 14.9.

Recovery of Interest accrued on Loans provided to employees

14.21 Recovery of interest installment. As per the terms and conditions of loan agreement, interest accrued and recognised, as an asset receivable shall be recovered in installments. The accounting entry for interest recovery from the monthly pay-bill shall be similar to principle recovery as given in Para 14.9 above.

PAYMENTS OTHERWISE THAN FROM PAY BILL ([Refer Para 14.19 to 14.21](#))

14.22 For various types of employee related payments such as leave travel concession, bonus & ex-gratia, overtime, medical reimbursement, hospitalisation claim, suspension allowance, gratuity, leave salary, house rent reimbursement, etc., the concerned department shall send the approved Payment Order along with the supporting documents to the Accounts Department.

14.23 Recording of payments otherwise than from Pay Bill. On payment being made, the Accounts Department shall pass the following entry for recording of bonus & overtime allowances:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
30 th June 2006	210-10-(a)	Establishment Expense - Bonus	Dr	1,500		Cash book, Ledger
	210-20-(a)	Overtime allowance	Dr	1,000		
	450-21-(a)	To Bank Account*	Cr		2,500	

* Specify the name of the bank and Account number
(a) Insert Detailed Head Codes of Account as applicable
Source Document: Payment Order – Form GEN – 14

PROVIDENT FUND (Refer Para 14.22 to 14.33 of NMAM)

Employees' Provident Fund Contribution

14.24 A deduction shall be made for employees' provident fund contribution from the salaries of the employees from the Pay Bill. The entry for this has already been described above in Para 14.9

14.25 Recording of transfer of money to Provident Fund Bank Account. The Accounts Department shall transfer the amount deducted as contribution from Main Bank Account to Provident Fund Bank Account and pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
30 th June 2006	450-41-(a)	Provident fund Bank Account*	Dr	300		Cash book, Ledger
	450-21-(a)	To Bank Account*	Cr		300	

* Specify the name of the bank and Account number
(a) Insert Detailed Head Codes of Account as applicable
Source Document: Payment Order – Form GEN – 14

Note: Similar entry shall be passed for all the months.

14.26 MMC advanced a Loan of Rs 2,500 on 1st January 2007 to an employee "Mr. P" out of the Provident fund contribution standing to the credit of his account repayable in 10 monthly installments.

14.27 Recording of the loans granted against Provident Fund Contribution. As per the prescribed rules, the ULB may grant loans to the employees against balance standing to the credit of their Provident Fund account. On receipt of approved payment order, the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
1 st January 2007	460-20-(a)	Employee Provident Fund Loan Account	Dr	2,500		Cash book, Ledger
	450-21-(a)	To Provident fund Bank Account*	Cr		2,500	

* Specify the name of the bank and Account number
(a) Insert Detailed Head Codes of Account as applicable
Source Document: Payment Order – Form GEN – 14

Recovery of Provident Fund Loan

14.28 A deduction shall be made for recovery of loan given from the provident fund, from the salaries of the employees from the Pay Bill. The entry for this has already been described above in Para 14.9.

14.29 Recording of transfer of money to Provident Fund Bank Account. The Accounts Department shall transfer the amount deducted towards recovery of provident fund loans from Main Bank Account to Provident Fund Bank Account and pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
31 st March 2007	450-41-(a)	Provident fund Bank Account*	Dr	250		Cash book, Ledger
	450-21-(a)	To Bank Account*	Cr		250	
* Specify the name of the bank and Account number (a) Insert Detailed Head Codes of Account as applicable Source Document: Summary of Daily collections Form GEN -12						

Note: Similarly entry shall be passed for all the months.

Investments of Employee's Provident Fund Contribution

14.30 The Provident Fund money shall be invested as per the guidelines applicable to any Employee Provident Fund.

14.31 Investments made in respect of Provident Fund Contribution shall be entered in a Provident Fund Investment Register to be maintained in Form IN-1 (provided in Chapter 20 on Investments). The accounting procedures to be followed and the accounting entries to be passed in respect of investments of such moneys are similar to those followed in respect of other investments. They relate to investments, maturity of investment, recording of interest, profit/loss on sale/maturity of investments, etc. These have been described in Chapter 20 on Investments.

Withdrawal from Provident Fund

14.32 On 4th August an employee ("Mr. O") withdrew an amount of Rs 3,000 from the balance standing to the credit of his of Provident fund Account as per the rules of the ULB.

14.33 The balance standing to the credit of the employee's provident fund account may be withdrawn either at the time of employee's retirement or otherwise in accordance with the prescribed rules in this behalf.

14.34 The employee may, in accordance with the prescribed rules, withdraw the balance standing to the credit of his/her provident fund account during the continuation of his/her employment. On receipt of approved payment order (Form GEN - 14), the Accounts Department shall pass the following entries:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
For recognising the provident fund contribution and interest due to an employee						
4 th August 2006	311-(b) 350-11-(a)	Provident Fund To Employee Liabilities – Provident fund payable	Dr Cr	3,000	3,000	Journal book, Ledger
On payment						
4 th August 2006	350-11-(a) 450-41-(a)	Employee Liabilities – Provident Fund Payable To provident fund bank Account	Dr Cr	3,000	3,000	Ledger
* Specify the name of the bank and Account number (a) Insert Detailed Head Codes of Account as applicable (b) Insert Minor & Detailed Head Codes of Account as applicable Source Document: Summary of Daily Collection – Form GEN – 13, Payment Order Form GEN -15						

RETIREMENT BENEFITS ([Refer Para 14.34 to 14.46](#))

- 14.35 Retirement benefits for employees of ULB usually consists of :
- Pension
 - Gratuity
 - Leave Encashment.

Pension

14.36 The pension would be payable at the time of their retirement either on superannuation or otherwise in accordance with the prescribed rules. Details of pension liability for each pensioner shall be maintained separately in Pension Register in Form ES-6. The ULB may pay pension directly or through a Fund established for this purpose

Accounting for Pension**Through Fund**

14.37 The ULB shall, on a monthly basis, contribute a sum as determined by the State Government towards the Pension Fund. The contribution shall be recorded as an expense and charged to the Statement of Income and Expenditure and shall also be recognised as a liability.

Creation of Fund

14.38 MMC contributes Rs 3,000 on a monthly basis towards pension fund for the benefit of the employees.

14.39 For creation of Pension Fund. Every month, contribution to the Pension Fund shall be made for the employees on the payroll. For recognising the liability in respect of Pension Fund contribution, the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
June 2006	210-30- (a)	Pension- Pension/Family Pension Expense To Pension Fund	Dr Cr	3,000	3,000	Journal book, Ledger
	311-70- (a)					
(a) Insert Detailed Head Codes of Account as applicable						

14.40 For transfer of money to Pension Fund Bank Account. An amount equivalent to the contribution to Pension Fund shall be transferred from Main Bank Account to Pension Fund Bank Account. On transfer, the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
June 2006	450-42-(a)	Pension fund Bank Account*	Dr	3,000		Cash book, Ledger
	450-21-(a)	To Bank Account*	Cr		3,000	
* specify the name of the bank account and account number						
(a) Insert Detailed Head Codes of Account as applicable						

Payment of Pension to Employees

14.41 On retirement, as per the prescribed rules, the employee may have a choice of taking his full pension either through monthly payments or by commuting a portion thereof payable at the time of retirement and the balance through monthly payments after retirement.

14.42 MMC paid Rs 10,000 as pension to the pensioners for the year 2006-07 on March 15th 2007 out of which commuted pension amounted to 7,000 and balance uncommuted pension.

Commuted Pension

14.43 On commutation of pension. On the basis of approved Pension Payment Order (Form ES-5), on payment of Commuted Pension, the Accounts Department shall pass the following entries:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
On Creation of liability for commutation of pension						
31 st March 2007	311-70-(a)	Pension Fund	Dr	7,000		Journal book, Ledger & Pension register
	350-11-(a)	To Employee Liabilities - pension	Cr		7,000	
On Payment of commuted pension						
	350-11-(a)	Employee Liabilities - pension payable	Dr	7,000		Ledger & pension Register
	450-41-(a)	To Designated Bank Account	Cr		7,000	
(a) Insert Detailed Head Codes of Account as applicable Source Documents: Payment Order Form GEN -15						

Uncommuted Pension

14.44 Recording of payment of uncommuted pension. A Pension Pay Bill shall be prepared for making monthly pension payment to the individual pensioners. On receipt of approved Pension Pay Bill, the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
On Creation of liability for commutation of pension						
31 st March 2007	311-70-(a)	Pension Fund	Dr	3,000		Pension Fund Cash book, Ledger & Pension register
	450-41-(a)	To Pension fund Bank Account	Cr		3,000	
(a) Insert Detailed Head Codes of Account as applicable						

GRATUITY AND LEAVE ENCASHMENT (Refer Para 14.47 to 14.51 of NMAM)

14.45 The ULB may form separate funds for Gratuity and Leave Encashment as per the rules prescribed by the State Government in this behalf. The ULB shall make contribution to the Fund at the rates prescribed by the State Government in this behalf.

14.46 MMC makes a contribution of Rs 7,500 and Rs 12,500 for gratuity and Leave encashment for the benefit of the employees every year through a fund created for this stated purpose.

14.47 For recognising the liability in respect of contribution to the fund, the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
June 2006	210-40-(a)	Other Terminal Expenses	Dr	7,500		Journal book, Ledger
	210-40-(a)	Leave Encashment				
	311-(b)	Other Terminal Expenses				
		Gratuity Expense	Dr	12,500		
		To Earmarked Fund -	Cr		20,000	
(a) Insert Detailed Head Codes of Account as applicable						
(b) Insert Detailed Head Codes of Account as applicable						

INVESTMENTS OF RETIREMENT BENEFIT FUNDS ([Refer Para 14.52 & 14.53 of NMAM](#))

Investment in Pension Fund

14.48 Investments made in respect of Pension Fund shall be entered in a Pension Fund Investment Register to be maintained in Form IN-1 (provided in Chapter 20 on Investments). The accounting procedures to be followed and the accounting entries to be passed in respect of investments of such moneys are similar to those followed in respect of other investments. They relate to investments, maturity of investment, recording of interest, profit/loss on sale/maturity of investments, etc. These have been described in Chapter 20 on Investments.

Investment of Other Retirement Benefit Fund

14.49 Investments made in respect of other retirement benefits funds including gratuity and leave encashment shall be entered in a separate Investment Register to be maintained in Form IN-1 (provided in Chapter 20 on Investments). The accounting procedures to be followed and the accounting entries to be passed in respect of investments of such moneys are similar to those followed in respect of other investments, as described in Chapter 20 on Investments.

ACCOUNTING IN RESPECT OF TRUSTS FORMED BY THE ULB ([Refer Para 14.54 to 14.58 of NMAM](#))

14.50 The ULB may form Trusts for management of provident fund, pension fund, gratuity fund, leave encashment fund and other retirement benefits funds as per the guidelines of the State Government in this behalf. Please refer Chapter 14 – “Employee Related Transactions” for the accounting entries to be passed for recording transfer of its contribution to the Trusts, payments to employees etc.

Internal controls ([Refer Para 14.59 of NMAM](#))

14.51 The following internal controls shall be observed by the ULB:

- Separate Pay Bills shall be prepared by each DDO.
- Consolidation of Pay Bills of DDO shall be made Department wise and Department bills are consolidated for ascertainment of ULB level information.
- Consolidated paybill summary shall be checked with previous month for ensuring all DDO and departments bills are included.
- A monthly reconciliation shall be carried out by the Head of the Accounts Department and the Head of Establishment Department in respect of loans and advances outstanding between the balances in the Ledger Accounts maintained at the Accounts Department and the Register of

Employee Advances and Register of Loans to Employees. Further, at the period-end, the Head of the Accounts Department shall ensure that accounting entry for recording income in respect of interest accrued on loans provided to employees has been passed.

- e. Every month, the Head of the Accounts Department shall ensure timely remittance of the various deductions made from the employees' salaries in the Pay Bill to the concerned authorities.
- f. The Head of the Accounts Department shall ensure that the total establishment expenditure incurred and recorded in the Functional Expense Subsidiary Ledger reconciles with the balance as per the respective Establishment Expense Ledger Account. The Subsidiary Ledger shall record total establishment expenses incurred, including that paid through Pay Bill.
- g. Every month, the Head of the Accounts Department or other officers of the ULB designated by him shall verify that Provident Fund and Pension Fund contribution deducted for the employees on deputation have been deposited with the concerned authorities.
- h. At every year-end, the Head of the Accounts Department or other officers of the ULB designated by him shall verify whether interest received or receivable on the provident fund investment is less than the statutory liability for interest payment to employees on their balance in the provident fund reserve account, and if so, ensure that the difference of interest payable is provided for and to that extent amount has been transferred from Main Bank Account to Provident Fund Bank Account.
- i. The Head of the Accounts Department or other officers of the ULB designated by him shall ensure that payment of pension and other retirement benefits to the employees at retirement should be made from the Pension Fund and other retirement benefits funds created by the ULB.
- j. All the pension payments shall be made only from the Pension Fund Bank Account. To the extent of difference/deficit in the Pension Fund, an amount equivalent to the deficit shall be transferred from the Main Bank Account to the Pension Fund Bank Account. The transfer shall be made before making payment to the pensioners from the Pension Fund Bank Account.
- k. The Head of the Accounts Department shall ensure that whenever the entries in Para 14.9 is passed, the equivalent amount of money in respect of deduction of provident fund contribution and provident fund loan is simultaneously transferred from the Main Bank Account to the Provident Fund Bank Account.
- l. The Chief Executive Officer/Head of the ULB shall specify such appropriate calendar of returns /reports for monitoring.

PRESENTATION IN FINANCIAL STATEMENTS [*\(Refer Para 14.61 to 14.63 of NMAM\)*](#)

14.52 The various heads of account used for the accounting of Employee Related Transactions shall be reflected in the Financial Statements or the Schedules attached to the Financial Statements of the ULB. All such Financial Statements and schedules should be affixed with signature and seal of designated authorities. The schedules that reflect the transactions relating to employee include

- a. Schedule I-8 – Schedule of Interest Earned
- b. Schedule I-9 – Schedule of Other Income
- c. Schedule I-10 – Establishment Expenses – Expense head wise
- d. Schedule B-2 – Schedule of Earmarked funds
- e. Schedule B-9 – Schedule of Other Liabilities (Sundry Creditors)
- f. Schedule B-17 – Schedule of Cash and Bank balances
- g. Schedule B-18 – Schedule of Loans, advances and deposits

SUMMARY

1. Employee related transactions deals with expenditures like salaries, allowances, retirements and other employee related expenditures.
2. Major accounting principles governing the accounting for transactions relating to employees are:
 - a. Expenses on Salaries and other allowances shall be recognised as and when they are due for payment
 - b. Statutory deductions from salaries including those for income tax, profession tax, provident fund contribution, etc., shall be recognised as liability in the same period in which the corresponding salary is recognised as expense.
 - c. Formation of Trusts shall be considered for management of Provident Funds.
 - d. Contribution due towards Pension and other retirement benefit funds shall be recognised as an expense and a liability. State Government to define the rate of contribution.
 - e. Interest receivable on loans given to employees shall be recognised as revenue at the end of the period in which these have accrued.
 - f. Bonus, ex-gratia, overtime allowance, other allowances and reimbursements to the employees shall be recognised as an expense as and when they are due for payment.
3. The accounting treatment for recording of salary, statutory contributions, disbursement of salary through bank, disbursement of loans and its related transactions are explained in detail.
4. Attention is also given to transactions relating to employees retirement benefits like Provident fund, Pension, Gratuity, Leave encashment etc.
5. The schedules forming part of financial statements that reflect the transactions relating to employees are explained in this chapter.

EXERCISE

1. State whether the following statements are '**Right**' or '**wrong**':
 - 1.1 Expenses on Salaries and other allowances shall be recognised as and when they are paid
 - 1.2 Statutory deductions from salaries shall be recognised as liability in the same period in which the corresponding salary is recognised as expense
 - 1.3 Interest receivable on loans given to employees shall be recognised as revenue at the end of the period in which these have accrued.
 - 1.4 Bonus, ex-gratia, overtime allowance, other allowances and reimbursements to the employees shall be recognised as an expense when they are due
 - 1.5 Unpaid salary is treated as a liability.

2. Journalise the following transactions.
 - 2.1 Salary payable to the employees for the month of May 2006 amounted to Rs 1,00,000 which comprise the following
 - a. Basic Rs 40,000
 - b. Dearness allowance Rs 20,000
 - c. House Rent allowance Rs 15,000
 - d. Conveyance allowance Rs 15,000
 - e. Medical allowance Rs 10,000Recoveries
 - a. TDS Rs 10,000
 - b. Professional tax Rs 5,000
 - c. Provident fund Rs 7,500Pass salary payable entry, payment entry and remittance of statutory deductions.

3. Personal advance granted to employee amounted to Rs 7,500. Advance is repayable in three equal monthly instalments of Rs 2,500 each. Pass journal entry for recovery for one month.
4. Marriage loan advanced to employee amounted to Rs 25,000. Interest is chargeable at the rate of 9% p.a. simple interest. Pass entry for one month for the following components
 - a. Interest receivable
 - b. Recovery of Principal amount
5. Remittance of PF recovered from employees amounting to Rs.15,000/-
6. Sanction of PF loan amounting to Rs. 50,000/- and recovery of the same in 10 equal monthly instalments. Pass entry for sanction of loan, recovery of instalment for one month.
7. Remittance of pension fund contribution amounting to Rs 12,000.

BROAD STRUCTURE FOR PREPARING PRESENTATION SLIDES

- Introduction
- Accounting treatment for
 - pay bill and deductions
 - Unpaid Salaries
 - Loans and advances to employees
 - Payments otherwise than from pay bill
 - Provident fund
 - Retirement benefits
 - Pension
 - Gratuity
 - Leave encashment
- Presentation in the financial statements

CHAPTER 15

HEALTH & SANITATION

LEARNING OBJECTIVE

At the end of this Chapter, the reader will

- *Be familiar with the accounting principles governing the accounting for transactions relating to Health & Sanitation.*
- *Understand the entries for accounting of Incomes like medical fees, training fees relating to Health & sanitation*
- *Be familiar with the internal controls of transactions relating to Health department related transactions*
- *Be familiar with how the transactions relating to Health & Sanitations are presented in the financial statements*

CHAPTER OVERVIEW

This chapter contains the recommended accounting system for transactions relating to health and sanitation activities in the ULB. It focuses on the accounting principles governing the accounting for transactions relating to Health Department. This chapter illustrates the entries to be passed for accounting of income like medical fees, training fees etc. The chapter is intended to act as a tool for the reader to understand the basic principles relating to the accounting for transactions relating to Health Department and it is advised that the reader refer to “Chapter 15” of NMAM for detailed coverage of the subject.

INTRODUCTION [*\(Refer Para 15.1 to 15.4 of NMAM\)*](#)

15.1 The Health Department is primarily involved in operating the hospitals, dispensaries & maternity homes and in monitoring sanitation and other public health related activities, within the limits of the ULB. The main sources of incomes earned by the Health Department are as follows:

- a. Fees and User Charges (e.g. Fees for Medical institution, Registration fees for patient, Ambulance charges ,Funeral/Hearse Van Services etc)
- b. Sale & Hire Charges (e.g. Sale of Garbage/Manure)

15.2 Besides incurring the usual administrative expenses such as establishment expenses, printing, stationery, office expenses, etc., the Health Department incurs expenses related to its Health and Sanitation functions. Following is an illustrative list of the expenses incurred in respect of the Health Department:

- a. Sanitation related expenses (e.g. city cleaning and sweeping, dustbin repairs and maintenance)
- b. Hospitals and Dispensaries related expense (e.g. medical, testing & inspection fees)
- c. Public Health progamme/scheme related expense (e.g. family welfare expense, pulse polio vaccination)

ACCOUNTING PRINCIPLES ([Refer Para 15.5 of NMAM](#))

15.3 The following Accounting Principles shall govern the recording, accounting and treatment of transactions relating to health and sanitation:

- a. Revenue in respect of the following shall be recognised on actual receipt.
 - i. Hospital fees, maternity homes fees, diagnostic centre fees and dispensaries fees
 - ii. Hospital training fees
 - iii. Rent and/or hire charges in respect of ambulance, hearse, suction unit, meat van and road roller
 - iv. Sale of fertilisers and waste, sale of animals and sale of scrap.
- b. Revenue in respect of Trade License Fees shall be accrued in the year to which it pertains and where the demand is raised based on applicable Acts of the state.
- c. Revenue in respect of rent of equipment provided to the contractors, deducted from their bills, shall be recognised as and when the deductions are made.
- d. All revenue expenditures incurred shall be recognised on admission of the bills for payment by the ULB.
- e. Provision shall be made at the year-end for all bills received up to a cut off date (30th April of the next financial year). However, the State Governments, depending on practicality and materiality involved can decide on this.

ACCOUNTING FOR INCOME AND OTHER RECEIPTS

15.4 This section explains the Accounting Treatment for transactions relating to Health & Sanitation activities. Continuing with our “Model Municipal Corporation (MMC)”, the transactions involving Health & Sanitation are explained in terms of Medical fees income, Hospital training fees, Trade license fee etc.

MEDICAL FEES ([Refer Para 15.7 of NMAM](#))

15.5 The collection of Medical fees at the Hospital maintained by MMC on 23rd of April, 2006 was Rs 15,000.

15.6 For the procedure to be followed for the collection of medical fees, refer Para 15.7 of Chapter 15-“Health & Sanitation” of NMAM. The Accounting entries would be as follows.

15.7 Recording of collection of medical fees. On the basis of the Summary of Daily Collection (Form GEN-12) received from the various entities, i.e., Units, Ward Offices, Health Department, etc., the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register To be entered In to
23 rd April 2006	450-21-(a) 140-(b)	Bank Account* To Fees and user charges – Medical fees	Dr Cr	15,000	15,000	Cash book, Ledger

* Specify name of the Bank and account number

(a) Specify the Detailed head codes of account as applicable

(b) Insert Minor & Detailed Head Codes of account as applicable.

HOSPITAL TRAINING FEES ([Refer Para 15.8 of NMAM](#))

15.8 Hospital training fees are charges from medical colleges for granting internship facilities to their students in the hospitals owned by the ULB.

15.9 The procedure followed for collection of hospital training fees shall be the same as described above for the collection of medical fees.

TRADE LICENSE FEES ([Refer Para 15.9 & 15.10 of NMAM](#))

15.10 The income in respect of trade license fees shall be recognised on accrual basis. It shall be accrued in the year to which it pertains and where the demand is raised based on applicable Acts of the State.

15.11 The procedure and accounting entries in respect of demand raised for trade license fees, collections made, provisioning for unrealised fees, etc. shall be similar to as described under section 'Accounting for Incomes to be accounted on Accrual Basis – License Fees' in Chapter 11 – Rentals, Fees, and Other Incomes of NMAM.

OTHER INCOMES

15.12 The other incomes pertaining to the health and sanitation related activities such as ambulance rent, suction unit rent, dumping ground charges, etc., shall be accounted for in the manner as has been described under section 'Accounting for Other Incomes to be accounted on Actual Receipt Basis' in Chapter 11 - Rentals, Fees, and Other Incomes of NMAM.

EXPENDITURES PERTAINING TO HEALTH AND SANITATION ([Refer Para 15.12 of NMAM](#))

15.13 The accounting for expenditures pertaining to hospitals, dispensaries, sanitation, scavenging, etc., shall be similar to that described in Chapter 12 - Public Works (for expenditure incurred through awarding of contracts to outside parties for carrying out certain activities), Chapter 13 - Stores (for expenditure incurred on purchase of stores such as medicines, insecticides, pesticides, etc.) and Chapter 16 - Other Revenue Expenditures in respect of all other expenditures pertaining to health and sanitation related activities of NMAM.

PERIOD END PROCEDURES ([Refer Para 15.13 of NMAM](#))

15.14 At the period-end, the Health Department shall ensure that all the bills received in respect of expenses incurred before the last date of the accounting period, are processed and forwarded to the Accounts Department for accounting by 30th April of the next financial year if the accounting period is a financial year and in other cases in 15 days from the end of the accounting period.

INTERNAL CONTROLS ([Refer Para 15.14 of NMAM](#))

15.15 The following internal controls shall be observed by the ULB in respect of health and sanitation related transactions :

- a A quarterly reconciliation shall be carried out by the Head of the Accounts Department and the Head of the Health Function in respect of the amount collected under the various heads based on the balances standing in the Functional Income Subsidiary Ledger (Form GEN-33) in respect of Fees & User Charges and Sale & Hire Charges relating to Health

- Function maintained at the Accounts Department and the Collection Register (Form GEN-11) maintained at the Health Department.
- b The officers designated by the ULB for operating the Designated Hospital Bank Account shall co-ordinate with the banks on a daily basis and ascertain the status of the cheques deposited by them.
 - c The Head of the Accounts Department shall ensure budget availability with respect to the expenditure incurred at the time of accruing of the expenditure.
 - d The Head of the Accounts Department shall ensure that all the bills/invoices were journalised before release of the payments.
 - e The Chief Executive Officer/Head of the ULB shall specify such appropriate calendar of returns /reports for monitoring.
 - f All Reconciliation Statements shall be certified by the Head of the Accounts Department and verified by the Municipal Chief Auditor.

PRESENTATION IN THE FINANCIAL STATEMENTS ([Refer Para 15.16 to 15.18 of NMAM](#))

15.16 The various heads of accounts used for the accounting of Health and Sanitation related transactions shall be reflected in the Financial Statements or the Schedules attached to the Financial Statements of the ULB. All such Financial Statements and schedules should be affixed with signature and seal of designated authorities.

15.17 The schedules that reflect the transactions relating to Health & Sanitation shall include the following:

- a. Schedule I-4 – Schedule of Income from fees & User charges- Income head - wise
- b. Schedule I -5 – Schedule of Income from sale & Hire Charges – Income head-wise
- c. Schedule I-12 – Schedule of Operations & Maintenance – Expenditure head wise
- d. Schedule I-14 – Schedule of Programme Expenses.
- e. Schedule B-17 – Schedule of Cash & Bank Balances

SUMMARY

1. The following are the major accounting principles that govern the transactions relating to health & sanitation activities.
 - a Revenue in respect of the following shall be recognised on actual receipt.
 - i. Hospital fees, maternity homes fees, diagnostic centre fees and dispensaries fees
 - ii. Hospital training fees
 - iii. Rent and/or hire charges in respect of ambulance, hearse, suction unit, meat van and road roller
 - b All revenue expenditures incurred shall be recognised on admission of the bills for payment by the ULB.
 - c Provision shall be made at the year-end for all bills received up to a cut off date (30th April of the next financial year).
2. The accounting treatment for transactions relating to health & sanitation activities like collection medical fees, Hospital training fees, trade license fees etc are discussed in this chapter.
3. The schedules forming part of financial statement that reflect the transactions relating to Health & sanitation activities are provided in this chapter.

EXERCISE

1. State whether the following statements are '**Right**' or '**wrong**':
 - a. Revenue in respect of hospital fees, hospital training fees etc shall be recognized on actual receipt basis
 - b. Revenue in respect of trade license fee shall be recognised in the year in which it is received.
 - c. Revenue in respect of rent of equipment provided to contractor shall be recognized as and when the deductions are made from the contractor bill.
 - d. Provision shall be made for all the bills that are received and the payment for which is not made at the end of the year.

2. **Journalise the following transactions**
 - a. The collection of medical fees at the hospital maintained by the corporation amounted to Rs 5,00,000.
 - b. The demand for trade license fee for the year 2006 -07 amounting to Rs 75,000.
 - c. Assume that some equipment was rented out to the contractor. The rent charged by the corporation for the same amounted to Rs 10,000, which was deducted from his bill and balance amount of Rs 25,000 was paid to the contractor.
 - d. The invoice for Oxygen cylinder for the month of February 2007 for one of the Hospitals run by the corporation is received on 25th March 2007. The invoice value was Rs.7500/-. The Corporation made the payment on 25th April 2007. Pass the necessary entries for creating liability (payable) and then for making payment.

BROAD STRUCTURE FOR PREPARING PRESENTATION SLIDES

- Introduction
- Accounting Principles
- Accounting treatment for
 - Receipt of Medical fees
 - Hospital training fees
 - Expenditure pertaining to Health & Sanitation
- Presentation in the financial statements

CHAPTER 16

OTHER REVENUE EXPENDITURES

LEARNING OBJECTIVE

At the end of this Chapter, the reader will

- *Be familiar with the accounting principles governing the accounting for other revenue expenditures like printing, legal expenses etc.*
- *Understand the process of expense accrual and payment.*
- *Understand the entries for accounting of prepayments, accrued expenditure, payment against permanent advance.*
- *Be familiar with the method of recording expenses in the account books and year end accrual of expenses.*
- *Be familiar with the internal controls relating to these expenditures.*
- *Be familiar with how these transactions are presented in the financial statements.*

CHAPTER OVERVIEW

This chapter contains the recommended accounting system for transactions relating to revenue expenditures other than the employees related expenses, the Public Works and the Stores. This chapter focuses on the Accounting Principles governing the accounting for prepaid expenditure, accrued expenditure, payment against permanent advance and miscellaneous advances. It also touches upon the internal control relating to these expenditures and the manner in which they are presented in the financial statements. The chapter is intended to act as a tool for the reader to understand the basic principles relating to the accounting for Other Revenue Expenditures and it is advised that the reader refer to “Chapter 16” of NMAM for detailed coverage of the subject

INTRODUCTION [*\(Refer Para 16.1 to 16.5 of NMAM\)*](#)

16.1 The expenditures discussed in this chapter are those in respect of which the benefits expire in a short period of time, i.e., less than one year.

16.2 The revenue expenditures discussed in this chapter could illustratively include:

- a. Administrative Expenses (like Books and Periodicals, Legal expenses, Printing, stationery)
- b. Programme Expenses (Election expenses, Own Programmes & Census expenses)
- c. Miscellaneous Expenses (Women and Child Welfare expenditure etc)

16.3 Payment in respect of all the expenses incurred or borne by the ULB shall be made centrally by the Accounts Department. However, payment for certain categories of expenses, may be made from the Permanent Advance(advance granted for incurring certain specific expenditure, usually involving a minor amount subject to bye-laws framed by the ULB) granted to a Head of the Department as resolved by the ULB or from the advance provided to the employees of the ULB.

16.4 The ULB may also grant Miscellaneous Advance for incurring expenditure to the employees of the ULB. Such advances are expected to be settled immediately after the purpose for which they were sanctioned has been fulfilled.

ACCOUNTING PRINCIPLES ([Refer Para 16.6 of NMAM](#))

16.5 The following Accounting Principles shall govern the recording, accounting and treatment of transactions relating to Other Revenue Expenditures:

- d. Other Revenue Expenditures shall be treated as expenditure in the period in which they are incurred.
- e. Provision shall be made at year-end for all bills received upto a cut off date (30th April of next financial year). However, state governments, depending on practicality and materiality involved can decide on this.
- f. Any expenditure for which the payment has been made in the current period but the benefit and/or service is likely to arise in a future period shall be treated as an expenditure for the period in which its benefit arises and/or services are received.
- g. The expenditure for the current period shall include the proportionate value of the benefits and/or services arising in the current period even if the payment therefore has been made in the previous period.

TREATMENT OF EXPENSES INVOLVING AN ELEMENT OF PREPAYMENT ([Refer Para 16.13 to 16.20 of NMAM](#))

16.6 Transactions relating to prepayments, accrued expenditure and payment against permanent advance and miscellaneous advance are explained through our Model Municipal Corporation (MMC).

16.7 MMC has entered in to an Annual Maintenance Contract (AMC) for computers amounting to Rs 2,400 for the calendar year, January 2007 to December 2007. The bill for the same was received in the month of December 2006 and the payment was made on 26th of December 2006.

16.8 In case of expenses for which payment is made in one accounting period and the benefit is likely to be received in the period within which the payment is made as well as the next period, the accounting entries shall be as explained below.

16.9 The portion in respect of January 2007 to March 2007 will pertain to the financial year 2006-07 and the portion in respect of April 07 to December 07 will pertain to the financial year 2007-08.

16.10 Recording of payment. The Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register To be entered In to
26 th December 2006	230-59-(a)	Repairs & Maintenance others – AMC Computers	Dr	2,400		Cash book, Ledger
	450-21-(a)	To Bank Account*	Cr		2,400	
* Specify the name of the bank and the account number (a) Insert Detailed Head Codes of Account as applicable						

16.11 Recording of adjustment of prepaid AMC. Immediately on expenditure being incurred, the amount of AMC paid in advance shall be determined for recording the prepaid AMC. For adjusting the AMC paid for April 2007 to December 2007, i.e., for the next financial year, the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register To be entered In to
1 st January 2007	440-30-(a) 230-59-(a)	Prepaid expense- Others To Repairs & maintenance Others – AMC Computers	Dr Cr	1,800	1,800	Journal book, Ledger
(a) Insert Detailed Head Codes of Account as applicable						

16.12 Recording of the expense in the next year. In the financial year 2007-2008, in April 2008, the following entry shall be passed:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register To be entered In to
01 April 2007	230-59-(a) 440-30-(a)	Repairs & Maintenance others – AMC Computers To Prepaid expenses – Others	Dr Cr	1,800	1,800	Journal Book, Ledger
(a) Insert Detailed Head Codes of Account as applicable						

16.13 The above entries shall have the following impact:

- AMC expense for the year 2006-07 shall be shown as Rs 600(Rs 2,400 less Rs 1,800).
- Prepaid AMC of Rs 1,800 shall be carried forward in the Balance sheet as at 31st March 2007 and shown as asset.
- For the financial year 2007-08, Rs 1,800 shall be shown as expense.

16.14 Most expenses which are payable on a time basis shall be treated in the above manner. In case of expenses of a sporadic nature, if the entire service has not been received in the year of payment, an estimate would need to be made at the end of the financial year to carry forward the unexpired portion of the benefit or service to the next financial year.

ACCRUED EXPENDITURE (Refer Para 16.21 to 16.27 of NMAM)

16.15 Accrued expenses are those expenses which remain unpaid or due during the year/period. In other words expenses which have become due and have not been paid at the end of the year/period. There may be some instances of accrued expenditure in ULB also where bills have been received but may not have been admitted for payment by ULB. These shall be provided at the end of an accounting period to fully reflect the revenue expenditures incurred in that period.

16.16 Telephone bill of MMC for the month of March 2007 received in the first week of April 2007 amounts to Rs 1,500 but the bill amount is known at the end of the month.

16.17 Though the bill was received in the financial year 2007-08, the bill pertains to previous financial year, hence provision needs to be made in the books of the financial year 2006-07.

16.18 Recording of Accrued Expenditure: For recording the accrued expenditure, the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount (Rs)	Books /Register To be entered In to
31 March 2007	220-12-(a)	Communication expense	Dr	1,500		Journal Book, Ledger
	360-10-(a)	To Provision for Expenses	Cr		1,500	
(a) Insert Detailed Head Codes of Account as applicable						

16.19 Payment of Accrued Expenditure: In the next accounting period, upon payment of accrued expenditure, the Accounts Department shall pass the following entry.

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register To be entered In to
05 April 2007	360-10-(a)	Provision for expenses	Dr	1,500		Cash Book, Ledger
	450-21-(a)	To Bank Account*	Cr		1,500	
* Specify the name of the Bank account and account number. (a) Insert Detailed Head Codes of Account as applicable						

PAYMENT AGAINST PERMANENT ADVANCE (Refer Para 16.28 to 16.31 of NMAM)

16.20 MMC granted a permanent advance of Rs 1000 to the administration department on January 15th 2007, to incur the day-to-day expenses. Out of the advance provided, Rs 500 was expensed and balance of Rs 500 was remaining at the end of the year.

16.21 Recording of grant of Permanent Advance. The Accounts Department shall record the grant of Permanent Advance in Register of Permanent Advance in Form GEN-17 and pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register To be entered In to
15 January 2007	460-50-(a)	Advance to Others- Permanent Advance – Administration department	Dr	1,000		Cash Book, Ledger, Register for Advances
	450-21-(a)	To Bank Account*	Cr		1,000	
* Specify the name of the bank account and account number (a) Insert Detailed Head Codes of Account as applicable						

16.22 Recording of other revenue expenditure incurred Expenditure in respect of which Permanent Advance has been provided shall be initially incurred against it. At intervals of not more than one month, the concerned department shall prepare a Payment Order (Form GEN-14) and forward it to the Accounts Department. On receipt of Payment Order, the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register To be entered In to
15 January 2007	220-21-(a)	Printing & Stationery Expense	Dr	500		Journal Book, Ledger, Register for Advances
	460-50-(a)	To Advance to others Permanent Advance	Cr		500	
(a) Insert Detailed Head Codes of Account as applicable						

16.23 For recovery of Permanent Advance. The permanent advance granted to the Departments shall be recovered at the end of the financial year. On receipt of money, the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register To be entered In to
15 March 2007	450-21-(a) 460-50-(a)	Bank Account* To Advance to others Permanent Advance	Dr Cr	500	500	Cash Book, Ledger, Register for Advances
* Specify name of the bank and account number (a) Insert Detailed Head Codes of Account as applicable						

PAYMENT AGAINST MISCELLANEOUS ADVANCE (Refer Para 16.32 to 16.36 of NMAM)

16.24 Miscellaneous Advances may be given to the employees of the ULB for incurring specific expenditure for the ULB.

16.25 MMC granted Rs 100 on 15th July as advance to employee for purchasing some stationery items. And the actual expenditure incurred on 20th July was Rs 200.

16.26 The Accounts Department at the time of granting of miscellaneous advance shall make an entry in the Register of Advance (Form GEN-16) and pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register To be entered In to
15 July 2006	460-10-(a) 450-21-(a)	Advance to employees – Miscellaneous Advance To Bank Account *	Dr Cr	100	100	Cash Book, Ledger, Register for Advances
* Specify name of the bank and account number (a) Insert Detailed Head Codes of Account as applicable						

EXPENSES INCURRED ARE MORE THAN THE ADVANCE GIVEN

16.27 Recording of Expense incurred. The concerned employee shall prepare a Payment Order (Form GEN-14) for the expenditure incurred against the miscellaneous advance provided (for e.g. - expenses incurred are Rs. 200 against advance provided Rs. 100) and forward it to the Accounts Department. The Accounts Department shall update the Register of Advances (Form GEN-16) for the Payment Order received and pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register To be entered In to
20 July 2006	220-21-(a) 460-50-(a)	Printing & stationery Expenses To Advance to employees Miscellaneous Advance	Dr Cr	100	100	Journal Book, Ledger, Register for Advances
(a) Insert Detailed Head Codes of Account as applicable						

16.28 Recording extra expense incurred. In case, expenditure incurred is more than the advance provided to the employee, for recording the extra expenditure incurred and payment for it, either to the employee or to the supplier, the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register To be entered In to
20 th July 2006	220-21-(a) 450-21-(a)	Printing & stationery Expenses To Bank Account*	Dr Cr	100	100	Cash Book, Ledger, Register for Advances
* Specify the name of the Bank and the Account number (a) Insert Detailed Head Codes of Account as applicable						

INTERNAL CONTROLS *(Refer Para 16.38 & 16.39 of NMAM)*

16.29 The following internal controls shall be observed by the ULB:

- a. The Head of the Accounts Department shall ensure budget availability with respect to the expenditure incurred at the time of accruing of the expenditure.
- b. The Head of the Accounts Department shall ensure that all the bills/invoices were journalised before release of the payments.
- c. The Head of the Accounts Department shall ensure proper authorisation of Payment Order as per the authorities delegated by the ULB.
- d. The Head of the Accounts Department shall ensure that the relevant supporting documents are annexed to the Payment Order submitted by the Department.
- e. The Head of the Accounts Department shall ensure appropriate classification both in terms of expenditure head and the period in which the expenditure has been accounted with reference to the nature of the bill and the date of the bill, respectively.
- f. On a quarterly basis, and, also in between, on a random basis, the Head of the Accounts Department shall conduct physical verification of cash in hand held at the various departments and tally it with the departmental records maintained there and thereafter with the Register of Advances (Form GEN-16) maintained at the Accounts Department.
- g. At the time of making payment, the Accounts Department shall ensure that reference to the departmental Register of Bills for Payment where the payment bill has been recorded by the department concerned, is provided in the Payment Order. In case of non-referencing, the Accounts Department shall return the Payment Order to the concerned Department for rectification and resubmission. In addition, at the time of payment to Suppliers/contractors and any other creditors it shall be ensured that no amount is due from them, which may be adjusted before payment.
- h. The Head of the Accounts Department shall ensure that a monthly reconciliation of total expenditure incurred and recorded in the Departmental Expense (Administrative Expenses) Subsidiary Ledger is carried out with the total expenditure recorded in several Administrative Expense Ledger Accounts.
- i. The Chief Executive Officer/Head of the ULB shall specify such appropriate calendar of returns /reports for monitoring.

PRESENTATION IN FINANCIAL STATEMENTS *(Refer Para 16.40 to 16.43 of NMAM)*

16.30 The prepaid expenses and accrued liability shall be identified for proper disclosure in the Balance Sheet of the ULB.

16.31 The various heads of accounts used for the accounting of Other Revenue Expenditures shall be reflected in the Financial Statements or the Schedules attached to the Financial Statements of the ULB. All such Financial Statements and schedules should be affixed with signature and seal of designated authorities.

- 16.32 The schedules that reflect the transactions relating to Other Revenue Expenditure include
- a. Schedule I-12 – Schedule of Operations and maintenance.
 - b. Schedule B-9 – Schedule of Other Liabilities (Sundry Creditors)
 - c. Schedule B-12 – Schedule of Provision for expenses
 - d. Schedule B-16 – Schedule of Prepaid expenses
 - e. Schedule B-17 – Schedule of Cash and Bank Balances
 - f. Schedule B-18 – Schedule of Loans, advances and deposits.

SUMMARY

1. The major accounting principles governing the transactions relating to other revenue expenditure are as follows:
 - a. Other Revenue Expenditures shall be treated as expenditure in the period in which they are incurred.
 - b. Provision shall be made at year-end for all bills received upto a cut off date (30th April of next financial year).
 - c. Any expenditure for which the payment has been made in the current period but the benefit and/or service is likely to arise in a future period shall be treated as an expenditure for the period in which its benefit arises and/or services are received.
2. Accounting treatment for prepayments, accrued expenditure, payment against permanent advance and miscellaneous advance are discussed in detail in this chapter.
3. The presentation in the financial statements of transactions relating to other revenue expenditure are discussed in this chapter.

EXERCISE

1. **Indicate the correct alternative in each of the following cases:**
 - a. Any expenditure for which the payment has been made in the current period but the benefit and/or service is likely to arise in a future period shall be treated
 - i. As current year expenditure
 - ii. As pre paid expenditure
 - iii. None of the above
 - b. Expenditure which had become due and have not been paid at the end of the year/period is called as
 - i. Accrued expenditure
 - ii. Pre paid expenditure
 - iii. Prior period expenditure

2. **Journalise the following transactions**
 - a. Corporation has entered in to annual maintenance contract for machinery amounting to Rs 25,000 for the period January 2007 to December 2007. Pass entry after apportioning between current and pre paid expense.
 - b. Permanent advance amounting to Rs 4000 was granted to Municipal health department on 20th December 2006. Out of the above advance Rs 1500 was expensed and the balance was remaining at the end of the year.
 - c. Assuming that the above advance was recovered on 1st April 2007 of the subsequent year. Pass entry for recovery of the said advance.
 - d. Rs 10,000 granted as miscellaneous advance to an employee on 10th October, 2007 for purchase of office stationeries. Pass entry for payment of advance.
 - e. Assume that out of the above advance, Rs 7,500 was incurred towards purchase of office stationery and the balance was repaid.

BROAD STRUCTURE FOR PREPARING PRESENTATION SLIDES

- Introduction
- Accounting treatment for
 - Prepayments
 - Accrued expenditure
 - Payment against permanent advance
 - Payment against miscellaneous advances
- Presentation in the financial statements

CHAPTER 17

GRANTS

LEARNING OBJECTIVE

At the end of this Chapter, the reader will

- *Be familiar with the accounting principles governing the accounting for Grants.*
- *Understand the entries for accounting general and specific grants.*
- *Be familiar with the internal controls relating to Grants.*
- *Be familiar with how the transactions relating to grants are presented in the financial statements.*

CHAPTER OVERVIEW

This chapter focuses on the Accounting treatment for transactions relating to Grants received by ULB. It contains the basic principles governing the accounting for Grant. It also illustrates the entries to be passed for accounting of General and Specific Grants. The chapter is intended to act as a tool for the reader to understand the basic principles relating to the accounting for Grants and it is advised that the reader refer to “Chapter 17” of NMAM for detailed coverage of the subject and also for accounting treatment of non routine transactions relating to Grants.

INTRODUCTION [*\(Refer Para 17.1 to 17.10 of NMAM\)*](#)

17.1 The ULB receives grants from the State and/or Central Government(s). The grants received by the ULB could be either for general purposes or for carrying out specific projects/schemes or in form of reimbursements for specific expenditures.

17.2 Grants received by the ULB may be of capital or revenue nature. Grants can be classified in to:

- a. Capital grant: Capital grant is usually utilized for capital expenditure .i.e. creation of a fixed asset (like purchase of land, building, equipment etc.)
- b. Revenue grant: Revenue grant is usually utilized for meeting recurring expenditure.
- c. General grant: General grant are for general unspecified purpose usually in the form of a lump sum payment (like Motor Vehicles Tax grant, Stamp duty grant).
- d. Specific grant: Grants for carrying out specific projects/schemes or for meeting specific expenditures (Revenue Grant for meeting expenditure incurred during the ordinary course of activities of ULB like Dearness allowance Expenditure Reimbursement Grant, Grant for chemicals used or Grant for operating specific projects like Census Grant, Malaria Control Grant or Capital Grants for meeting Capital expenditures under specific projects/schemes like backward Classes Development Grant)

ACCOUNTING PRINCIPLES [*\(Refer Para 17.11 of NMAM\)*](#)

17.3 The following Accounting Principles shall govern the recording, accounting and treatment of transactions relating to Grants:

- a. General Grants, which are of a revenue nature, shall be recognised as income on actual receipt.

- b. Grants towards revenue expenditure, received prior to the incurrence of the expenditure, shall be treated as a liability till such time that the expenditure is incurred.
- c. Grants received or receivable in respect of specific revenue expenditure shall be recognised as income in the accounting period in which the corresponding revenue expenditure is charged to the Income and Expenditure Account.
- d. Grants received towards capital expenditure shall be treated as a liability till such time that the fixed asset is constructed or acquired. On construction/acquisition of a fixed asset out of the grants so received, the extent of liability corresponding to the value of the asset so constructed/acquired shall stand reduced and the amount shall be treated as a capital receipt and shall be transferred from the respective Specific Grant Account to Capital Contribution.
- e. Grants received as a nodal agency or as implementing agency for an intended purpose, which does not, result in the creation of assets with ownership rights for the ULB shall be treated as a liability till such time it is used for the intended purpose. Upon utilisation for the intended purpose, the extent of liability shall stand reduced by the value of such utilisation and no further treatment shall be required.
- f. Grants in the form of non-monetary assets (such as fixed assets given at a concessional rate) shall be accounted for on the basis of the acquisition cost. In case a non-monetary asset is received free of cost, it shall be recorded at a nominal value (e.g. Rupee One).
- g. Income on investments made from 'Specific Grants received in advance' shall be recognised and credited to the Specific Grant, whenever accrued. Profit/loss, if any, arising on disposal of investments made from the 'Specific Grant received in advance' shall also be recognised and credited/debited to the Specific Grant.

ACCOUNTING TREATMENT

17.4 This section explains the Accounting Treatment for transactions relating to Grants. Continuing with our Model Municipal Corporation (MMC), the Accounting in respect of Grant is discussed in terms of general and specific grants.

GENERAL GRANT ([Refer Para 17.14 of NMAM](#))

17.5 Based on the Grant Sanction Order received before, MMC had received on 10th May 2006 its share of Motor Transport Tax from the state government amounting to Rs 12,000.

17.6 Recording of receipt of General Grant. Details of General grants received shall be entered in the Receipt Register (Form GEN-9) maintained at the Accounts Department and deposited into the Main Bank Account. A Receipt shall be issued in Form GEN-8 to the sponsoring agency. To record the receipt of grant, the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
10 th May 2006	450-61-(a) 160-10-(a)	Bank Account* To Revenue Grant – Motor Transport tax	Dr Cr	12,000	12,000	Grant Cash book, Ledger, Grant Register

* Specify the name of the bank and account number.

(a) Insert Detailed Head Codes of Account as applicable

17.7 Assuming that the above grant was made by the state government after deduction of the following payments which needs to be made by MMC.

- a Interest on Loans borrowed – Rs 6,000
- b Electricity charges - Rs 2,000

17.8 Recording of deductions made by state government at the time of payment: At the time of payment, state government would deduct the payments that needs to be made by ULB and would pay only the balance. ULB shall account the gross amount of grant as income and book the relevant heads for the deductions made. The Accounts department would pass the following entry in the books.

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
10 th May 2006	240-20-(a)	Interest on Loans from state government	Dr	6,000		Grant Cash book, Ledger, Grant Register
	220-11-(a)	Electricity charges	Dr	2,000		
	160-10-(a)	To Revenue Grant – Motor Transport tax	Cr		8,000	
(a) Insert Detailed Head Codes of Account as applicable						

Note: The effect of this entry is not reflected in the financial statements.

SPECIFIC GRANT (Refer Para 17.15 to 17.26 of NMAM)

17.9 Specific Grants could either be received in advance or as a reimbursement of the expenditure already incurred. These could be Revenue or Capital in nature, or a combination of both. The accounting entries for Specific Grant will depend on the nature of the receipt (in advance or as reimbursement) and the nature of the expenditure, which are expected to be incurred out of such grants (capital or revenue).

Specific grant received in advance

17.10 On 15th April 2006, MMC had received a grant of Rs 25,000 in advance from the state Government for undertaking Family Welfare Project. The grant sanction order requires maintaining of a designated bank account for the same.

17.11 Grants received in advance shall be deposited in their respective Designated Grant Bank Accounts and they shall be accounted for in the following manner.

17.12 Recording of grant received in advance. The details of the Grant Sanction Order shall be recorded in the Grant Register (Form G-1). On receipt of the grant, the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
15 th April 2006	450-61-(a)	Designated Bank Account*	Dr	25,000		Grant Cash book, Ledger, Grant Register
	320-20-(a)	To Grant for specific purpose – Family welfare	Cr		25,000	
* Specify the name of the bank and account number.						
(a) Insert Detailed Head Codes of Account as applicable						
Internal Control: The following controls shall be observed by the ULB in respect of Grants						
(a) The Head of the Accounts Department shall reconcile quarterly the amount of grant received and receivable in the Ledger (Form GEN-3) and the Grant Register (Form G-1) maintained at the Accounts Department.						
(b) The Head of the Accounts Department shall, after entry in Cashbook in respect of grants received, ensure that the grant received is recorded in the Grant Register. Further, it shall be ensured that the Receipt in form GEN-8 Summary of Daily collections prepared provides reference of Grant Register.						

17.13 Separate Cash Book (Form GEN-1) shall be maintained in respect of all grants.

17.14 The details of the receipt of the grant shall be updated in the Grant Register (Form G-1).

17.15 The accounting procedure to be followed in respect of revenue expenditure incurred against Specific Grants received in advance shall be the same as what is described in Chapter 12 – Public Works for repairs and maintenance expenses, Chapter 13 – Stores for stores purchased, and Chapter 16 - Other Revenue Expenditures for other revenue expenditures.

Recording of liability on receipt of contractor/supplier bill

17.16 MMC received a bill of Rs 12,500 for family welfare related expenditure on 1st May 2006 from RF & Co. The amount due was paid on 5th May 2006.

17.17 On receipt of processed bill in respect of material supplied or services rendered or works executed which is of a revenue nature, the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to	
1 st May 2006	2-(b)	Family welfare Expenditure	Dr	12,500		Grant Cash book, Ledger, Grant Register	
	350-10-(a)	To Creditors- Payables against Specific grants	Cr				10,000
	350-20-(a)	To Recoveries Payable – TDS From specific grants	Cr				1,500
	350-20-(a)	To Recoveries Payable – Works Contract Tax from Specific grant	Cr				1,000

* Specify the name of the bank and account number.

(a) Insert Detailed Head Codes of Account as applicable

(b) Insert Major, Minor and Detailed Head Codes of Account as applicable

Internal Control: The following controls shall be observed by the ULB in respect of Grants

(a) The Head of the Accounts Department and the Head of the Department implementing the project/scheme sponsored by the grant shall reconcile quarterly the expenditure incurred during the period in respect of each of the grant from the Ledger (Form GEN-3) and the Grant Register (Form G-1) maintained at the Accounts Department and the relevant records maintained at the respective departments.

Recording of payment to the contractor/supplier

17.18 The payment to the contractor/supplier shall be made only from the respective Designated Grant Bank Account. On payment, the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
5 th May 2006	350-10-(a)	Creditors – Payables against Specific Grants	Dr	10,000		Grant Cash book, Ledger, Grant Register
	450-61-(a)	To Designated Bank Account*	Cr			

* Specify the name of the bank and account number.

(a) Insert Detailed Head Codes of Account as applicable

Recording of payment for deductions made.

17.19 The deductions made on behalf of the Government like TDS, Works Contract Tax shall also be paid from the respective Designated Grant Bank Account. On payment of deductions made, the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
5 th	350-20-(a)	Recoveries Payable – TDS	Dr	1,500		Grant Cash book,

May 2006	350-20-(a)	From specific grants Recoveries Payable – Works Contract Tax from Specific grant	Cr	1,000		Ledger, Grant Register
	450-61-(a)	To Designated Bank Account*			2,500	
* Specify the name of the bank and account number. (a) Insert Detailed Head Codes of Account as applicable						

17.20 Assume that on 15th May 2006, MMC utilized General stores worth Rs 5,000 for Family Welfare Project.

Recording of transfer of money from Designated Grant Bank Account to Main Bank Account on utilisation of common stores.

17.21 The amount equivalent to the cost of common stores utilised for the purpose of the Specific Grant shall be transferred from the respective Designated Grant Bank Account to Main Bank Account. Accounts Department shall update the Grant Register (Form G-1) for the same and pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
15 th May 2006	450-21-(a)	Bank Account*	Dr	5,000		Grant Cash book, Ledger, Grant Register
	450-61-(a)	To Designated Bank Account*	Cr		5,000	
* Specify the name of the bank and account number. (a) Insert Detailed Head Codes of Account as applicable						

Entry for issue of materials from stores:

17.22 The Accounts department would pass the following entry for issue of materials from stores.

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
15 th May 2006	320-(b)	Family Welfare Grant Expenditure Account	Dr	5,000		Ledger
	430-10-(a)	To Stock in hand –Water Supply Stores	Cr		5,000	
* Specify the name of the bank and account number. (a) Insert Detailed Head Codes of Account as applicable (b) Insert Minor and Detailed Head of Accounts as applicable						

Recognising grant income in respect of revenue expenditure incurred under Specific Grants

17.23 At the end of each quarter, the Accounts Department shall identify the revenue expenditure incurred under the Specific Grants received in advance (from the Grant Register). To record income against it, the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
30 th June 2006	320-20-(a)	Grant for Specific Purposes	Dr	17,500		Grant Cash book, Ledger, Grant Register
	160-10-(a)	To Revenue Grant	Cr		17,500	
* Specify the name of the bank and account number.						

(a) Insert Detailed Head Codes of Account as applicable

Accounting for Earnest Money Deposit and Security Deposit

17.24 The Accounting treatment of Earnest Money Deposit and conversion of EMD in to security deposit would be same as given in Chapter 12 – Public Works.

Specific Grants Received as Reimbursement of Expenditure incurred by the ULB (Refer Para 17.51 & 17.52 of NMAM)

17.25 Specific Grants received as reimbursement of expenditures could be received towards revenue expenditures incurred during the ordinary course of activities of the ULB or for implementing a specific project/scheme or towards capital expenditure incurred under a specific project/scheme. These expenditures would be incurred from the Main Bank Account before claiming reimbursement. The grants receivable as reimbursement shall be accounted in the following manner.

17.26 MMC had paid Rs 16,000 towards Dearness allowance to its employees during the first quarter of 2006-07. At the end of the quarter, as a claim for Dearness allowance grant, MMC had submitted the “Statement of Expenditure” to the state government. The Grant sanction Order was received on 14th July 2006 and the amount was received on 20th July 2006.

Specific Grant for revenue expenditure incurred during the ordinary course of activities of the ULB

17.27 The grants receivable as reimbursement of revenue expenditures incurred during the ordinary course of activities of the ULB, shall be accounted in the following manner.

- a. Recognition of grant income on sanction of the grant. The details on receiving the Grant Sanction Order in respect of the specific grant where application/details of expenditure submitted earlier shall be recorded in the Grant Register (Form G-1). To recognise the income, the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
14 th July 2006	431-50-(a)	Receivable from Government- Grants	Dr	16,000		Journal book, Ledger, Grant Register
	160-20-(a)	To Re-imburement of Expenses	Cr		16,000	

* Specify the name of the bank and account number.

(a) Insert Detailed Head Codes of Account as applicable

- b. Recording of receipt of grant. On receipt of the grant, the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
20 th July 2006	450-21-(a)	Bank Account*	Dr	16,000		Journal book, Ledger, Grant Register
	431-50-(a)	To Receivable from Government Grants	Cr		16,000	

* Specify the name of the bank and account number.

(a) Insert Detailed Head Codes of Account as applicable

Period end Procedures

17.28 At the period-end, it shall be ensured that revenue expenditure incurred under the grant scheme but remaining outstanding for re-imburement before the last date of the accounting period shall be recorded with matching the income corresponding to the expenditure being recorded. The accounting entry to be recorded shall be the same as provided in Para 17.24 (a) above.

SPECIFIC GRANT FOR EXPENDITURE INCURRED UNDER A SPECIFIC PROJECT/SCHEME ([Refer Para 17.53 to 17.54 of NMAM](#))

17.29 For accounting treatment on Grants received under specific project/scheme, please refer Chapter 17 – “Grants” of NMAM.

SPECIFIC GRANT IN RESPECT OF CAPITAL EXPENDITURE ([Refer Para 17.27 to 17.36 of NMAM](#))

17.30 For Accounting treatment on Grant in respect of Capital Expenditure refer Para 21.20 to 21.25 of Chapter 21 – “Fixed Assets”.

GRANTS RECEIVED AS NODAL/ IMPLEMENTATION AGENCY([Refer Para 17.37 to 17.48 of NMAM](#))

17.31 ULBs may receive grants as a nodal agency under certain schemes, wherein the expenditure of the schemes are for a set of beneficiaries. In some cases, the scheme expenditure is met by the ULB directly. In some other cases they are paid to the beneficiaries group who upon spending will produce the relevant expenditure / utilisation statement. For Accounting treatment on ‘Grant Received as Nodal/implementation Agency’, refer Chapter 17 – “Grants” of NMAM.

PRESENTATION IN FINANCIAL STATEMENTS ([Refer Para 17.60 to 17.62 of NMAM](#))

17.32 The various heads of account used for the accounting of Grant related transactions should be reflected in the Financial Statements or in the Schedules attached to the Financial Statements of the ULB. All such Financial Statements and schedules should be affixed with signature and seal of designated authorities.

- 17.33 The schedules that reflect the transactions relating to Grants include
- a Schedule I-6 – Schedule of Revenue, Contribution and subsidies
 - b Schedule B-3 – Schedule of Reserves
 - c Schedule B-4 – Schedule of Grants & Contribution for specific Purposes
 - d Schedule B-9 – Schedule of Other Liabilities (Sundry Creditors)
 - e Schedule B-15 – Schedule of Sundry Debtors (Receivables)
 - f Schedule B-17 – Schedule of Cash & Bank Balances

SUMMARY

1. The ULB receives grants from the State and/or Central Government(s). The grants received by the ULB could be either for general purposes or for carrying out specific projects/schemes or in form of reimbursements for specific expenditures.
2. Grants received by the ULB may be of the following types:
 - a. Capital grant
 - b. Revenue grant
 - c. General grant
 - d. Specific grant
3. Major accounting principles that govern the transactions relating to Grants are as follows:
 - a. General Grants, which are of a revenue nature, shall be recognised as income on actual receipt.
 - b. Grants towards revenue expenditure, received prior to the incurrence of the expenditure, shall be treated as a liability till such time that the expenditure is incurred.
 - c. Grants received or receivable in respect of specific revenue expenditure shall be recognised as income in the accounting period in which the corresponding revenue expenditure is charged to the Income and Expenditure Account.
 - d. Grants received towards capital expenditure shall be treated as a liability till such time that the fixed asset is constructed or acquired
 - e. Income on investments made from 'Specific Grants received in advance' shall be recognised and credited to the Specific Grant, whenever accrued.
4. Accounting treatment for transactions relating to grant like general grant, specific grant, grants received as reimbursement of expenditure etc are covered elaborately in this chapter.
5. Presentation in financial statements of transactions relating to grant are also discussed in this chapter.

EXERCISE

1. State whether the following statements are '**Right**' or '**wrong**':
 - 1.1 Revenue grant shall be recognised as income on accrual basis.
 - 1.2 Grant received towards capital expenditure shall be treated as a liability till such time that the fixed asset is constructed/acquired.
 - 1.3 Grant received for revenue expenditure, received prior to incurring of expenditure shall be recognized as income on receipt.
 - 1.4 Grant in respect of specific revenue expenditure shall be recognized as income in the accounting period in which the corresponding revenue expenditure is charged to Income & expenditure.
 - 1.5 Grant received in the form of non monetary assets is recorded at replacement cost.

2. **Journalise the following transactions,**
 - 2.1 General grant received from the state government towards share of Motor transport tax amounted to Rs 15,00,000.
 - 2.2 Specific grant received as advance for undertaking family welfare project amounted to Rs 25,00,000.
 - 2.3 Bills for expenditure incurred on family welfare project received from contractor on 1st July 2007 amounted to Rs 12,50,000.
 - 2.4 Payment to the contractor for the above bill amounted to Rs 7,50,000.
 - 2.5 Certain materials were issued for executing the above work from the material stores costing Rs 2,50,000.

BROAD STRUCTURE FOR PREPARING PRESENTATION SLIDES

- Introduction
- Accounting Principles
- Accounting treatment for
 - General grant
 - Specific grant
 - Grant received as reimbursement of expenditure
 - Specific Grant under project/scheme
- Presentation in the financial statements

CHAPTER 18

BORROWINGS (LOANS RECEIVED)

LEARNING OBJECTIVE

At the end of this Chapter, the reader will

- *Be familiar with the accounting principles governing the accounting for transactions related to borrowings.*
- *Understand the entries for raising loan/debentures, repayment and accounting of interest.*
- *Be familiar with the internal controls relating to borrowings.*
- *Be familiar with how the transactions relating to Borrowings are presented in the financial statements.*

CHAPTER OVERVIEW

ULB may borrow funds for specific purpose on sanction by the state government. This chapter focuses on the accounting principles governing the transactions relating to borrowings and also illustrates the accounting treatment of transactions relating to borrowings. Internal controls to the extent that is relevant for borrowings are covered in this chapter. The chapter is intended to act as a tool for the reader to understand the basic principles relating to the accounting for borrowings and it is advised that the reader refer to “Chapter 18” of NMAM for detailed coverage of the subject and also for accounting treatment of non routine transactions relating to Borrowings.

INTRODUCTION [*\(Refer Para 18.1 to 18.3 of NMAM\)*](#)

18.1 On sanction by the State Government, the ULB may borrow funds, either by issuing debentures, or other wise, for the purposes specified in the approval. These borrowings are generally secured by movable and immovable properties vested in the ULB. Unless specifically approved by the State Government, the loans cannot be used for any purpose other than that specified in the approval.

ACCOUNTING PRINCIPLES [*\(Refer Para 18.4 of NMAM\)*](#)

18.2 The following Accounting Principles shall govern the recording, accounting and treatment of transactions relating to Borrowings (Loans Received):

- a. Interest expenditure on loan shall be recognised on accrual basis.
- b. Interest on borrowings directly attributable to acquisition or construction of qualifying fixed assets up to the date of commissioning of the assets shall be capitalised.
- c. A provision shall be made for the interest accrued between the date of last payment of interest and the date of financial statements and shall be charged to the current period’s Income and Expenditure Statement.
- d. The expenses incurred while issuing of debentures or bonds (Issue Expenses) shall be deferred and amortised in equal installments over a period of 5 years or the tenure of the loan whichever is earlier. In case, the debentures & bonds are prematurely redeemed, the amount of issue expenses outstanding during the year shall be written-off and charged to the Income and Expenditure Statement as expense of the year when such an event happens. However, all other expenses in respect of raising loans other than those considered, as issue expenses shall be expensed off in the year in which they are incurred.

ACCOUNTING FOR RECEIPT OF LOAN ([Refer Para 18.6 & 18.7 of NMAM](#))

18.3 This section explains the Accounting Treatment for transactions relating to Borrowings. Continuing with our Model Municipal Corporation (MMC), the transactions involving borrowings are explained in terms of raising of loan, repayment and recording of interest payable.

18.4 MMC had taken a loan of Rs 1,00,000 at 10% p.a from “S bank” for creating an Art gallery on 1st April 2006 repayable in 10 equal annual installments, the interest is payable on 31st of March every year. The first installment is payable on 31st of March 2007.

18.5 Further it has issued 11% debenture of Rs 100 each (500 units) for the same purpose repayable in two years. Interest is payable on 31st March every year.

18.6 The amount borrowed as per the terms of sanction shall be entered in the Register of Loans in Form BR-1 maintained by the Accounts Department of the ULB. A separate folio shall be allotted for each loan taken. In case, sanction has been obtained for issuing debentures, the particulars of the debenture holder shall be recorded in the Register of Debentures in Form BR-2. Amount received as loan shall be deposited in the Designated Loan Bank Account.

18.7 Raising/borrowing of Funds: on receipt of the loan, the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register To be entered In to
1 st April 2006	450-(b)	Designated Loan Bank Account*	Dr	1,50,000		Cash book, Ledger, Register of Loans (Form BR -1).
	331-50-(a)	To Loans from Banks and Financial institutions – for Art gallery - ‘S Bank’	Cr		1,00,000	
	331-70-(a)	To 11% Debentures of Rs 100 each (500 units)	Cr		50,000	

* Specify the name of the Bank and Account number
(a) Insert Detailed Head Codes of Account as applicable
(b) Insert Detailed & Minor head codes of account as applicable

ACCOUNTING OF INTEREST PAYABLE ON LOAN/DEBENTURES ([Refer Para 18.8 to 18.14 of NMAM](#))

18.8 Recording of interest accrued. For interest payment, on receipt of approval for payment of interest from the authorities designated by the ULB, the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register To be entered In to
31 st March 2007	240-50-(a)	Interest & Financial Charges (Loan)	Dr	10,000		Journal book, Ledger, Register of Loans (Form BR -1).
	240-60-(a)	Interest & Financial Charges (Debentures)	Dr	5,500		
	350-12-(a)	To Interest Accrued & due - loans	Cr.		10,000	
	350-12-(a)	To Interest Accrued & due - Debentures	Cr.		5,500	

(a) Insert Detailed Head Codes of Account as applicable
(b) Insert Detailed & Minor head codes of account as applicable

18.9 Recording of payment of interest: On payment of interest to the lenders, the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register To be entered In to
31 st March 2007	350-12-(a)	Interest Accrued & due - loans	Dr	10,000		Cash book, Ledger, Register of Loans (Form BR -1).
	350-12-(a)	Interest Accrued & due - Debentures	Cr	5,500		
	450-21-(a)	To Bank Account*	Cr		15,500	
* specify the name of the bank and the account number (a) Insert Detailed Head Codes of Account as applicable						

18.10 The amount of interest remaining unclaimed or unpaid shall be treated as Current Liability.

ACCOUNTING FOR REPAYMENT OF LOAN (Refer Para 18.21 to 18.27 of NMAM)

18.11 On repayment of Loan, the Accounts Department shall pass the following entry

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register To be entered In to
31 st March 2007	331-50-(a)	Loans from Banks and Financial institutions – for Art gallery - ‘S Bank’	Dr	6,300		Cash book, Ledger, Register of Loans
	450-21-(a)	To Bank Account*	Cr		6,300	
(a) Insert Detailed Head Codes of Account as applicable (b) Insert Detailed & Minor head codes of account as applicable						

Note: Normally while repaying the loan taken from Bank/Financial institutions, the interest component will be higher in the initial repayment (Estimated monthly instalments).

Repayment of Loan/Redemption of Debentures in case where Sinking Fund is established (Refer Para 18.15 to 18.26 of NMAM)

18.12 Where the terms of sanction provide for the establishment of a sinking fund for the repayment of loan, the ULB shall establish it and credit to it, funds from the Municipal Fund. Similarly, if the terms provide for a creation of an escrow account for repayment of loans, the ULB shall create it and credit to it, the income earmarked for this. The purpose of establishment of a sinking fund or an escrow account is to accumulate money, including interest, adequate to repay the loan as per the repayment schedule. Refer Chapter 18 – “Borrowings (Loans Received)” of NMAM for the accounting entries to be passed for maintenance of Sinking Fund Account or Escrow Account.

Accounting for Expenditure incurred in raising loans or issuing debentures (Refer Para 18.28 to 18.30 of NMAM)

18.13 Assume that the Loan issue expense in respect of borrowings mentioned in Para 18.4 were Rs 3,000.

18.14 Recording of Loan Issue Expenses. The ULB may incur expenses such as credit rating fees, security creation fees, stamp duty, etc., at the time of raising loan or issuing debentures. These expenses shall be deferred and be classified as Loan Issue Expenses and on payment being made, the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register To be entered In to
1 st April 2006	480-10-(a) 450-21-(b)	Loan Issue Expense - deferred To Bank Account*	Dr Cr	3,000	3,000	Cash book, Ledger, Register of Loans
(a) Insert Detailed Head Codes of Account as applicable						

18.15 Recording of amortisation of Loan Issue Expenses. The Loan Issue Expenses shall be amortised in equal installments over a period of 5 years or the tenure of the loan whichever is lower.

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register To be entered In to
31 st March 2007	270-50-(a) 480-10-(a)	Miscellaneous Expenditure Written off To Loan Issue Expense – deferred	Dr Cr	600	600	Journal book, Ledger
(a) Insert Detailed Head Codes of Account as applicable						

Internal Controls (Refer Para 18.31& 18.32 of NMAM)

18.16 The following internal controls shall be observed by the ULB in respect of Loans related transactions:

- The Head of the Accounts Department shall ensure that adequate provision is made for the interest accrued between the date of last payment of interest and the date of Financial Statements and is charged to the current period's Income and Expenditure Statement.
- The Head of the Accounts Department shall carry out physical verification of Sinking Fund Investment documents and compare with the Sinking Fund Investment Account.
- The Head of the Accounts Department shall monitor the funds borrowed and ensure proper utilisation of funds.
- The Head of the Accounts Department shall ensure that the present value of the sinking fund investment ties up with the value of the Fund as per the State Government's sanction. If any mismatch is observed, the adequate funds shall be transferred from the Main Bank Account to Sinking Fund Bank Account.
- The Head of the Accounts Department shall ensure that the transfers to escrow account out of income collected are as per the conditions of borrowings.
- The Chief Executive Officer/Head of the ULB shall specify such appropriate calendar of returns /reports for monitoring.

PRESENTATION IN FINANCIAL STATEMENTS (Refer Para 18.33 to 18.35 of NMAM)

18.17 The various heads of accounts used for the accounting of Loans shall be reflected in the Financial Statements or the Schedules attached to the Financial Statements of the ULB. All such Financial Statements and schedules should be affixed with signature and seal of designated authorities. The schedules that reflect the transactions relating to Borrowings include

- Schedule I- 13 – Interest & Finance Expenses
- Schedule B-5/6 – Secured & Unsecured Loan
- Schedule B-9 – Schedule of Other Liabilities
- Schedule B-17 – Schedule of Cash & Bank Balances

SUMMARY

1. On sanction by the State Government, the ULB may borrow funds, either by issuing debentures, or other wise, for the purposes specified in the approval.
2. Important accounting principles governing the accounting of transactions relating to Borrowings are as follows:
 - a. Interest expenditure is recognized on accrual basis.
 - b. Interest on borrowings directly attributable to acquisition or construction of qualifying fixed assets upto the date of commissioning of asset shall be capitalized.
 - c. A provision for accrued interest shall be made at the end of the year.
3. Accounting entries for raising of funds, recording of interest, repayment of loan etc are covered elaborately in this chapter.
4. The schedules forming part of financial statement that reflect the transactions relating to borrowings are explained this chapter.

EXERCISE**Fill in the Blanks:**

1. Interest on Loan Borrowed shall be recognised on..... Basis.
2. Interest paid on borrowing for acquisition of fixed assets will be (Capitalized or charged off as expenditure).
3. Expenditure incurred on debenture/bond shall be amortised (over the tenure of loan or 5 years)
4. Loan borrowed shall be entered in the register of loan in Form (BR-1 (or) BR-2 (or) BR-3 (or) None of the above).
5. Amount received as loan shall be deposited in theBank Account.

Journalise the following:

1. A Loan of Rs 2,00,000 has been taken by the Corporation at 15% p.a. from a bank for Constructing a Building on 1st April 2006 repayable in 20 equal annual installments and the interest is payable on 31st of March every year. The first installment is payable on 31st of March 2007.
2. Further it has issued 10% debenture of Rs 110 each (500 units) for the same purpose repayable in two years. Interest is payable on 31st March every year.
3. Pass an entry on Interest payable on 10% debenture at the end of the year.
4. Pass an entry for Redemption of 10% Debenture at the end of second year.

BROAD STRUCTURE FOR PREPARING PRESENTATION SLIDES

- Introduction
- Accounting Principles
- Accounting treatment for
 - Receipt of Loan
 - Interest payable on loans
 - Repayment of loan
 - Loan issue expense
- Presentation in the financial statements

CHAPTER 19

SPECIAL FUNDS

LEARNING OBJECTIVE

At the end of this Chapter, the reader will...

- *Be familiar with the accounting principles governing the accounting for special funds*
- *Be familiar with the types, treatment and accounting impact of special funds*
- *Be familiar with the internal controls relating to special funds*
- *Be familiar with how the transactions relating to special funds are presented in the financial statements*

CHAPTER OVERVIEW

This chapter contains the recommended accounting system for transactions relating to Special Funds, which are accounted in the books of the ULB. This chapter focuses on the basic principles governing the accounting for Special Funds. The chapter also illustrates the entries to be passed for Creation and Utilisation of Special funds. Internal Controls to the extent they relate to Special Funds and the presentation of the same in the financial statements. The chapter is intended to act as a tool for the reader to understand the basic principles relating to the accounting for Special Funds and it is advised that the reader refer to “Chapter 19” of NMAM for detailed coverage of the subject .

INTRODUCTION (Refer Para 19.1 to 19.7 of NMAM)

19.1 ULB may, as per relevant statutes, constitute special funds for any purpose mentioned in the statute. The statutes may also prescribe the manner in which such funds shall be constituted and disposed off.

19.2 Special funds are created for objects for which it is considered essential to allocate separate funds from the Municipal Funds or by earmarking certain percentage of specific receipts of the ULB. A separate account may be created and all moneys collected for the specific purpose shall be transferred to the Special Funds Account. All expenditures incurred for the specific purpose shall be debited to the respective fund accounts.

19.3 Special funds may be created for –

- Development Funds (e.g. : Fire Brigade fund, Road fund, Tree Authority fund etc)
- Employee Fund (e.g.: Pension fund, Welfare fund, Gratuity /Leave encashment fund)
- Sinking Fund (e.g.: Asset Replacement Fund, Sinking Fund)

19.4 The accounting procedure and entries in respect of employee funds are described in Chapter 14 on “Employee Related Transactions” of NMAM. The accounting procedure and entries for creation/addition to sinking fund and its utilisation, investments made from fund and other related aspects are discussed in Chapter 18 on “Borrowings (Loans Received)” of NMAM.

ACCOUNTING PRINCIPLES ([Refer Para 19.8 of NMAM](#))

19.5 The following Accounting Principles shall govern the recording, accounting and treatment of transactions relating to Special Funds:

- a. Special Funds shall be treated as a liability on their creation.
- b. Income on investments made from Special Fund shall be recognised and credited to Special Fund, whenever accrued. Profit/loss, if any, arising on disposal of investments made from the Special Fund shall be recognised and credited/debited to Special Fund Account.
- c. Any expenditure of a revenue nature, which is incurred specifically on scheme/project for which a Special Fund has been created, shall be charged to that Special Fund.
- d. On completion of the construction of a fixed asset and/or on acquisition of a fixed asset out of a Special Fund, the amount equivalent to the cost of such fixed asset shall be transferred from the respective Special Fund to the Special Fund (Utilised).

CREATION OF FUNDS ([Refer Para 19.10 to 19.14 of NMAM](#))

19.6 Continuing with our Model Municipal Corporation (MMC), the transactions relating to Development fund are discussed in terms of creation and utilisation of funds.

19.7 The opening balance sheet of MMC had the following information relating to Special fund.

Particulars	Code of Account	Amount (Rs)
Water Supply Fund	311-13-(a)	14,000
Water Supply Bank Account	450-41-(a)	14,000

19.8 Special Funds are created as an appropriation from the Municipal Fund. Each of the Special Funds shall be represented by a separate Bank Account. On creation of the fund, money shall be transferred from the Main Bank Account to Special Fund Bank Account. The Accounts Department shall maintain a Special Fund Register in Form SF-1 where details of each fund created, expenditure incurred in respect of each fund, etc., is separately recorded.

19.9 MMC created a Tree Authority fund by way of appropriation from Municipal Fund. An amount of Rs 5,000 was transferred from Municipal Fund to Tree Authority fund on 25th of May 2006 and Tree Cess were collected monthly for the stated purpose by the Tax Department along with other taxes and were transferred to designated bank Account. The total collection for the month of June 2006 amounted to Rs 18,000.

19.10 On creation of Special Funds. The Accounts Department shall enter the details of the order approving the creation of fund in the Special Fund Register and pass the following entry:

Date	Code of Accounts	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register to be entered in to
25 th May 2006	310-10-(a) 311-11-(a)	Municipal Fund To Tree Authority Fund	Dr Cr	5,000	5,000	Journal book, Ledger, Special Fund Register
* specify the name of the special fund (a) Insert Detailed Head Code of Account as applicable						

19.11 Recording of transfer of money to Designated Special Fund Bank Account. For transferring the funds to a separate bank account, Accounts Department shall transfer the amount from Main Bank Account to Special Fund Bank Account and pass the following entry:

Date	Code of Accounts	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register to be entered in to
25 th May 2006	450-41-(a) 450-21-(a)	Designated Bank Account* To Main Bank Account	Dr Cr	5,000	5,000	Cash book, Ledger, Special Fund Register
* specify the name of the special fund (a) Insert Detailed Head Code of Account as applicable						

19.12 Recording of contribution to Special funds from earmarked collection: The accounts department as per the decision of the ULB shall transfer the earmarked collection accounted as revenue to the special funds. Accounting entry for transfer of these amounts to Special fund is as follows:

Date	Code of Accounts	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register to be entered in to
2 nd July 2006	290-10-(a) 311-11-(a)	Transfer to Reserve fund To development Fund Tree Authority Fund*	Dr Cr	18,000	18,000	Journal book, Ledger, Special Fund Register
* specify the name of the special fund (a) Insert Detailed Head Code of Account as applicable						

19.13 Recording of transfer of money to Designated Special Fund Bank Account. For transferring the earmarked collection to a separate bank account, Accounts Department shall transfer the amount from Main Bank Account to Special Fund Bank Account and pass the following entry:

Date	Code of Accounts	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register to be entered in to
2 nd July 2006	450-41-(a) 450-21-(a)	Designated Bank Account* To Main Bank Account	Dr Cr	18,000	18,000	Cash book, Ledger, Special Fund Register
* specify the name of the special fund (a) Insert Detailed Head Code of Account as applicable						

UTILISATION OF FUNDS ([Refer Para 19.15 of NMAM](#))

19.14 Special Funds shall be utilised for the purpose for which they are created. The expenditure incurred could be either revenue or capital expenditure. The accounting procedure to be followed is described below

19.15 MMC purchased Tree plantation material worth Rs 10,000 on 2nd September 2006.

19.16 The accounting procedure to be followed in respect of revenue expenditure incurred against Special Fund shall be the same as what is described in Chapter 12 on Public Works for repairs and maintenance expenses, Chapter 13 on Stores for stores purchased, and Chapter 16 on Other Revenue Expenditures for other revenue expenditures.

19.17 Payment of advance to contractor/supplier in respect of a Special Fund. Any advance made to a supplier/contractor in respect of a project/scheme to be carried out against a Special Fund, shall be payable from the Designated Special Fund Bank Account only and not from the Main Bank Account. The entry for this shall be the same as described in Chapter 12 on Public works and Chapter 13 on Stores of the manual.

19.18 Recording of liability on receipt of contractor/supplier bill. On receipt of processed bill in respect of material supplied or services rendered or works executed which is of a revenue nature, the Accounts Department shall pass the following entry:

Date	Code of Accounts	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register to be entered in to
2 nd September 2006	311-11-(a)	Development Fund	Dr	10,000		Journal book, Ledger, Grant Register
	350-10-(a)	Tree Authority Fund* To Payables against Special Funds	Cr		10,000	
* specify the name of the special fund (a) Insert Detailed Head Code of Account as applicable						

19.19 MMC deducts Rs 2,000 towards Security deposit, Rs 250 towards TDS and Rs 150 towards works contractor tax.

19.20 Recording of deductions from contractor's/supplier's bill. If Security or any tax on behalf of Government or advance provided to contractor/supplier is deducted or any other deduction is made from the processed bill, the amount payable shall be reduced for the deduction made and the Accounts Department shall pass the following entry:

Date	Code of Accounts	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register to be entered in to
2 nd September 2006	350-10-(a)	Payables against Special Funds	Dr	2,400		Journal book, Ledger, Special Fund Register
	340-10-(a)	To Deposit from Contractors – Security Deposit special funds	Cr		2,000	
	350-20-(a)	To TDS – Special funds	Cr		250	
	350-20-(a)	To Works Contract Tax Special funds	Cr		150	
(a) Insert Detailed Head Code of Account as applicable						

19.21 Recording of payment to the contractor/supplier. Such payments shall be made only from the bank account maintained for that Special Fund. On payment, the Accounts Department shall pass the following entry:

Date	Code of Accounts	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register to be entered in to
2 nd September 2006	350-10-(a)	Payables against Special Funds	Dr	7,600		Special Fund, Cash book, Special Fund Register, Ledger
	450-41-(a)	To Designated Bank Account	Cr		7,600	
* specify the name of the bank and Account number (a) Insert Detailed Head Code of Account as applicable						

19.22 Recording of payment for deductions made. Deductions made shall also be paid from the respective Designated Special Fund Bank Account. On payment of deductions made, the Accounts Department shall pass the following entry:

Date	Code of Accounts	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit amount (Rs)	Books /Register to be entered in to
2 nd Septemb er 2006	350-20-(a)	TDS – Special funds	Dr	250		Special Fund, Cash book, Special Fund Register, Ledger
	350-20-(a)	Works Contract Tax	Dr	150		
	450-41-(a)	Special funds To Designated Bank Account*	Cr		400	
* specify the name of the bank and Account number (a) Insert Detailed Head Code of Account as applicable						

19.23 MMC had utilised Common stores worth Rs 2,000 for tree plantation on 5th September 2006.

19.24 Recording of transfer of money from Designated Special Fund Bank Account to Main Bank Account on utilisation of Common Stores. The amount equivalent to the common stores utilised for the purpose of the Special Fund shall be transferred from the Special Fund Bank Account to Main Bank Account before issue of any common stores. Accounts Department shall update the Special Fund Register (Form SF-1) and pass the following entry:

Date	Code of Accounts	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit amount (Rs)	Books /Register to be entered in to
5 th September 2006	450-21-(a)	Main Bank Account*	Dr	2,000		Special Fund Cash book, Special Fund Register, Ledger
	450-41-(a)	To Designated Bank Account*	Cr		2,000	
* specify the name of the bank and Account number (a) Insert Detailed Head Code of Account as applicable						

19.25 Recording of utilisation of Common Stores for special funds. For common stores consumed, the Accounts Department shall pass the following entry:

Date	Code of Accounts	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit amount (Rs)	Books /Register to be entered in to
5 th September 2006	311-(a)	Tree authority Fund*	Dr	2,000		Journal Book, Special Fund Register, Ledger
	430-10-(a)	To Purchase of stores	Cr		2,000	
* specify the name of the bank and Account number (a) Insert Detailed Head Code of Account as applicable						

Advance paid to contractors/suppliers ([Refer Para 19.16 of NMAM](#))

19.26 Advance payable to the contractor/supplier in respect of any work executed or services or materials received under any Special Fund shall be paid from the Designated Special Fund Bank Account. The Accounting entries for advance shall be the same as what is described in Chapter 12 – “Public Works” and Chapter 13–“Stores” except that the payment is made from Designated bank Account.

Earnest Money Deposit ([Refer Para 19.17 to 19.20 of NMAM](#))

19.27 Any amount received or paid on account of Earnest Money Deposit in respect of any contract executed under Special Fund shall be deposited in or refunded from the respective Designated Special Fund Bank Account. The accounting procedure to be followed for the same is described in Chapter 12 on Public Works, reference to which is invited.

Security Deposit (Refer Para 19.21 to 19.24 of NMAM)

19.28 Any amount received/paid on account of Security Deposit in respect of any contract executed under Special Fund shall be deposited in or refunded from the respective Designated Special Fund Bank Account. The accounting procedure to be followed for the same is described in Chapter 12 on Public Works, reference to which is invited.

Utilisation of Special Fund for Capital Expenditure (Refer Para 19.25 to 19.30 of NMAM)

19.29 The accounting procedures and entries to be recorded for:

- d. Advance provided to the contractor/supplier,
- e. Recovery of advance provided to contractor/supplier,
- f. Receipt of Earnest Money Deposit (EMD) from the bidders and its refund to unsuccessful bidders;
- g. Conversion of EMD of successful bidder into Security Deposit;
- h. Security Deposit received from contractor/supplier,
- i. Security Deposit deducted from the contractor's/supplier's bill,
- j. Refund of Security Deposit,
- k. Deduction of tax from the contractor's/supplier's bill,
- l. Payment of amounts deducted to the relevant authorities, etc.

shall be the same as described in Chapter-12-“Public Works”.

19.30 MMC had on 3rd October 2006 purchased a water works machinery costing Rs 12,000 out of the Water Supply fund.

19.31 Recording of receipt of bill for fixed asset purchased/acquired. On receipt of bill in respect of fixed asset purchased/acquired under Special Fund, the Accounts Department shall pass the following entry:

Date	Code of Accounts	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register to be entered in to
3 rd September 2006	411-40-(a) 350-10-(a)	Fixed Assets (Water treatment plant) To Payables against Special Funds	Dr Cr	12,000	12,000	Journal Book, Ledger
(a) Insert Detailed Head Code of Account as applicable						

19.32 Recording of payment made. Payment in respect of any expenditure incurred for purchase, acquisition or construction of any fixed asset under any Special Fund shall be made from the Bank Account maintained for that Special Fund. On payment, the Accounts Department shall pass the following entry:

Date	Code of Accounts	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit amount (Rs)	Books /Register to be entered in to
3 rd September 2006	350-10-(a) 450-41-(a)	Payables against Special Funds To Designated Bank Account*	Dr Cr	12,000	12,000	Special fund cash Book, Ledger, Special Fund Register
* specify the name of the bank and Account number (a) Insert Detailed Head Code of Account as applicable						

19.33 Recording of transfer of funds from Special Fund to Special Fund (Utilised) on capitalisation. On capitalisation of capital work-in-progress or on purchase/acquisition of fixed asset, an amount equivalent to the amount of expenditure incurred and capitalised shall be transferred from Special Fund to Special Fund (Utilised). For this, the Accounts Department shall pass the following entry:

Date	Code of Accounts	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit amount (Rs)	Books /Register to be entered in to
3 rd September 2006	311-(b) 312-30-(a)	Water supply fund To special Fund (utilised)	Dr Cr	12,000	12,000	Journal Book, Ledger, Special Fund Register
* specify the name of the bank and Account number (a) Insert Detailed Head Code of Account as applicable						

INVESTMENT OF SPECIAL FUNDS ([Refer Para 19.31 & 19.32 of NMAM](#))

19.34 Investments made in respect of Special Fund shall be entered in a Special Fund Investment Register (Form IN-1) (provided in Chapter 20 on Investments). The accounting procedures/ entries to be followed/ passed in respect of investments of such moneys are similar to those followed in respect of other investments. They relate to investments, maturity of investment, recording of interest, profit/loss on sale/maturity of investments, etc. These have been described in Chapter 20 on Investments.

PERIOD END PROCEDURES

19.35 Recording of period-end provision for bills remaining unpaid in respect of Special Fund expenditure. At period-end, a provision shall be made for the revenue expenditure incurred under Special Fund but for which bills are remaining unpaid as at the end of the accounting period. For the accounting entries to be passed refer Chapter – 19 on “Special Funds” of NMAM.

INTERNAL CONTROLS ([Refer Para 19.36 of NMAM](#))

19.36 The following internal controls shall be observed by the ULB:

- The Head of the Accounts Department shall, before transferring the money from Main Bank Account to the respective designated special fund bank account, ensure that the fund created is recorded in the Special Fund Register. Further, it shall be ensured that the Journal Voucher in Form No. GEN-7 prepared to record the transaction, shall provide reference to the Special Fund Register.
- The Head of the Accounts Department and other officer designated in this behalf shall ensure timely transfer of mandatory contribution to Special Fund Bank Accounts.
- The Head of the Accounts Department and the or other officer designated in this behalf, shall ensure that the amount of Special Fund shall not be utilised for the purpose other than for which the fund it is created.
- Bank reconciliation of Special Fund Bank Accounts shall be carried out on a monthly basis by the department/office responsible for operating the bank account.
- The Head of the Accounts Department or other officer designated in this behalf shall regularly match the expenditure from a Special Fund to the reduction in the balance of the Special Fund.
- At the end of every month, the Head of the Accounts Department or other officer designated in this behalf shall reconcile the ledger balance of the Special Fund Account with the Special Fund Register and the Special Fund Bank Account balance.

- g. The Head of the Accounts Department shall reconcile the expenditure incurred towards Backward Classes Welfare activities and ensure that the unspent balance is transferred to the Backward Classes Welfare Fund Bank Account.
- h. The Chief Executive Officer/Head of the ULB shall specify such appropriate calendar of returns /reports for monitoring.

PRESENTATION IN BALANCE SHEET ([Refer Para 19.38 & 19.39 of NMAM](#))

19.37 The various heads of accounts used for the accounting of Special Funds shall be reflected in the Financial Statements or the Schedules attached to the Financial Statements of the ULB. All these Financial Statements and schedules should be affixed with signature and seal of designated authorities.

- 19.38 The schedules that reflect the transactions relating to special fund include
- a. Schedule B-2 – Special Fund
 - b. Schedule B-3 – Schedule of Reserves
 - c. Schedule B-9 – Schedule of Other Liabilities (Sundry Creditors)
 - d. Schedule B-13 – Schedule of Investments – Other funds
 - e. Schedule B-17 – Schedule of Cash & Bank Balances
 - f. Schedule B-18 – Schedule of Other Loans, Advances & Deposits

Note: Impact of this chapter is not reflected in the Financial Statements

SUMMARY

1. ULB may, as per relevant statutes, constitute special funds for any purpose mentioned in the statute.
2. Special funds are created for objects for which it is considered essential to allocate separate funds from the Municipal Funds or by earmarking certain percentage of specific receipts of the ULB. A separate account may be created and all moneys collected for the specific purpose shall be transferred to the Special Funds Account. All expenditures incurred for the specific purpose shall be debited to the respective fund accounts.
3. Major accounting principles governing the transactions relating to special funds are as follows:
 - a Special Funds shall be treated as a liability on their creation.
 - b Income on investments made from Special Fund shall be recognised and credited to Special Fund, whenever accrued. Profit/loss, if any, arising on disposal of investments made from the Special Fund shall be recognised and credited/debited to Special Fund Account.
 - c Any expenditure of a revenue nature, which is incurred specifically on scheme/project for which a Special Fund has been created, shall be charged to that Special Fund.
 - d On completion of the construction of a fixed asset and/or on acquisition of a fixed asset out of a Special Fund, the amount equivalent to the cost of such fixed asset shall be transferred from the respective Special Fund to the Special Fund (Utilised).
4. The accounting treatment with respect to special fund like creation of fund, utilisation of fund, utilisation of fund for capital expenditure etc are discussed elaborately in this chapter.
5. Presentation in the financial statement of transactions relating to special funds are discussed in this chapter.

EXERCISE

1. State whether the following statements are '**Right**' or '**wrong**':

- a. Special funds shall be treated as liability on creation.
- b. Profit / loss on disposal of investment made from special funds shall be credited to general fund account.
- c. Any revenue expenditure incurred specially on schemes/project for which a special fund has been created, shall be charged to special fund account.
- d. An amount equivalent to the cost of fixed asset shall be transferred from the respective special fund account to special fund (utilized) account, when an asset is constructed or acquired out of the special fund.

2. **Journalise the following transactions**

- a. A tree Authority fund was created out of appropriation from municipal fund. An amount of Rs 10,00,000 was transferred from municipal fund to tree authority fund.
- b. Expenditure was incurred to the extent of Rs 3,00,000 out of the fund for purchase of tree plantation materials.
- c. An advance of Rs 1,00,000 was made to the contractor for execution of the work.
- d. Materials issued from the common stores amounted to Rs 1,50,000 for planting trees.
- e. An asset costing Rs 6,00,000 was purchased out of the special fund created for this purpose.
- f. Final payment to the contractor amounted to Rs 15,00,000 after deducting TDS of Rs 2,00,000.

BROAD STRUCTURE FOR PREPARING PRESENTATION SLIDES

- Introduction
- Accounting Principles
- Accounting treatment for
 - Creation of funds
 - Utilisation of funds
 - Advances paid to contractors/suppliers
 - Utilisation of special funds for capital expenditure
 - Investment of special funds
- Presentation in the financial statements

CHAPTER 20

INVESTMENTS

LEARNING OBJECTIVE

At the end of this Chapter, the reader will...

- *Be familiar with various types of Investments.*
- *Be familiar with the accounting principles governing the accounting for investments*
- *Understand the accounting treatment for investment from Municipal fund, Special funds and Grants.*
- *Understand the entries for accounting of income from investment like interest, dividend etc*
- *Be familiar with the internal controls relating to Investments*
- *Be familiar with how the transactions relating to investments are presented in the financial statements*

CHAPTER OVERVIEW

The ULB invest surplus funds available with it as per relevant state laws. This chapter focuses on the basic principles governing the accounting for investments. The chapter also illustrates the entries to be passed for purchase, recognizing income and disposal of investments. Entries for investments from special fund and grants are also discussed in this chapter. The chapter is intended to act as a tool for the reader to understand the basic principles relating to the accounting for investments and it is advised that the reader refer to “Chapter 20” of NMAM for detailed coverage of the subject.

INTRODUCTION [*\(Refer Para 20.1 to 20.4 of NMAM\)*](#)

20.1 Investments mean assets held not for operational purposes or for rendering services and comprises financial assets resulting from investments of cash surpluses (e.g., securities, shares, debentures, etc.).

20.2 Investments shall be classified based on the maturity profile / nature into short-term and long-term. According to the Accounting Standard 13 prescribed by the Institute of Chartered Accountants of India, ‘short term’ investments are those which are readily realisable, and are intended to be held for not more than twelve months from the date of investment. Investments falling outside the ambit of short term investments are treated as ‘long term’ investments.

20.3 A separate account code has to be assigned for each type of investments made by the ULB.

ACCOUNTING PRINCIPLES [*\(Refer Para 20.5 of NMAM\)*](#)

20.4 The following Accounting Principles shall govern the recording, accounting and treatment of transactions relating to Investments:

- a. Investment shall be recognised at cost of investment. The cost of investment shall include cost incurred in acquiring the investment and other incidental expenses incurred for its acquisition.

- b. All long-term investments shall be carried / stated in the books of accounts at their cost. However in the event of any permanent diminution in their value as on the date of balance sheet, these shall be provided for.
- c. Short-term investments shall be carried at their cost or market value (if quoted) whichever is lower.
- d. Interest on investments shall be recognised as and when due. At period-ends, interest shall be accrued proportionately.
- e. Dividend on investments shall be recognised on actual receipt.
- f. Profit/loss, if any, arising on disposal of investment (net of selling expense such as commission, brokerage, etc) from the Municipal Fund shall be recognised in the year when such disposal takes place.
- g. Income on investments made from Special Fund and Grants under specific Scheme shall be recognised and credited to Special Fund and Grants under Specific Scheme respectively, whenever accrued. Profit/loss, if any, arising on disposal of investments (net of selling expenditure such as commission, brokerage, etc) made from the Special Fund and Grants under specific Scheme shall be recognised and credited/debited to Special Fund Account and Grant under specific scheme Account respectively.

ACCOUNTING TREATMENT

20.5 This section explains the Accounting Treatment for transactions involving Investments. Continuing with our “Model Municipal Corporation (MMC)”, the transactions involving Investments are explained in terms of their purchase, disposal, and computation of income etc.

Investment of funds from Municipal Fund, Special Fund and Grant for Specific purposes (Refer Para 20.6 to 20.9 of NMAM)

20.6 MMC had made an investment of Rs 10,000 in treasury bills (1000units) carrying interest @ 11% per annum on 1st July 2006 from Municipal Fund. Further it has also invested surplus amount of Rs 5,000 lying under Tree Authority fund in a fixed deposit with Indian Bank carrying interest @ 10% per annum. Similarly an amount of Rs 6,000 received as grant towards family welfare Project was invested in Central Government securities carrying interest of 8% per annum. Interest on all the above investments is receivable on 31st of December every year.

20.7 **Recording of investment made from Municipal Fund:** For investment made from the Municipal Fund, the Accounts Department shall pass the following entry:

Date	Code of Accounts	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register to be entered in to
1 st July 2006	420-90-(a)	Municipal fund investment (treasury bills)*	Dr	10,000		Cash book, Ledger, Investment Register
	450-21-(a)	To Bank Account**	Cr		10,000	
<p>* Separate folios shall be maintained in respect of each of the investments made in the Investment Register. ** Specify name of the Bank and Account number (a) Insert Detailed Head Codes of Account as applicable Source Document: Payment Order – Form GEN – 15</p>						

20.8 Recording of investment made from Special Funds. For investment made from Special Funds, the Accounts Department shall pass the following entry:

Date	Code of Accounts	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit amount (Rs)	Books /Register to be entered in to
1 st July 2006	421-80-(a) 450-41-(a)	Investment- Other Funds – (Indian Bank)* To Designated Bank Account**	Dr Cr	5,000	5,000	Cash book, Ledger, Investment Register , Special Fund register
<p>* Separate folios shall be maintained in respect of each of the investments made in the Investment Register. ** Specify name of the Bank and Account number (a) Insert Detailed Head Codes of Account as applicable Source Document: Payment Order – Form GEN – 15</p>						

20.9 Recording of investment made from Grants for specific purposes. For investment made from Grants for specific purposes, the Accounts Department shall pass the following entry:

Date	Code of Accounts	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit amount (Rs)	Books /Register to be entered in to
1 st July 2006	421-10-(a) 450-61-(a)	Family welfare Grant Investment – Central Government securities* To Designated Bank**	Dr Cr	6,000	6,000	Cash book, Ledger, Investment Register , Grant register
<p>* Separate accounts shall be maintained for investments made from different grants for specific purposes, such as, Grants from Central Government, State Government and Others. **Specify name of the bank (a) Insert Detailed Head Codes of Account as applicable Source Document: Payment Order – Form GEN – 15</p>						

Income from Investment ([Refer Para 20.10 to 20.13 of NMAM](#))

20.10 Interest incomes from the above investments were received on 31st December 2006.

20.11 Recording of receipt of interest/dividend on investments from the Municipal Fund. To record the receipt of interest/dividend on the Municipal Fund Investments, the Accounts Department shall pass the following entry:

Date	Code of Accounts	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit amount (Rs)	Books /Register to be entered in to
31 st December 2006	450-21-(a) 170-10-(a)	Bank Account* To Income from Investments – Interest (Treasury bills)	Dr Cr	550	550	Cash book, Ledger, Investment Register
<p>*Specify name of the bank and account number (a) Insert Detailed Head Codes of Account as applicable Source Document: Summary of Daily Collection - Form GEN – 13</p>						

20.12 Recording of receipt of interest/dividend on investments from the Special Funds and Grants. Interest/dividend earned on investments made from Special Funds and Grants shall be deposited in the respective Special Fund or Grant bank account. Interest/dividend received on investments represents accretion to the Special Fund or Grant and cannot be utilised for any purpose other than for which the Special Fund has been created or Grant has been received. To record the receipt of interest/dividend on investments made from Special Funds or Grants, the Accounts Department shall pass the following entries:

- a. Recording of interest/dividend received on Special Fund Investments. To record the interest/dividend received on Special Fund Investments, the Accounts Department shall pass the following entry:

Date	Code of Accounts	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register to be entered in to
31 st December 2006	450-41-(a)	Designated Bank Account*	Dr	500		Cash book, Ledger, Investment Register
	311-10-(a)	To Special funds – Tree Authority fund**	Cr		500	
<p>* Specify name of Bank and Account number ** Specify name of the Special Fund (a) Insert Detailed Head Codes of Account as applicable Source Document: Summary of Daily Collection - Form GEN – 13</p>						

- b. Recording of interest/dividend received on Grant Investments. To record the interest/dividend received on Grant Investments, the Accounts Department shall pass the following entry:

Date	Code of Accounts	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register to be entered in to
31 st December 2006	450-61-(a)	Designated Bank Account*	Dr	240		Cash book, Ledger, Investment Register
	320-(b)	To Grant for specific purpose – Family welfare project	Cr		240	
<p>* Specify name of Bank and Account number (a) Insert Detailed Head Codes of Account as applicable (b) Insert Minor & Detailed Head Codes of Account as applicable Source Document: Summary of Daily Collection - Form GEN – 13</p>						

Re investment of interest amounts

20.13 Investments are re-invested along with Interest on many occasions. Please refer Chapter 20 – “Investments” of NMAM for accounting entries to be passed for re investment of interest amounts.

Maturity/Disposal of Investment (Refer Para 20.21 to 20.23 of NMAM)

20.14 Investments may be held to maturity or may be disposed before the maturity date. On disposal of investment, the ULB may either realise a profit or loss depending on whether the amount received on disposal of investment is more or less than the cost of investment. In case of Municipal Fund Investment, the profit earned or loss incurred on disposal of investment shall be recorded as income or expenditure in the Income and Expenditure Statement whereas, in case of Special Funds Investments or Grants Investments, the profit realised or loss incurred shall be adjusted in the Special Fund or Grant. Refer Chapter 20 – “Investments” of NMAM for the entries to be passed for recording profit or loss on disposal of Special fund investment and investment made from Grant fund.

20.15 On 1st January 2007, MMC sold out 500 units of treasury bills for Rs 6,500 there by making a profit of Rs 1,500.

20.16 The Accounts Department shall pass the following entry for receipt of money on disposal of investment.

Date	Code of Accounts	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register To be entered in to
1 st January 2007	450-21-(a) 420-90-(a)	Bank Account* To Municipal fund investment (treasury bills)	Dr Cr	6,500	6,500	Cash book, Ledger, Investment Register
(a) Insert Detailed Head Codes of Account as applicable Source Document: Summary of daily Collection – Form GEN – 13						

20.17 For recording profit realised on disposal of Investments in case of Municipal Fund investment

Date	Code of Accounts	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register To be entered in to
1 st January 2007	420-90-(a) 170-40-(a)	Municipal fund investment (treasury bills) To Profit on sale of Investments	Dr Cr	1,500	1,500	Journal book, Ledger, Investment Register
(a) Insert Detailed Head Codes of Account as applicable Source Document: Calculation Sheet						

Period-end procedures ([Refer Para 20.15 to 20.17 of NMAM](#))

20.18 At period-end, interest shall be accrued on investments made from the date of last receipt of interest till the end of the accounting period. The accrual of interest shall include both interests due for receipt and interests not due for receipt.

Recording of Interest accrued on Municipal Fund Investment

20.19 To record the interest accrued of Rs 138 (Interest on Rs 5,000 @ 11% Per annum for 3 months) on Municipal fund from January 2007 to March 2007, the Accounts Department shall pass the following entry.

Date	Code of Accounts	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register to be entered in to
31 st March 2007	431-40-(a) 170-10-(a)	Receivable from other sources- Interest accrued & not due on Municipal Fund investment To Investment Income – Interest from Municipal Fund investment	Dr Cr	138	138	Journal book, Ledger, Investment Register
(a) Insert Detailed Head Codes of Account as applicable Source Document: Calculation sheet						

Recording of Interest accrued on Investments made from the Special Funds.

20.20 In case the investment is made from the Special Fund, interest accrued and not due on Investments' shall be added to the respective Special Fund.

20.21 To record the interest of Rs 125 (Interest on Rs 5,000 @ 10% for 3 months) on Tree Authority fund from January 2007 to March 2007, the Accounts Department shall pass the following entry:

Date	Code of Accounts	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register to be entered in to
31 st March 2007	431-40-(a)	Receivable from other sources- Interest accrued & not due on Special Fund investment	Dr	125		Journal book, Ledger, Investment Register
	311-10-(a)	To Special fund – Tree Authority fund*	Cr		125	
* Specify the name of the Special Fund (a) Insert Detailed Head Codes of Account as applicable Source Document: Calculation sheet						

Recording of Interest accrued on Investments made from the Grants.

20.22 In case the investment is made from funds received in the form of Grant, 'interest accrued and not due on Investments' shall be added to the respective Grant Account.

20.23 To record the interest of Rs 120 (Interest on Rs 6,000 @ 8% for 3 months) on Tree Authority fund from January 2007 to March 2007, the Accounts Department shall pass the following entry:

Date	Code of Accounts	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register to be entered in to
31 st March 2007	431-40-(a)	Receivable from other sources- Interest accrued & not due on Grant investment	Dr	120		Journal book, Ledger, Investment Register
	320-(b)	To Grant for Specific purpose – Family welfare Grant	Cr		120	
* Specify the name of the Special Fund (a) Insert Detailed Head Codes of Account as applicable (b) Insert Minor & Detailed Head Codes of Account as applicable Source Document: Calculation sheet/other details like fixed period in case of time investments, FDR, Bond Certificate.						

Reversal of Interest accrued on Municipal Fund Investments

20.24 At the beginning of the next accounting period, the entry for accrual of interest on Municipal Fund Investment shall be reversed by passing the following entry:

Date	Code of Accounts	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	redit mount (Rs)	Books /Register to be entered in to
1 st April 2007	170-10-(a)	Investment Income – Interest from Municipal Fund investment	Dr	138		Journal book, Ledger, Investment Register
	431-40-(a)	To Receivable from other sources- Interest accrued & not due on Municipal Fund investment	Cr		138	
(a) Insert Detailed Head Codes of Account as applicable Source Document: Calculation Sheet						

Reversal of Interest accrued on Special Fund Investments

20.25 Reversal of Interest accrued on investments made from Special Funds. At the beginning of the next accounting period, the entry for accrual of interest on Investments made from the Special Funds shall be reversed by passing the following entry:

Date	Code of Accounts	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	redit mount (Rs)	Books /Register to be entered in to
1 st April 2007	311-10-(a) 431-40-(a)	Special fund – Tree Authority fund* To Receivable from other sources- Interest accrued & not due on Special Fund investment	Dr Cr	125	125	Journal book, Ledger, Investment Register
* Specify the name of the Special Fund (a) Insert Detailed Head Codes of Account as applicable Source Document: Calculation Sheet						

Reversal of Interest accrued on Investments made from Grants

20.26 At the beginning of the next accounting period, the entry for accrual of interest on Investments made from the Grants shall be reversed by passing the following entry:

Date	Code of Accounts	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	redit mount (Rs)	Books /Register to be entered in to
1 st April 2007	320-(b) 431-40-(a)	Grant for Specific purpose – Family welfare Grant To Receivable from other sources- Interest accrued & not due on Special Fund investment	Dr Cr	120	120	Journal book, Ledger, Investment Register
* Specify the name of the Special Fund (a) Insert Detailed Head Codes of Account as applicable Source Document: Calculation Sheet						

20.27 Through the above reversing entries passed in Paras 20.24 to 20.26, the entry for period end interest income passed in the current accounting period shall be reversed in the next accounting period. Money received during the next accounting period in respect of the concerned head of accounts shall be recorded by credits to the concerned head of accounts in the same manner as receipt of interest income accruing and arising in the next period.

20.28 The debits made in the interest income account through above entries would be for a temporary period and would automatically be set-off when credits shall be given in the next accounting period. Through this, interest is recognised as an income of the current accounting period and not as an income of the next accounting period when money is actually received.

Valuation of Investments (Refer Para 20.24 to 20.29 of NMAM)

20.29 All long-term investments shall be carried / stated in the books of accounts at their cost. In case of permanent diminution in the value of investments the change in value will be accounted as charge to the Income and expenditure account in the case of General Fund Investment or to respective funds account as the case may be.

20.30 Short-term investments shall be carried at their cost or market value (if quoted) whichever is lower.

20.31 For procedure to be followed and accounting entries to be passed at the year end for valuation of investment and provisioning, please refer Chapter 20 – “Investments” of NMAM.

INTERNAL CONTROLS ([Refer Para 20.30 of NMAM](#))

20.32 The following internal controls shall be observed by the ULBs:

- a. The Head of the Accounts Department shall ensure that investments are made as per the laws applicable.
- b. At the end of every month, the Head of the Accounts Department or other officer designated in this behalf shall reconcile the ledger balance of various Investment Accounts with the Investment Register.
- c. At the end of the financial year, the Head of the Accounts Department shall conduct physical verification of investments and reconcile the balance as denoted in the investments with the balance in ledger accounts. Each of the investment certificate/instrument/document shall be tallied with the Investment Register.
- d. The Head of the Accounts Department or other officer designated in this behalf shall review the Investment Register on a weekly basis to identify and list investments maturing within the next two weeks for information of the Commissioner.
- e. The Head of the Accounts Department shall ensure that interest/dividend on investments is actually received as per the terms of the investments.
- f. The Head of the Accounts Department shall ensure that the short term Investments at the end of the financial year are valued at cost or market price, whichever is less. Further, they shall ensure that Investments are not stated over the original cost of acquisition.
- g. The Chief Executive Officer or the Head of ULB may prescribe appropriate MIS reports of their level for monitoring.

20.33 The Head of the Accounts Department shall certify all Reconciliation Statements.

PRESENTATION IN FINANCIAL STATEMENTS ([Refer Para 20.32 to 20.34 of NMAM](#))

20.34 The various heads of accounts used for the accounting of Investments related transactions shall be reflected in the Financial Statements or the Schedules attached to the Financial Statements of the ULBs. These Financial Statements and schedules should be affixed with signature/seal of authorised staff.

20.35 The schedules that reflect the transactions relating to investments include

- a. Schedule I -7 – Income from Investments - General Fund
- b. Schedule I-8 – Interest Earned
- c. Schedule I-17 – Miscellaneous Expenses
- d. Schedule B-12 – Investments – General Fund
- e. Schedule B-13 – Investments – Other Funds (Special Funds, Grants)
- f. Schedule B-15 – Sundry Debtors (Receivables)
- g. Schedule B-17 – Schedule of Cash & Bank Balances

SUMMARY

1. Investments mean assets held not for operational purposes or for rendering services and comprises financial assets resulting from investments of cash surpluses (e.g., securities, shares, debentures, etc.).
2. Investments shall be classified based on the maturity profile / nature into short-term and long-term.
3. 'Short term' investments are those which are readily realisable, and are intended to be held for not more than twelve months from the date of investment. Investments falling outside the ambit of short term investments are treated as 'long term' investments.
4. Major accounting principles governing the accounting of transactions relating to investments are as follows:
 - a. Investment shall be recognised at cost of investment.
 - b. All long-term investments shall be carried / stated in the books of accounts at their cost. However in the event of any permanent diminution in their value as on the date of balance sheet, these shall be provided for.
 - c. Short-term investments shall be carried at their cost or market value (if quoted) whichever is lower.
 - d. Interest on investments shall be recognised as and when due. At period-ends, interest shall be accrued proportionately.
 - e. Profit/loss, if any, arising on disposal of investment (net of selling expense such as commission, brokerage, etc) from the Municipal Fund shall be recognised in the year when such disposal takes place.
5. Accounting treatment of transactions relating to investments like investment from Municipal fund, investment from special fund, investment of grants, recording of interest, disposal etc are discussed elaborately in this chapter.
6. Presentation in the financial statement of transactions relating to investment is discussed in this chapter.

EXERCISE

1. State whether the following statements are '**Right**' or '**wrong**':
 - 1.1 All long-term investments shall be carried / stated in the books of accounts at their cost.
 - 1.2 Short term investment shall be carried at their cost or market value whichever is lower.
 - 1.3 Dividend on investments shall be recognised on actual receipt.
 - 1.4 Interest on investments shall be recognised as and when it is received.
 - 1.5 Profit/loss, if any, arising on disposal of investment from the Municipal Fund shall be recognised in the year when such disposal takes place.
 - 1.6 Income on investments made from Special Fund will be credited to Profit & Loss account.

2. **Indicate the correct alternative in each of the following cases:**
 - 2.1 Income on investment made from special fund/grant under specific purpose shall be credited to
 - (i) Income & Expenditure account
 - (ii) Special fund/ Grant account.
 - (iii) Either of the above.
 - 2.2 Permanent diminution in the value of long term investment shall be
 - (i) Reduced from the investment to the extent of diminution in value.
 - (ii) Provided for in the books of accounts.
 - (iii) None of the above

3. **Journalise the following transactions**
 - 3.1 Investment of Rs 35,000 was made out of the surplus amount lying in Municipal fund
 - 3.2 Investment amounting to Rs 10,000 was made out of the Grant received for specific purpose.
 - 3.3 An amount of Rs 2000 was received as interest from the investment made out of the Municipal fund.
 - 3.4 Interest receivable at the end of the year from the investment made out of the Grant fund amounted to Rs 3000.
 - 3.5 Municipal fund investment was disposed off at the end of the year for Rs 40,000.

BROAD STRUCTURE FOR PREPARING PRESENTATION SLIDES

- Introduction
- Accounting treatment for
 - Investment from special fund, municipal fund and grant
 - Income from investment
 - Maturity and disposal of investment
 - Recording of interest accrued
 - Valuation of investments
- Presentation in the financial statements

CHAPTER 21

FIXED ASSETS

LEARNING OBJECTIVE

At the end of this Chapter, the reader will...

- *Understand what fixed asset is.*
- *Be familiar with the accounting principles governing the accounting for fixed assets.*
- *Understand the entries for additions/ disposal of fixed assets.*
- *Understand the entries for depreciation.*
- *Be familiar with the internal controls relating to fixed assets.*
- *Be familiar with how the transactions relating to fixed assets are presented in the financial statements*

CHAPTER OVERVIEW

Fixed Assets constitute a major portion of the assets of ULB. This chapter focuses on the basic principles governing the accounting of fixed assets. The chapter also illustrates the entries to be passed for addition / disposal of fixed assets and also depreciation. Internal Controls to the extent they relate to the fixed assets and the presentation of fixed assets in the financial statements are also discussed in this chapter. The chapter is intended to act as a tool for the reader to understand the basic principles relating to the accounting for fixed assets and it is advised that the reader refer to “Chapter 21” of NMAM for detailed coverage of the subject and also for accounting treatment of non routine transactions relating to fixed assets.

INTRODUCTION (Refer Para 21.1 to 21.6 of NMAM)

21.1 Fixed Assets represent those assets of the ULB, which are meant for use over an extended period. These are the assets held for providing services and are not held for resale in the normal course of operations of the ULB.

21.2 Fixed Assets may be constructed or acquired by or may be gifted or donated to the ULB either for its own use or for public benefit. They could be broadly classified as infrastructure asset (e.g. roads & bridges) and other assets (e.g. land, buildings etc).

ACCOUNTING PRINCIPLES (Refer Para 21.7 of NMAM)

21.3 The following Accounting Principles shall govern the recording, accounting and treatment of transactions relating to Fixed Assets:

- a. All Fixed Assets shall be carried at cost less accumulated depreciation. The cost of fixed assets shall include cost incurred/money spent in acquiring or installing or constructing fixed asset, interest on borrowings directly attributable to acquisition or construction of qualifying fixed assets up to the month of commissioning of the assets and other incidental and indirect expenses incurred up to that month.
- b. Any addition to or improvement to the fixed asset that results in increasing the utility or economic life of the asset shall be capitalised and included in the cost of fixed asset.

- c. Any Fixed Asset, which has been acquired free of cost or in respect of which no payment has been made, shall be recorded at nominal value of Re. 1/-.
- d. All assets costing less than Rs.5, 000 (Rupees five thousands) shall be expensed / charged to Income & Expenditure Account in the year of purchase.
- e. Depreciation shall be provided at full rates for assets, which are purchased before October 1 of an Accounting Year. Depreciation shall be provided at half the rates for assets, which are purchased after October 1 of an Accounting Year.
- f. Depreciation shall be provided at full rates for assets, which are disposed after October 1 of an Accounting Year. Depreciation shall be provided at half the rates for assets, which are disposed before October 1 of an Accounting Year.

ACCOUNTING TREATMENT

21.4 This section explains the Accounting Treatment for transactions involving fixed assets. Continuing with our “Model Municipal Corporation (MMC)”, the transactions involving fixed assets are explained in terms of their acquisition, disposal, and computation of depreciation.

21.5 The Opening Balance sheet, being the starting point, contains the following information with regard to fixed assets.

<i>Amount (Rs)</i>				
Assets	Code of Account	Gross Block	Accumulated Depreciation	Net Block
Fixed Assets:				
- Land	410-10-(a)	1,00,000		100,000
- Building	410-20-(a)	1,00,000	25,000	75,000
- Roads & Bridges	410-30-(a)	65,000	15,000	50,000
- Plant & Machinery	410-40-(a)	50,000	10,000	35,000
- Vehicles	410-50-(a)	12,500	2,500	10,000

21.6 Further, MMC depreciates its fixed assets at the following rates on straight line basis.

Assets	Depreciation Rates
Fixed Assets:	
Land	Nil
Building	5%
Roads & Bridges	7.5%
Plant & Machinery	10%
Vehicles	20%

Accounting for Purchase of Building (Refer Para 21.13 to 21.14 of NMAM)

21.7 MMC purchased a building from Mr. ‘X’ on 1st June for Rs. 25,000 and the registration charges for the same was Rs 5,000. The payment to the seller was made on the same day.

21.8 Recording of purchase of building: On receipt of Form GEN-14(Payment order) from the Purchasing department, the Accounts Department shall pass the following entry to record the purchase.

Date	Code of Accounts	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit amount (Rs)	Books /Register to be entered in to
1 st June 2006	410-20-(a) 350-10-(a)	Buildings Account To Sundry Creditors-suppliers	Dr Cr	30,000	30,000	Journal book, Ledger, Register of Immovable Property (Form GEN - 30).

(a) Insert Detailed Head Codes of Account as applicable

Source document: Bills/Invoice, Form GEN-14 sent from the respective department.

Internal Controls: The following controls shall be observed by the ULB

- (a) Before purchasing any asset, the concerned department should ensure the availability of adequate budget allocation.
- (b) All the Assets belonging to a class of assets shall be accounted under that asset class.
 - (c) Before releasing payment to the supplier, the Accounts Officer shall ensure that the fixed assets acquired are recorded in the Register of Immovable Properties. Further, it shall be ensured that the Payment Order provides reference to the Register of Immovable Properties where the entry for receipt of fixed assets is recorded.

Note 1: The Cost of the fixed assets shall also include installation, duties, taxes and other incidental expenses for e.g., transport charges, port dues, etc incurred towards acquisition of an asset. Since Registration charges is incidental expense to the purchase of building, it is added to the cost of the asset.

21.9 Recording of payment made: After obtaining approval of the concerned authority, the Accounts department shall pass the following entry on making the payment. (Refer Chapter 5- “General Accounting procedures” of NMAM for the procedure to be followed for making the payment).

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books/Register to Be entered In to
1 st June 2006	350-10-(a) 450-21-(a)	Sundry Creditors Suppliers To Main Bank Account*	Dr Cr	30,000	30,000	Bank book, Ledger, Register of bills for, Payment (Form – 15)

* Specify the name of the bank and account number.

(a) Insert Detailed Head Codes of Account as applicable

Source document: Invoice with relevant supporting, Payment Order Form GEN – 14

Internal Controls: The following controls shall be observed by the ULB:

- (a) Whether the supporting documents such as invoices, bills, etc are stamped with ‘certified for payment’ and signed by the authorities of the concerned department;
- (b) Whether evidence of entry into fixed assets register with folio and reference numbers are attached/available

Depreciation on Fixed Assets (Refer Para 21.16 & 21.17 of NMAM)

21.10 At the end of the accounting year, depreciation will be provided on each class of Fixed Asset at the prescribed rates. The amount of depreciation shall be computed by applying the depreciation rate to the cost or written down value of Fixed Asset as per the accounting principles of the ULB.

21.11 For providing depreciation (refer table 21.1 below for computation), the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books/Register to be entered in to
31 st March 2007	272-20-(a) 411-20-(a)	Depreciation on building To Accumulated Depreciation	Dr Cr	6,500	6,500	Journal book ,Ledger, Register of Immovable Property (Form GEN – 30)

(a) Insert Detailed Head Codes of Account as applicable

Source document: Calculation sheet and Fixed assets register.

Internal Control: The following controls shall be observed by the ULB:

(a) At the time of computing depreciation provision for the period, the Head of the Accounts Department shall ensure that the accumulated depreciation (including current period's depreciation provision) provided on any fixed asset does not exceed its cost of acquisition.

Table 21.1
Computation of Depreciation at Year-end on Buildings (on straight line method)

Sr. No	Particulars	Amount (Rs)
a.	Original Cost of Fixed Asset at the beginning of the year	1,00,000
b.	Less: Original Cost of fixed asset sold during the accounting year	Nil
c.	Original Cost of the fixed asset held at year-end	1,00,000
d.	Annual Depreciation provision (@ 5%) for the financial year	5,000
	Depreciation on fixed assets purchased during the year	
e.	Depreciation on the fixed asset purchased before October 1 of an accounting year (at full rate of 5% on Rs. 30,000/-)	1,500
f.	Depreciation on the fixed asset purchased after October 1 of an accounting year.	Nil
g.	Total Depreciation charge for the year (d+e+f)	6,500
h.	Accumulated depreciation provided till the previous financial year	25,000
i.	Total accumulated depreciation (g+h)	31,500

21.12 Depreciation on other assets if computed on similar lines would be as follows.

Table 21.2
Depreciation as per Straight Line Method on other Assets

Amount in Rs

Asset-Head	Depreciation	Accumulated Depreciation	Total
Roads & Bridges	4,875	15,000	19,875
Plant & Machinery	4,500	10,000	14,500
Vehicles	2,500	2,500	5,000

Sale of Plant & Machinery

21.13 MMC sold old plant & machinery (Bulldozers) to Y & T Ltd on 15th November for Rs 3,000. The original cost of the asset being Rs 5,000 and the accumulated depreciation thereon was Rs 2,500 and the sales proceed was received on 30th November 2006.

21.14 The Fixed Assets may be transferred by way of sale either through auction or otherwise. For the procedure on accounting of receipt of Earnest Money Deposit (EMD) from the bidders, refund of EMD to the unsuccessful bidders, conversion of EMD of successful bidder into Security Deposit and its adjustment refer Chapter 12 – “Public Works” of NMAM.

Table 21.3
Computation of Profit or Loss on Plant & Machinery sold

Sr. No.	Particulars	Amount (Rs)
a.	Original Cost of Fixed Asset	5,000
b.	Add: Cost of improvement/addition	Nil
c.	Total cost of Fixed Asset (a+b)	5,000
d.	Less: Depreciation provided from the year of acquisition till the previous financial year	2,500
e.	Less: Depreciation provided for the current financial year till the month of disposal (full rate of 10% on Rs 5000)*	500
f.	Total Depreciation provided on the Fixed Asset Disposed (d+e)	3,000
g.	Written down Value of the Fixed Asset at the time of transfer (c-f)	2,000
h.	Less: Disposal value realised	3,000
i.	Profit or (loss) on transfer of Fixed Asset (h-g)	1,000

* Since the asset was sold after October, it is depreciated at the full rate. Refer para 21.3(f)

21.15 Recording of Depreciation on disposal of Plant & Machinery: Depreciation shall be provided at the prescribed rates on the asset class (in respect of fixed asset sold). For providing depreciation, the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books to be entered in to
15 th November 2006	272-40-(a)	Depreciation on Plant & machinery	Dr	500		Journal book, Ledger
	411-40-(a)	To Accumulated Depreciation	Cr		500	

(a) Insert Minor & Detailed Head Codes of Account as applicable.

Source Document: Calculation sheet

21.16 Recording of Disposal of Fixed Assets: - In respect of the fixed asset to be sold, the Accounts department shall compute the Written down Value (refer table 21.3 for computation) for the fixed asset. The entry to be passed for disposal shall be as follows:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books/Registers to be entered in to
15 th November 2006	410-90-(a)	Plant & Machinery – Assets under Disposal #	Dr	2,000		Journal book, Ledger, Register of movable Property (Form GEN -31)
	411-40-(a)	Accumulated Depreciation	Dr	3,000		
	410-40-(a)	To Plant & Machinery	Cr		5,000	

This would be the same figure as the Written- Down Value of the Fixed Asset computed in Table above

(a) Insert Detailed Head Codes of Account as applicable

Source document: Approval letter for disposal, Register of Movable property (Form GEN-31), calculation Sheet.

21.17 Receipt of Money on Disposal of Asset: On receipt of money, the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books to be entered In to
30 th November 2006	450-21-(a) 350-90-(a)	Bank Account* To Sale proceeds from Asset	Dr Cr	3,000	3,000	Cash book, Ledger
* Specify name of bank and account number (a) Insert Detailed Head Codes of Account as applicable Source Document: Summary of Daily Collection – Form GEN – 12, Register of Movable property(Form GEN -31)						

21.18 Recording profit on disposal of Asset: For profit on disposal of the asset, the Accounts Department shall pass the following entry.

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount(Rs)	Books to be entered In to
15 th November 2006	350-90-(a) 410-90-(a) 180-30-(a)	Sale proceeds from Asset To Plant & Machinery – Assets under Disposal To Profit on disposal of Asset	Dr Cr Cr	3,000	2,000 1,000	Journal book, Ledger
(a) Insert Detailed Head Codes of Account as applicable Source Document: Register of Movable property (Form GEN- 31), Sale agreement						

SPECIFIC GRANTS ([Refer Para 17.27 to 17.34 of NMAM](#))

21.19 MMC received a Grant sanction Order on 12th January 2007 for Rs 2, 00,000 from the State Government for purchase of Land of 10 acres for construction of a school. The said amount which was received in advance was deposited in a separate bank opened for the stated purpose. On the basis of the grant, MMC purchased a Land from XYZ & Co for Rs 2,00,000 on 20th January.

21.20 **Specific Grants** could either be received in advance or as a reimbursement of the expenditure already incurred. These could be Revenue or Capital in nature, or a combination of both. The accounting entries for Specific Grant will depend on the nature of the receipt (in advance or as reimbursement) and the nature of the expenditure, which are expected to be incurred out of such grants (capital or revenue).

21.21 Recording of grant received in advance: On receipt of the grant, the Accounts Department shall pass the following entry (Refer Chapter 17- “Grants” of NMAM for the procedure to be followed for accounting of receipt of EMD, security deposit and subsequent adjustment of the same).

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit amount (Rs)	Books/Register to Be entered In to
12 th January 2007	450-61-(a) 320-20-(a)	Designated Bank Account* To Grants for Specific Purposes (Land)	Dr Cr	2,00,000	2,00,000	Grant Cash Book, Ledger, Grant Register (Form G-1)
* Specify the name of the Bank and Account number (a) Insert Detailed Head Codes of Account as applicable Source Document: Summary of Daily Collection – Form GEN – 12 Internal Controls: The following controls shall be observed by the ULB: (a) The Head of the Accounts Department shall ensure that the grant received for a specific purpose shall not be utilised for any other purpose. (b) The Head of the Accounts Department and the Head of the Department implementing the project/scheme sponsored by the grant shall reconcile quarterly the expenditure incurred during the period in respect of each of the grant from the Ledger (Form GEN-3) and the Grant Register (Form G-1) maintained at the Accounts Department and the relevant records maintained at the respective departments.						

21.22 Recording of receipt of bill for acquisition of fixed assets : On receipt of a bill in respect of acquisition/purchase of fixed assets under Specific Grants, the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books/Register to be entered In to
20 th January 2007	410-10-(a) 350-10-(a)	Land Account To Creditors– Payables against Specific Grants	Dr Cr	2,00,000	2,00,000	Journal Book, Ledger, Grant Register (Form G-1)
(a) Insert Detailed Head Codes of Account as applicable Source Document: Bill from the Seller of the Assets						

21.23 Recording of payment made to seller: Payment for purchase, acquisition or construction of any fixed asset under any Specific Grant shall be made from the respective Designated Grant Bank Account. On payment, the Accounts Department shall pass the following:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount (Rs)	Books/Register to be entered In to
20 th January 2007	350-10-(a) 450-61-(a)	Creditors – Payables against Specific Grants To Designated Bank Account*	Dr Cr	2,00,000	2,00,000	Grant Cash Book, Ledger, Grant Register (Form G-1)
* Specify the name of the Bank and Account number (a) Insert Detailed Head Codes of Account as applicable Source Document: Payment Order – Form GEN – 14						

21.24 Recording of transfer of Specific Grant to ‘Capital Contribution’ on capitalization: On acquisition of any fixed assets under a Specific Grant, an amount equivalent to the amount of capital expenditure capitalised shall be transferred from the Specific Grant to the Capital Contribution. To record this transfer, the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount (Rs)	Books/Register to be entered in to
20 th January 2007	320-20-(a) 312-10-(a)	Grant for specific purpose (Land) To Capital Contribution	Dr Cr	2,00,000	2,00,000	Journal Book, Ledger, Grant Register (Form G-1)
(a) Insert Detailed Head Codes of Account as applicable Source Document: Completion/installation Certificate						

Note: The above entry shall be passed simultaneously along with the entry for purchase/acquisition or capitalisation of asset.

Maintenance of Sinking Fund ([Refer Para 21.19 to 21.23 of NMAM](#))

21.25 A Sinking Fund is a Fund created for the repayment of a liability or for the replacement of an asset. ULBs may maintain sinking fund for making replacement of Assets. For accounting procedures to be followed for maintaining fund refer chapter – 21 – “Fixed Assets” of NMAM.

Revaluation of Fixed Assets ([Refer Para 21.32 to 21.34 of NMAM](#))

21.26 Revaluation is stating the value of the fixed assets in the books otherwise than on historical costs. Some times it may happen that fixed assets may be shown at a value which reflects the market value of the asset, duly depreciated. For detailed study of this topic please refer Chapter – 21 – “Fixed Assets” of NMAM.

PERIOD END PROCEDURES

21.27 Recording of liability for fixed assets purchased for which payment has not been made. At period end, the concerned departments shall ensure that all bills in respect of all the fixed assets received during the year are processed and sent to the Accounts Department for accounting and payment within 15 days from the end of the accounting period.

21.28 Provision for depreciation: Provision for depreciation on fixed assets shall be calculated for the full year and accounted on pro-rata basis at the period ends. For example if the total depreciation for full year is Rs. 1,000, the depreciation provision for the current year for the 3 months ended 30th June shall be Rs.250. However, the depreciation calculation sheet shall be updated for all additions and deletions during the period under reporting and accordingly the additional provisions for subsequent periods are accounted.

PRESENTATION IN FINANCIAL STATEMENTS ([Refer Para 21.43 to 21.45 of NMAM](#))

21.29 The various heads of account used for the accounting of Fixed Assets shall be reflected in the Financial Statements or the Schedules attached to the Financial Statements of the ULB. The schedules that reflect the transactions relating to fixed assets include

- a. Schedule I – 9 - Schedule of Other Income.
- b. Schedule B – 3 - Reserves.
- c. Schedule B – 4 - Grants & Contribution for Specific Purposes
- d. Schedule B – 9 - Other Liabilities (Sundry Creditors).
- e. Schedule B – 11 - Fixed Assets.
- f. Schedule B – 17 - Cash and Bank Balances

21.30 The Fixed Asset Schedule (B-11) for MMC prepared on the basis of the above entries is given in Exhibit 21.1.

Exhibit 21.1**Fixed Assets schedule B-11 of Model Municipal Corporation for the year ended 31st March 2007***Amount in Rs*

Code No	Particulars	Gross Block				Accumulated Depreciation				Net Block	
		Opening Balance	Additions during the period	Deductions during the period	Cost at the end of the year	Opening Balance	Additions during the period	On Deletions	As at March 31, 2007	At the end of current year	At the end of the previous year
1	2	3	4	5	6	7	8	9	10	11	12
410-10	Land	100,000	200,000		300,000					300,000	100,000
410-20	Buildings	100,000	30,000		130,000	25,000	6,500		31,500	98,500	75,000
	<u>Infrastructure Assets</u>										
410-30	Roads and Bridges	65,000			65,000	15,000	4,875		19,875	45,125	50,000
410-31	Sewerage and drainage										
410-32	Water ways										
410-33	Public Lighting										
	<u>Other assets</u>										
410-40	Plants & Machinery	50,000		5,000	45,000	10,000	4,500	3,000	17,500	27,500	35,000
410-50	Vehicles	12,500			12,500	2,500	2,500		5,000	7,500	10,000
410-60	Office & other equipment										
410-70	Furniture, fixtures, fittings and electrical appliances										
410-80	Other fixed assets										
	Total	327,500	230,000	5,000	552,500	52,500	18,375	3,000	73,875	478,625	270,000

SUMMARY

1. Fixed Assets represent those assets of the ULB, which are meant for use over an extended period. These are the assets held for providing services and are not held for resale in the normal course of operations of the ULB.
2. The Accounting principles governing the recording, accounting and treatment of transactions relating to fixed assets are provided in para 21.3 of this chapter.
3. Important aspects relating to fixed assets like purchase, sale, deprecation, grants etc and the accounting entries for recording the same are covered in detail in this chapter.
4. Depreciation will be provided at the end of the year on each class of Fixed Asset at the prescribed rates. The amount of depreciation shall be computed by applying the depreciation rate to the cost or written down value of Fixed Asset as per the accounting principles of the ULB.
5. The presentation in the financial statement of transactions relating to fixed assets are discussed in this chapter.

EXERCISE**1. Indicate the correct alternative in each of the following cases:**

1. Assets under erection/installation on existing projects and capital expenditures on new projects shall be shown as
 - i. Capital Work-in-Progress
 - ii. Capitalised as an asset.
 - iii. None of the above
2. Depreciation on asset purchased on October 1 shall be provided at
 - i. Half the rates for the asset.
 - ii. Depreciated at full rate
3. An asset which was purchased on 1st September 2006, was installed on 25th September 2006 and was put to use only on 5th October 2006. For the purpose of depreciation, the date of purchase would be
 - i. 1st September 2006
 - ii. 25th September 2006
 - iii. 5th October 2006
4. Any addition or improvement to the fixed assets that results in increasing the utility or economic life of the life shall be
 - i. Charged off as an expenditure
 - ii. Capitalized as an asset.
5. Asset costing less than shall be expensed/charged to Income & expenditure in the year of purchase
 - i. Rs 500
 - ii. Rs 5,000
 - iii. Rs 10,000

2. Journalise the following transactions:

2. The cost of construction of staff quarters (for Municipal Health Department staff) amounted to Rs 25,00,000. The construction was completed in the month of July 2007. Pass the entry for capitalization of the asset.
3. Five Computers costing Rs 30,000 each were purchased by the Accounts department on 1st August 2007. The payment for the same was made on 25th September 2007. Pass entries for capitalisation and payment to supplier.
4. Concrete roads were laid at a cost of Rs 45,00,000. Capitalise the asset in the books of the Corporation.
5. Old furniture & fittings costing Rs 40,000 were sold by engineering department on 30th September 2007 for Rs 65,000, the written down value of the asset being Rs 35,000. Assume that the asset is depreciated at 5% per annum. The sale proceeds were received on 5th October 2007.
6. Water treatment plant with the book value of Rs 25,00,000 is depreciated at 10% per annum. The Written down value (WDV) at the beginning of the year was Rs. 10,00,000. Compute the WDV at the end of the year and pass the depreciation entry for the year 2007-08.

BROAD STRUCTURE FOR PREPARING PRESENTATION SLIDES

- Introduction
- Accounting Principles
- Accounting treatment for
 - Recording of purchase of buildings
 - Depreciation on fixed assets
 - Sale of Asset
 - Special grant for incurring capital expenditure
- Presentation in the financial statements

CHAPTER 22

LOANS & ADVANCES

LEARNING OBJECTIVE

At the end of this Chapter, the reader will

- *Be familiar with the accounting principles governing the accounting of Loans and Advances.*
- *Understand the accounting entries for disbursement, recovery, accounting of interest on loan.*
- *Be familiar with the internal controls relating to loans and advances.*
- *Be familiar with how the transactions relating to loans and advances are presented in the financial statements.*

CHAPTER OVERVIEW

This chapter contains accounting principles governing the accounting for loans and advances given by ULB to other undertakings. Accounting entries for disbursement, recovery of loans are also discussed along with the internal control that needs to be absorbed with respect to loans and advances. The chapter is intended to act as a tool for the reader to understand the basic principles relating to the accounting for loans & advances and it is advised that the reader refer to “Chapter 23” of NMAM for detailed coverage of the subject.

INTRODUCTION ([Refer Para 23.1 & 23.2 of NMAM](#))

22.1 ULB may lend loans out of general funds as per the rules and provisions of the Act governing the ULB. ULB may also advance out of specific funds / grants received for a long-term projects if the terms and conditions of the fund/grant provide for the same. In such cases, interest earned on the loans and advances lent out of the specific project fund/grant shall be credited to these funds/grants account.

ACCOUNTING PRINCIPLES ([Refer Para 23.3 of NMAM](#))

22.2 The following Accounting Principles shall govern the recording, accounting and treatment of transactions relating to loans provided by ULBs

- a. Interest on loans shall be recognised as and when due. At period-ends, interest shall be accrued up to the date of the period-end.
- b. Interest earned on loans given out of specific fund/grant shall be directly credited to the specific fund/grant account.
- c. Penal interests if any either on loans given out of Municipal fund or out of specific fund/grant shall be accounted on actual receipt.
- d. Provision against bad and doubtful loans shall be made according to the provisioning principle of the ULB based on norms or guidelines issued by the state government in this regard.
- e. Any additional provision for loans outstanding (net on overall basis) required to be made during the year shall be recognised as expenditure and any excess provision written back during the year shall be recognised as income of the ULB.
- f. Write-offs of bad and doubtful loans shall be adjusted against the provisions made and to that extent, loan outstanding get reduced. In case of inadequate provisions, the write off shall be recognised as expenditure.

ACCOUNTING FOR LOANS TO TRANSPORT UNDERTAKINGS/SCHOOL BOARDS/OTHERS (Refer Para 23.4 to 23.5 of NMAM)

22.3 ULBs may provide loans to other undertaking/boards depending on the governing Acts and Rules applicable to the ULB.

22.4 The amount of loan granted to external organisation and undertakings shall be entered in the Register of 'loans to others' in Form LA-1 maintained by the Accounts Department of the ULB.

22.5 Continuing with our "Model Municipal Corporation", the transactions involving loans and advances are explained in terms of disbursement, recovery and computation of interest.

22.6 The opening balance sheet of MMC contains the following information with respect to loans & advances.

Assets	Code of Account	Amount (Rs)	Amount (Rs)
Current Assets:			
Loans to Others			
- to Municipal transport undertaking (MTU1)	460-30-(a)	6,000	6,000
- to Municipal School board (MSB)	460-30-(a)	5,000	
Less: Provided	461-10-(a)	(5,000)	Nil
Total			6,000
Receivable from other source - Interest Accrued.			
- Receivable from MTU1	431-40-(a)	Nil	Nil
- Receivable from MSB	431-40-(a)	500	
Less: Provision for outstanding receivable (Interest)	432-40-(a)	(500)	Nil

Disbursement of Loan

22.7 On 5th April 2006, MMC granted Rs 10,000 as Loan to MTU2 (Municipal Transport Undertaking - 2) at the rate of 10% p.a. repayable in five equal annual installments.

22.8 Recording of disbursement of loans: On disbursement of loan, the Accounts Department shall pass the following entries:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register To be entered In to
5 th April 2006	460-30-(a)	Loans to others – MTU2	Dr	10,000		Cash book, Ledger, Register of Loans to Others, Register of Specific funds/ Grants
	450-21-(a)	To Bank Account*	Cr		10,000	

* Specify the name of the bank and account number
(a) Insert Detailed Head codes of Account as applicable.
Source Document: Payment Order – Form GEN -15

Internal Control: The ULB shall exercise the following controls

- a. The loans to others shall be entered in the 'Loans to Others register' in Form LA –1 and on a monthly basis, the amount as per the register shall be reconciled with the amounts as per the ledger accounts.
- b. At the end of the year, an abstract of 'Loans to Others' has to be made showing the loans outstanding at the beginning of the year, loans lent during the year, total interests accrued during the year and total amount of recoveries/ adjustments during the year.

22.9 Recording of recovery of loan installments(Principal): On receipt of the installment, the Accounts Department shall pass the following entry

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register To be entered In to
31 March 2007	450-21-(a)	Bank Account*	Dr	1,650		Cash book, Ledger, Register of Loans to Others, Register of Specific funds/ Grants
	460-30-(a)	To Loans to others – MTU2	Cr		1,650	

(a) Insert Detailed Head codes of Account as applicable.

Source Document: Payment Records

22.10 Recording of interest due on loans to external organisations /undertakings: On accrual of the interest the Accounts Department shall pass the following entry:

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register To be entered In to
31 March 2007	431-40-(a)	Receivables from other Sources- interest Accrued- MTU2	Dr	1,000		Journal book, Ledger, Register of Loans to Others, Register of Specific funds/ Grants
	171-30-(a)	To interest on loans to Others – MTU2	Cr		1,000	

(a) Insert Detailed Head codes of Account as applicable.

Source Document: Calculation sheet

Internal Control: The ULB shall exercise the following controls

- (a) The interest accrued at the period ends shall be entered in the registers referred above and the interest on loans as per the registers shall be reconciled with the amount as per Interest ledger.

22.11 Recording of receipt of interest on loans: On receipt of the interest, the Accounts Department shall pass the following entry.

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register To be entered In to
31 March 2007	450-21-(a)	Bank Account*	Dr	1,000		Cash book, Ledger, Register of Loans to Others, Register of Specific funds/ Grants
	431-40-(a)	To Receivables from other Sources – interest Accrued – MTU2	Cr		1,000	

(a) Insert Detailed Head codes of Account as applicable.

Source Document: Summary of Daily collections – Form GEN -12

PROVISIONING AGAINST BAD AND DOUBTFUL 'LOANS TO OTHERS' ([Refer Para 23.6 of NMAM](#))

22.12 The Accounts Department shall review recoverability status of all Loans to Others on periodical basis and based on the review and in accordance with the provisioning principle laid down by the state, appropriate amount of provisioning or write off needs to be determined and accounted after obtaining the requisite approvals.

22.13 MMC is doubtful about the recovery of the loan granted to MTU1 and it has been decided by MMC that the loan advanced to MSB previously cannot be recovered and has to be written off.

22.14 The accounting entries for provisioning or write off of Loans and Advances are detailed below:

22.15 Recording of provision against doubtful loans to others as at the period end (Loan advanced to MTU1).

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register To be entered In to
31 st March 2007	270-20-(a)	Provision for Other Assets (MTU1)	Dr	6,000		Journal book, Ledger
	461-10-(a)	To Provision for Outstanding Loans to others (MTU1)	Cr		6,000	
(a) Insert Detailed Head Codes of Account as Applicable						
Source Document: Calculation Sheet						

22.16 Recording of write off of doubtful and bad loans for which provisioning was made in the previous year (Loan to MSB): Principal

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register To be entered In to
31 st March 2007	461-10-(a)	Provision for outstanding Loans to others - MSB (Principle)	Dr	5,000		Journal book, Ledger
	460-30-(a)	To Loans to others (MSB)	Cr		5,000	
(a) Insert Detailed Head Codes of Account as Applicable						

Note: Refer Chapter 23 – “Loans & Advances” of NMAM for accounting entries to be passed for write off in cases where provision was not made in the previous year.

22.17 Recording of write off doubtful and bad loans for which provisioning was made in the previous year (Loan to MSB): Interest

Date	Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs)	Credit Amount (Rs)	Books /Register To be entered In to
31 st March 2007	432-40-(a)	Provision for Other outstanding receivable – MSB- (Interest)	Dr	500		Journal book, Ledger
	431-40-(a)	To Receivables from other Sources – interest Accrued	Cr		500	
(a) Insert Detailed Head Codes of Account as Applicable						

PRESENTATION IN FINANCIAL STATEMENTS [\(Refer Para 23.9 to 23.11 of NMAM\)](#)

22.18 The various heads of accounts used for the accounting of Loans to Others shall be reflected in the Financial Statements or the Schedules attached to the Financial Statements of the ULB. All such statements and schedules should be affixed with signature and seal of designated authorities.

22.19 The schedules that reflect the transactions relating to Loans & Advances include:

- a. Schedule I-8 – Schedule of Interest earned.

- b. Schedule I-16 – Schedule of Provisions & Write offs.
- c. Schedule B -15 – Schedule of Sundry debtors (Receivables).
- d. Schedule B -18 – Schedule of Loans, advances and deposits.
- e. Schedule B-18(a) – Accumulated provisions against loans, advances and deposits.

SUMMARY

1. ULB may lend loans out of general funds as per the rules and provisions of the Act governing the ULB. ULB may also advance out of specific funds / grants received for a long-term projects if the terms and conditions of the fund/grant provide for the same.
2. The major accounting principles governing the accounting for transactions relating to Loans and advances are :
 - a. Interest on loans shall be recognised as and when due.
 - b. Interest earned on loans given out of specific fund/grant shall be directly credited to the specific fund/grant account.
 - c. Provision against bad and doubtful loans shall be made according to the provisioning principle of the ULB based on norms or guidelines issued by the state government in this regard.
 - d. Excess provision written back during the year shall be recognised as income of the ULB.
3. Accounting entries for disbursement of loan, recording of interest and collection of installments, provisioning for doubtful advances are explained in detail in this chapter.
4. The schedules forming part of financial statement that reflect the transactions relating to Loans and advances are explained this chapter.

EXERCISE

1. State whether the following statements are '**Right**' or '**wrong**':
 - a. Interest on loans shall be recognized as and when received
 - b. Penal interest charged for delay in repayment/non payment of loan shall be recognized on actual receipt.
 - c. Additional provision which is required to be made for non receipt of loan advanced shall be recognized as expenditure.
 - d. Write offs of bad and doubtful loans shall be adjusted against provisions made.
 - e. Provision made for doubtful debts would be shown as deduction from the outstanding receivable amount in the balance sheet.

2. **Journalise the following transactions**
 1. Housing loan of Rs 5,00,000 was sanctioned to Mr 'Z' of Municipal Health Department on 1st April 2007 which is repayable in equal monthly instalment of Rs 10,000 each. Interest is charged at 10% per annum. Compute interest, pass necessary entries for
 - a. Disbursement of advance
 - b. Recovery of advance for one month
 - c. Interest entry for one month
 2. An education advance of Rs 10,000 given to Mr 'Y' of town planning department in the previous year could not be recovered and hence the amount had to be written off. The provision for the same was not made in the previous year. Pass necessary entries for write off of the advance.
 3. Another employee advance (town planning department) amounting to Rs 5,000 which was written off in the previous year on the assumption that it could not be recovered, was recovered in the current year. Pass necessary journal entries.

BROAD STRUCTURE FOR PREPARING PRESENTATION SLIDES

- Introduction
- Accounting Principles
- Accounting treatment for
 - Disbursement of Loan
 - Recording of interest
 - Recovery of loan instalments
 - Provisioning against bad and doubtful advances
- Presentation in the financial statements

CHAPTER 23

PERIOD END PROCEDURES

LEARNING OBJECTIVE

At the end of this Chapter, the reader will...

- *Be familiar with the period end procedures that need to be carried out for effective accounting system.*
- *Understand the need and importance of such procedures to have sound preparation of financial statements.*
- *Understand the procedures to be followed by ULB's which will facilitate regular up dating and preparation of accounts.*

CHAPTER OVERVIEW

This chapter describes the procedures to be followed by an ULB to facilitate preparation of periodical accounts. This chapter focuses on the procedures to be followed on a daily, monthly, quarterly and annual basis.

INTRODUCTION

23.1 Each ULB would prepare periodical accounts at quarterly or such other shorter period as may be defined by the State and this shall be in addition to the annual accounts.

23.2 It is recommended that certain reconciliations and other accounting procedures be carried out on a daily and monthly basis so that the recording of transactions is up to date. These would be in addition to quarterly and annual procedures.

23.3 The specific period-end procedures in relation to various categories of transactions have been described in the relevant chapters.

23.4 A period is generally defined as time lapsed between two points, and hence these period end procedures are described at differing durations. They are:

- Daily (Day end Procedures)
- Monthly (Month end Procedures)
- Half year (Half yearly Procedures)
- Annual (Year ending Procedures)

Daily Procedures

23.5 **Balancing of Cash/Bank Book:**

Step 1: Total the Cash/Bank book and balance it daily.

Step 2: The Posting to the respective Ledger Accounts shall be made at the end of the day.

Step 3: The Closing balance of Cash and Bank shall be carried forward to the next day as opening balance.

- 23.6 Physical verification of cash balance:
Step 1: The Cahier shall verify the cash available with the Accounts Department.
Step 2: The Values and the denominations shall be noted in the cash book itself.
Step3: This shall be certified by the Cashier and Accounts Department.
Step 4: The Cash physically verified should match with the balance as per cash book.
- 23.7 Deposit of collections (both cash and cheque) in the bank:
For procedure to be followed for collection and deposit of cash refer Chapter 5 – “General Accounting Procedures” of NMAM.
- 23.8 Checking of ledger accounts with the books of original entries, i.e., Cash Book and Journal Book:
Step 1: Head of the Accounts Department or other designated officer shall check the daily postings of the entries in the Ledger Accounts from the Cash Book and the Journal Book.
Step 2: The employee concerned shall also certify the posting of each transaction recorded in the books of original entries.
Step 3: Necessary rectification entries shall be passed immediately in respect of differences or errors in posting.
- 23.9 Reconciliation of number of receipts issued by the collection office with the collection register.
Step 1: On receipt of Chalan for Remittance of Money from the Collection Office, the Head of the Department supervising the functioning of the Collection Office shall verify the duplicate copies of the receipts issued with the entries made in the Collection Register and in the Chalan for Remittance of Money.
Step 2: The number of receipts cancelled shall be reported in the Chalan for Remittance of Money.
- 23.10 Updation of Subsidiary Ledger
The Accounts Department shall update the following Subsidiary Registers at the end of each day:
- Functions wise Income Subsidiary Ledger in respect of all major heads of Income during the day;
 - Functions wise Expense Subsidiary Ledger in respect of all major heads of Expenses during the day.

➤
Monthly Procedures

- 23.11 Bank Reconciliation:
Bank Reconciliation shall be carried out for each of the Banks either on a monthly basis or for such shorter time interval as the ULB may decide. The procedure for bank reconciliation has been provided in Chapter 24 - Reconciliation Procedures of this manual.
- 23.12 Recording of expenditure incurred against permanent advance:
Step 1: At the end of each month, the Head of the Department, to whom permanent advance has been disbursed, shall prepare and submit a payment order for expenses incurred against the permanent advance.
Step 2: The Register of Permanent Advance maintained at the Departments shall be updated on a daily basis for the expenses incurred and updated for payment order prepared and sent to the Accounts Department.

- 23.13 Payment of provident fund dues and pension contribution in respect of employees on deputation.
The Accounts Department shall ensure that the provident fund deducted from the salaries of the employees on deputation and the pension contribution payable for their benefit have been paid on time to the Government or relevant authorities.
- 23.14 Reconciliation of Function wise Income/Expense Subsidiary Ledgers with respective ledger accounts
Subsidiary ledgers of all Function wise Income and Expense shall be reconciled on a monthly basis.
- 23.15 Compilation of details of closing stock for preparation of financial statements at the end of the month
At the end of each month, the Stores-in-charge shall prepare a Statement of Closing Stock in Form ST – 3 for the stocks held in the Stores and issues made for various purposes from the entries made in the Stores Ledger. The procedure for preparation of such statement and valuation of the closing stock has been outlined in Chapter 13 – Stores of this manual.
- 23.16 Closing of ledger accounts:
Step 1: The ledger accounts shall be totalled and balanced at the end of each month or such shorter period as the ULB may decide.
Step 2: The closing balances for each of ledger accounts shall be determined and posted in the Trial Balance prepared for that period. The procedures for preparation of Trial Balance have been outlined in Chapter 25- Financial Statements of this manual.

Quarterly Procedures

- 23.17 Reconciliation of deposits, advances, receivables and income:
The deposits received from contractors/suppliers or any other deposit; advances provided to contractors/suppliers or to the departments or employees of the ULB; receivables in respect of various sources of income and money received from various sources of income shall be reconciled at the end of each quarter. The procedure for reconciliation has been described in Chapter 24 - Reconciliation Procedures of this manual.
- 23.18 Provision for period-end expenses:
At the end of an accounting period (quarter), all the departments of the ULB shall prepare a Statement of Outstanding Liability for Expenses in Form GEN – 28. The procedures for making period-end provision entries has been outlined in the relevant chapters and are briefly described below:
- a. Provision for expenses incurred on original work/ operations or maintenance work being executed by the Public Works Department for which either no payment has been made, or part payment has been made against the bills received, shall be made in accordance with the procedures outlined in Chapter 12 - Public Works of this manual.
 - b. Provision for materials purchased for which either no payment has been made, or part payment has been made against the bills received, by the Stores, shall be made in accordance with the procedures outlined in Chapter 13 - Stores. Provision shall also be made for materials received for which bills are not received at the values indicated in the Purchase Order.
 - c. Provision for revenue expenditures other than those described above for which either no payment has been made, or part payment has been made against the bills received, shall be

made in accordance with the procedures outlined in Chapter 16 - Other Revenue Expenditures.

- d. Provision for interest accrued but not due on the money borrowed through loans or debentures shall be made in accordance with the procedures outlined in Chapter 18 – Borrowings (Loans Received).
- e. Provision for fixed assets purchased, for which either no payment has been made, or part payment has been made against the bills received, shall be made in accordance with the procedures outlined in Chapter 21 - Fixed Assets.
- f. Provision for Depreciation on Fixed assets shall be calculated in accordance with the procedures outlined in the Chapter 21 – Fixed Assets.

23.19 Transfer of revenue grant received in advance for specific purpose to grant income.

The balance in the Revenue Grant Account received in advance, to the extent utilised during the period shall be transferred to the respective Grant Income Account. Where such transfer has not been made, the Accounts Department shall pass the relevant entries in accordance with the procedures outlined in Chapter 17 - Grants.

23.20 Recognition of grant income for revenue expenditure incurred in respect of grant receivable as reimbursement.

The revenue expenditure incurred during the period towards specific projects/schemes under a grant receivable, as a reimbursement shall be recognised as income at the end of each quarter. Where such income has not been recognised, the Accounts Department shall pass the relevant entries in accordance with the procedures outlined in Chapter 17 - Grants.

23.21 Accrual of interest on borrowings

Interest charges on loans received, which is not due shall be accrued, in accordance with the procedures outlined in Chapter 18 – Borrowings (Loans received).

23.22 Recording of provision for bills remaining unpaid in respect of Special Fund expenditure

Provision shall be made for the revenue expenditure incurred under Special Fund during the period in accordance with the procedures outlined in Chapter 19 – Special Funds.

23.23 Accrual of interest on investments. Interest accrued but not due on investments made shall be accrued in accordance with the procedures outlined in Chapter 20 - Investments.

23.24 Accrual of interest on loans advanced to employees. The amount of interest accrued in respect of loans provided to employees shall be determined and accrued in accordance with the procedures outlined in Chapter 14 - Employee Related Transactions.

23.25 Reconciliation of Capital Work in Progress

Step 1: Expenditure incurred on cumulative total of several Capital Work-in-Progress Ledger Accounts should be reconciled at the end of each quarter with the Summary Statement of Status on Capital Work-in-Progress received from the department.

Step 2: The Accounts Department shall ensure that total expenditure incurred as stated in the Statement tallies with the cumulative total of several Capital Work-in-Progress Ledger Accounts.

23.26 Reconciliation of Inter unit Account balances

At the end of each period reconciliation of inter unit transactions is intended to identify the disputed / unaccepted inter unit transactions between an ‘originating AU’ and the ‘responding AU’ and take appropriate action for rectification. Further, reconciliation of inter unit account is

necessary in the process of consolidation of ULB at the head office level as the balances of inter unit account balances shall be nullified.

23.27 Passing of adjustment entries

Step 1: At the period-end, the Accounts Department shall verify whether proper distinction has been maintained between revenue and capital transactions and between the transactions having effect in two accounting periods.

Step 2: In case, any income or expenditure for the previous periods or the subsequent periods has been accounted for as income or expenditure of the current period, the rectification entries as outlined in Chapter 5 - General Accounting Procedures shall be made by the Accounts Department.

23.28 Closing of ledger accounts:

Step 1: The ledger accounts shall be totalled and balanced at the end of each quarter or such shorter period as the ULB may decide for preparation of Financial Statements.

Step 2: The closing balances for each of ledger accounts shall be determined and posted in the Trial Balance prepared for that period. The procedures for preparation of Trial Balance, and, from it, the Financial Statements, have been outlined in Chapter 25- Financial Statements.

Step 3: The closing balance in the assets and liabilities ledger accounts of the period shall be carried forward as opening balance of the next period.

Annual Procedures

23.29 All the period-end procedures, including the passing of adjustment entries performed at the end of each quarter, as explained above, shall also be performed at the end of each accounting year. In addition to that, further period-end procedures required to be performed at the year-end have been described below.

23.30 Physical verification of stores:

Step 1: The physical verification of stores and consumables shall be carried out at least once in a year on the last day of the accounting year and at such time intervals as the ULB may decide. The verification shall be carried out by the Stores-in-charge in presence of the personnel of the Audit Department, who shall certify the stock sheet.

Step 2: The physically verified stores shall be reconciled with the balances as per the stores records.

Step 3: The value of physically verified closing stock would be incorporated in the Financial Statements. The procedure for valuation of closing stock has been outlined in Chapter 13 - Stores.

23.31 Physical verification of fixed assets

A Committee consisting of Municipal Commissioner, Head of the Accounts Department, Head of the Public Works Department and such other representatives as the ULB's Statutory Authority resolves, shall be formed.

Step 1: The Committee shall ensure the existence of a system of conducting physical verification of fixed assets throughout the year so that each fixed asset is verified at least once during the year.

Step 2: Any discrepancies with the Fixed Assets Register should be reconciled and brought to the attention of the Statutory Authority. For this, the Committee shall prepare a plan of action for physical verification of its fixed assets.

Step 3: The Accounts Department together with the Public Works Department shall carry out physical verification as per the procedures provided in the verification plan.

Step 4: The details recorded in the verification sheets shall be checked with the relevant Fixed Assets Registers and suitable remedial steps shall be taken in case of discrepancies identified.

23.32 Transfer of funds from special funds

The balance in the Special Fund shall be transferred to the Special Fund (Utilised) on construction or purchase or acquisition of fixed asset at the time of capitalisation of the relevant expenditures into fixed asset. The procedure for transfer has been provided in Chapter 19 - Special Funds. A control shall be kept on the projects executed under any Special Fund for effecting transfer of balance.

23.33 Confirmation of all categories of advances

At the end of the year, the Accounts Department shall obtain a confirmation from all the persons to whom advances have been provided including the Head of the Department for Permanent Advance and employees of the ULB for miscellaneous advance provided.

23.34 Provision for unrealised revenue: A provision shall be made for the demands raised during the accounting period but remaining outstanding. The procedure for provisioning, the amount to be provided and the accounting entries have been outlined in the respective chapters on incomes. The arrears of Receivable shall be carried forward year-wise up to two years or five years depending on the provision norm applicable to that Income. On completion of the last year the amount outstanding in the specific year-wise receivable account shall be transferred to a general arrears account i.e. receivable (Others) Account. Further, the Accounts Department shall make a provision based on the provisioning principle suggested for various types of Income.

23.35 Accounting of prepaid expenses

At the year-end, all the expenses shall be scrutinised to identify those expenses whose benefit is likely to accrue in the next year and a prepaid entry shall be passed in accordance with the procedures outlined in Chapter 16 - Other Revenue Expenditures.

23.36 Contribution of difference in interest to the provident fund

The difference between the interest earned on Provident Fund investment and interest payable on Provident Fund contribution to the employees shall be contributed by the ULB and an amount equivalent to the difference shall be transferred from the Main Bank Account to the Provident Fund Bank Account.

23.37 Confirmation from Government/Quasi-government and Government owned agencies

At the end of each accounting year, the Accounts Department shall prepare and forward a balance confirmation statement to Government and Quasi-government and various government owned agencies in the format as prescribed in Chapter 24 - Reconciliation Procedures. Based on replies received, the Accounts Department shall undertake appropriate remedial action, including passing of necessary rectification entries, for reconciling the balances.

23.38 Closing of ledger accounts

In addition to closing of ledger accounts at the end of each quarter, the ledger accounts shall be balanced and totalled at the end of each accounting year, i.e., on 31st March, for preparation of Financial Statements. The closing balances for each of the ledger accounts shall be posted in the Trial Balance from which Financial Statements shall be prepared in accordance with the procedures outlined in Chapter 25- Financial Statements.

23.39 After the Annual Financial Statements have been prepared, the Accounts Department shall pass the following entries for transfer of income and expenditure ledger balances to the Income & Expenditure Account.

23.40 The total income earned (from property and other taxes, water supply, cess and any other income) by Model Municipal Corporation (MMC) for the Financial Year 2006-07 is Rs.5,02,323 and total expenditure incurred (on salaries and wages paid to the employees, on repairs and maintenance of roads, buildings and other structures, on stores consumed and other such expenditure) for the same Financial Year is Rs. 1,50,975.

23.41 For transfer of income ledger balances to income side of Income and Expenditure Statement

Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books to be entered In to
110-(a)	Tax Income – Property tax	Dr	4,000		Journal Book, Ledger
110-(a)	Cess Income	Dr	45,000		
110-(a)	Water Taxes	Dr	3,500		
110-(a)	Sewerage tax	Dr	1,500		
110-(a)	Octroi & Toll	Dr	1,84,000		
120-(a)	Assigned revenues & Compensation	Dr	1,50,000		
130-(a)	Rental income from municipal properties	Dr	500		
160-(a)	Revenue grant, Contribution & Subsidies	Dr	29,500		
140-(a)	Fees & User charges	Dr	80,000		
170-(a)	Income from Investment	Dr	2,188		
171-(a)	Interest earned	Dr	1,135		
180-(a)	Other Income	Cr	1,000		
	To Income & Expenditure Account			5,02,323	

(a) Insert Minor & Detailed Head Codes of Account

Note 1: Property tax income, rental income from municipal properties, fees & user charges given above are net of refunds & remissions.

Note 2: Balances of the income ledger accounts shall be posted on the right hand side of the Income and Expenditure Statement under the column heading "Income".

23.42 For transfer of expenditure ledger balances to expenditure side of Income and Expenditure Statement

Code of Account	Accounting Entry	Dr/ Cr	Debit Amount(Rs)	Credit Amount(Rs)	Books to be entered In to
	Income & Expenditure Account	Dr	1,50,975		Journal Book, Ledger
210-(a)	To Establishment expenditure	Cr		38,500	
220-(a)	To Administrative expenses	Cr		2,200	
230-(a)	To Operations & Maintenance	Cr		32,800	
240-(a)	To Interest & Finance expenses	Cr		15,500	
260-(a)	To Revenue Grants	Cr		17,500	
270-(a)	To Provisions & Write offs	Cr		23,600	
271-(a)	To Miscellaneous expenses	Cr		2,000	
272-(a)	To Depreciation	Cr		18,875	

Note: Balances of the expense ledger accounts shall be posted on the left-hand side of the Income and Expenditure Statement under the column heading "Expenditure".

(a) Insert Minor & Detailed Head Codes of Account

23.43 The closing ledger balance in the assets and liabilities ledger accounts of the accounting year shall be carried forward as opening balance of the next accounting year.

SUMMARY

1. There are certain reconciliations and accounting procedures to be carried out on a regular basis i.e. daily, monthly and annual basis to keep the recording of transactions up to date. The procedures are classified as follows.
 - a. Daily (Day end Procedures)
 - b. Monthly (Month end Procedures)
 - c. Half year (Half yearly Procedures)
 - d. Annual (Year ending Procedures)

2. The following activity may be carried out on a daily basis.
 - a. Balancing of Cash/Bank Book
 - b. Physical verification of cash balance
 - c. Deposit of collections (both cash and cheque) in the bank:
 - d. Checking of ledger accounts with the books of original entries, i.e., Cash Book and Journal Book:
 - e. Reconciliation of number of receipts issued by the collection office with the collection register.
 - f. Updation of Subsidiary Ledger

3. The following activity may be carried out on a monthly basis.
 - a. Bank Reconciliation
 - b. Recording of expenditure incurred against permanent advance:
 - c. Payment of provident fund dues and pension contribution in respect of employees on deputation.
 - d. Reconciliation of Function wise Income/Expense Subsidiary Ledgers with respective ledger accounts
 - e. Compilation of details of closing stock for preparation of financial statements at the end of the month
 - f. Closing of ledger accounts:

4. The following activity may be carried out on a quarterly basis
 - a. Reconciliation of deposits, advances, receivables and income:
 - b. Provision for period-end expenses:
 - c. Transfer of revenue grant received in advance for specific purpose to grant income.
 - d. Recognition of grant income for revenue expenditure incurred in respect of grant receivable as reimbursement.
 - e. Accrual of interest on borrowings
 - f. Recording of provision for bills remaining unpaid in respect of Special Fund expenditure
 - g. Accrual of interest on investments
 - h. Accrual of interest on loans advanced to employees.
 - i. Reconciliation of Capital Work in Progress
 - j. Reconciliation of Inter unit Account balances
 - k. Passing of adjustment entries
 - l. Closing of ledger accounts:

5. The following activity may be carried out on a Annual basis
 - a. Physical verification of stores:
 - b. Physical verification of fixed assets

- c. Transfer of funds from special funds
- d. Confirmation of all categories of advances
- e. Provision for unrealised revenue
- f. Accounting of prepaid expenses
- g. Contribution of difference in interest to the provident fund
- h. Confirmation from Government/Quasi-government and Government owned agencies
- i. Closing of ledger accounts

EXERCISE

- 1. Write down the steps involved in carrying out the following procedures**
 - a. Balancing Cash/Bank book
 - b. Physical verification of cash balance
 - c. Checking of ledger with books of original entry
 - d. Bank reconciliation
 - e. Physical verification of fixed assets

- 2. Mention the frequency in which the following activities/procedures are to be carried out.**
 - a. Reconciliation of number of receipts issued by the collection office with the collection register.
 - b. Updation of Subsidiary Ledger
 - c. Bank Reconciliation
 - d. Reconciliation of Function wise Income/Expense Subsidiary Ledgers with respective ledger accounts
 - e. Compilation of details of closing stock for preparation of financial statements at the end of the month
 - f. Reconciliation of deposits, advances, receivables and income
 - g. Accrual of interest on borrowings
 - h. Accrual of interest on loans advanced to employees
 - i. Reconciliation of Inter unit Account balances
 - j. Physical verification of stores
 - k. Physical verification of fixed assets
 - l. Accounting of prepaid expenses
 - m. Closing of ledger accounts

BROAD STRUCTURE FOR PREPARING PRESENTATION SLIDES

- Introduction
- Procedures to be carried out on
 - Daily basis
 - Monthly basis
 - Quarterly basis
 - Annual
- Accounting entry for transfer of ledger balances to Income & Expenditure account

CHAPTER 24

RECONCILIATION PROCEDURES

LEARNING OBJECTIVE

At the end of this Chapter, the reader will...

- *Understand the importance of reconciliation procedures*
- *Be familiar with where errors/discrepancies may arise while reconciling the books.*
- *Understand the procedures for carrying out bank, advances, deposits, receivables and other reconciliations*

CHAPTER OVERVIEW

The objective of the reconciliation procedures is to ensure that if accounting information is recorded at more than one place, there are no discrepancies between the different sets of records. This chapter focuses on bank reconciliation and other reconciliations like advances, deposits, receivables etc. The chapter is intended to act as a tool for the reader to understand the procedure to be followed for preparing the reconciliation statements and it is advised that the reader refer to “Chapter 30” of NMAM for detailed coverage of the subject.

INTRODUCTION [*\(Refer Para 30.1 to 30.4 of NMAM\)*](#)

24.1 The reconciliation procedures are to be carried out by the Accounts Department, Audit Department and the concerned departments.

24.2 The procedures will include the following:

- a. Bank Reconciliation,
- b. Inter-unit reconciliation,
- c. Reconciliation of deposits,
- d. Reconciliation of receivables and collections in respect of:
 - i. Water supply;
 - ii. Property and other taxes;
 - iii. Cess;
 - iv. Other heads of revenues.
- e. Reconciliation of advances to:
 - i. Contractors/suppliers;
 - ii. Departments of the ULB; and
 - iii. Employees of the ULB.
- f. Reconciliation of loans received (borrowings) ,
- g. Reconciliation of payables including contractors’ payables,
- h. Reconciliation of balances with Government, quasi-Government agencies, Government Corporations, and
- i. Reconciliation of loans given to others
- j. Reconciliation of the accounts for the income and expense heads falling under the following categories with the Function wise Income / Expense Subsidiary Ledgers maintained at the Accounts Department in respect of those categories:
 - i. Fees & User Charges,

- ii. Sale & Hire Charges,
- iii. Establishment Expenses,
- iv. Administrative Expenses, and
- v. Repairs & Maintenance Expenses.

BANK RECONCILIATION ([Refer Para 30.5 to 30.8 of NMAM](#))

24.3 Bank Reconciliation is a procedure which aims at reconciling the bank balance as shown in the Cash Book (Form GEN - 1) of the ULB with the bank balance as per the pass book/statement received from the bank. The Bank Reconciliation shall be carried out on a monthly basis or such other shorter time intervals as the ULB may decide for each of the bank accounts maintained by the ULB.

FACTORS NECESSITATING BANK RECONCILIATION

24.4 The bank reconciliation procedure is explained with the help of our Model Municipal Corporation (MMC).

24.5 The Bank book of MMC for the month of June 2006 showed a balance of Rs 90,000 which did not agree with the bank statement (of 'S Bank') due to following reasons.

S.No	Particulars	Amount (Rs)
1	Share of entertainment Tax received from Government deposited in the bank on 25 th of June but credited by bank on 2 nd July 2006.	50,000
2	Transit deposit refunded to the contractor on 20 th June but not presented for payment till the end of the month	5,000
3	Standing instruction for payment of Electricity bill was not entered in the cash book.	1,000
4	Interest on bank deposit was directly credited to the bank account.	750
5	Bank charges directly debited by the bank	150
6	Cheques received and recorded in the bank column of the cash book but not sent for collection	900
7	Deposit of cheques wrongly credited to another account	1,100
8	Security deposit cheque received from contractor was dishonoured by bank	4,000

24.6 The bank balances as per the Cash Book and the Pass Book may not tally for the reasons listed in Table 24.1 below

Table 24.1
Factors necessitating Bank Reconciliation

Reconciliation factors	Effect on Cash Book bank balance	Effect on bank balance as per Pass Book
Cheques issued but not presented for payment	Bank balance reduces by that amount	No effect
Cheques deposited but not cleared	Bank balance increases by that amount	No effect
Cheques received but not deposited	Bank balance increases to the extent of cheque received but not deposited	No effect
Debit of charges by bank for any services rendered	No effect	Bank balance reduces to the extent of charges levied

Reconciliation factors	Effect on Cash Book bank balance	Effect on bank balance as per Pass Book
Direct deposit of amount in the bank account	No effect	Bank balance increases to the extent of deposit
Interest allowed and credited by the Bank	No effect	Bank balance increases to the extent of interest credited
Payment by the bank in respect of standing instructions given to the bank	No effect	Bank balance reduces to the extent of the payment made
Fixed Deposit or any other sum directly credited by bank to the account	No effect	Bank balance increases to the extent of money credited
Any other reason which may result in difference between bank balance as per Cash Book and Pass Book		

- 24.7 The procedure for reconciling the bank book and the bank statement shall be as follows:-
- The credit/debit entries in the Bank Pass Book shall be compared with the entries in the Receipt/payment Register (Form GEN-9/Form GEN -15) and the entries appearing in both shall be ticked (✓). The date when the cheques have been realized/ encashed shall also be recorded in the respective Register.
 - The daily total of cheques realized/issued in the bank shall be derived from the Cheque Receipt/Payment Register and the total shall be tallied with the entry in the Cash Book.
 - The unticked items represent the reconciling items. The unticked items shall appear in the Bank Reconciliation Statement (BRS) of that period. The entries appearing in the BRS shall be examined for credit/payment in the subsequent period's Bank Pass Book and those items, which do not reconcile shall be carried forward to the next period's BRS.
- 24.8 The Accounts department shall prepare the bank reconciliation statement as follows:

Table 24.2
Bank Reconciliation Statement of 'S Bank' for the month of June 2006

Particulars	Amount(Rs)	Amount(Rs)
Balance as per bank book		90,000
Add:		
Cheque issued to contractor but not presented for payment	5,000	
Interest on deposit credited by bank	750	5,750
Less:		
Entertainment tax collections deposited but not credited by bank	50,000	
Electricity bill directly debited by bank	1000	
Bank charges debited by bank	150	
Cheques not sent for collection	900	
Cheques wrongly credited to another account	1,100	
Cheque dishonored by bank	4,000	57,150
Bank balance as per Bank statement		38,600

RECONCILIATION OF DEPOSITS ([Refer Para 30.10 to 30.13 of NMAM](#))

24.9 Reconciliation of Deposits aims at reconciling the balance of Earnest Money Deposit, Security Deposit and any other deposits received by the ULB. The reconciliation shall be carried out between the records maintained at other departments and those maintained at the Accounts Department.

24.10 The Deposit Reconciliation shall be carried out quarterly or at such shorter time intervals as the ULB may decide.

24.11 The Department which had received the deposits shall prepare a Reconciliation Statement of Deposits Outstanding from the Deposit Register (Form GEN-18) in the format provided in Table 24.3 below for all the deposits received by it and forward it to the Accounts Department. This statement shall be prepared for each type of deposit. In case there is a discrepancy between the records of the two, this statement may have to be prepared for each contractor/supplier.

24.12 Refer to our example in Para 12.13 of Chapter 12- “Public Works”, the reconciliation statement for the EMD received from LT & Co would be as follows.

Table 24.3
Reconciliation Statement of Deposits Outstanding with the ULB
Received by Public works Department as on 31st March 2007
Received from LT & Co

Particulars	Amount (Rs.)
Deposits outstanding at the beginning of the accounting period	Nil
<u>Add</u> : Deposits received during the current accounting period (Bank receipt voucher no yyyy dated 12 th August 2006)*	5,000
<u>Less</u> : Deposits returned during the current accounting period (specify all the Payment Orders through which the deposit has been refunded)	Nil
<u>Less</u> : Deposits Adjusted – Converted as Security deposit(JV voucher number xxxx dated 1 st September 2006)	(5,000)
<u>Less</u> : Deposits Lapsed	Nil
Deposits outstanding at the end of the accounting period	Nil

*Specify all the Statement of Collections through which deposit has been received

Note: For illustration purpose, the reconciliation has been done only for EMD received from one party. The users are advised to prepare the reconciliation in the similar format for all types of deposits and for every party.

RECONCILIATION OF RECEIVABLES AND COLLECTIONS ([Refer Para 30.14 to 30.16 of NMAM](#))

24.13 The receivables and collections shall be reconciled on a quarterly basis or such other shorter time intervals as the ULB may decide. The procedure for reconciling the outstanding balance of receivables and collections shall be the same for all kinds of receivables, viz.:

- a. Water Supply receivables;
- b. Property Tax receivables;
- c. Cess receivables;
- d. Receivables on account of other heads of revenues.

24.14 Refer to example in Para 8.8 of Chapter – 8 – “Cess”, the reconciliation statement for Cess receivable for the month of July would appear as follows.

Table 24.4
Reconciliation Statement of Receivables and Collection
Details for Cess Department as on 31st July 2006

Sr. No.	Particulars	Amount (Rs.)	Amount (Rs.)
A	OPENING BALANCE OF DEMAND OUTSTANDING		16,500
I	Demand outstanding in respect of the previous quarters/accounting periods of the current accounting year	16,500	
II	Demand outstanding in respect of previous accounting years (This detail should be given year-wise, wherever applicable)	Nil	
B	Add: Demand raised during the current Quarter/Period	45,000	
C	TOTAL DEMAND OUTSTANDING	61,500	61,500
D	COLLECTIONS DURING THE CURRENT QUARTER/PERIOD		
i.	Collection of demand pertaining to current quarter/accounting period	45,000	
ii.	Collection of demand pertaining to previous quarters/accounting periods of the current accounting year during the current quarter/accounting period	Nil	
iii.	Collection of demand pertaining to demand for the previous accounting years collected during the current quarter/accounting period (This detail should be given year-wise, wherever applicable)	Nil	
iv.	Collection in advance pertaining to future accounting periods	Nil	
E	Total collections during the current quarter/accounting period (i + ii + iii + iv)	45,000	45,000
F	CLOSING BALANCE OF DEMAND OUTSTANDING	16,500	16,500
i.	Demand outstanding in respect of the current quarters/accounting periods [B – D(i)]	Nil	
ii.	Demand outstanding in respect of the previous quarters/accounting periods of the current accounting year [A(i) – D(ii)]		
iii.	Demand outstanding in respect of previous accounting years (This detail should be given year-wise, wherever applicable) [A(ii) – D(iii)]	16,500	16,500

Note: For illustration purpose, the reconciliation has been done only for Cess receivable for one month (July). The users are advised to prepare the reconciliation in the similar format for all types of receivables like water supply receivable, Property tax receivable and other receivables.

24.15 The Reconciliation Statement received by the Accounts Department shall be reconciled with the respective ledger accounts maintained by the Accounts Department. The reasons for differences, if any, shall be identified and rectification entries passed wherever required by the department, which has recorded the entry incorrectly.

RECONCILIATION OF ADVANCE GIVEN TO CONTRACTORS/SUPPLIERS (Refer Para 30.18 to 30.20 of NMAM)

24.16 The concerned Department shall maintain a record of the advances given to each of the contractors/suppliers. The Accounts Department shall also maintain a record of the advances provided in a Register of Advances (Form GEN-16).

24.17 The Department which had initially sanctioned advance to the contractor/supplier shall prepare a Reconciliation Statement of Advance Outstanding in the format provided in Table 24.5 below for all the contractors/suppliers and forward it to the Accounts Department. In case there is a discrepancy between the records of the two departments, this statement may have to be prepared for each contractor/supplier.

24.18 Refer to the example given in Para 13.12 of Chapter 13 –“Stores”, the reconciliation statement for the advance given to HJ & Co would appear as follows.

Table 24.5
Reconciliation Statement of Advance Outstanding provided to Supplier HJ & Co
by Purchasing (stores) Department as on 31st March 2007

Particulars	Amount (Rs)
Advance outstanding at the beginning of the accounting period	Nil
<u>Add:</u> Further advance given during the current accounting period (Bank payment voucher number yyyy dated 15 th July 2006)*	2,500
Total Advance Provided	2,500
<u>Less:</u> Advance recovered during the current accounting period (specify all the Statement of Collection through which advance had been recovered)	Nil
<u>Less :</u> Advance Adjusted (Give details)	Nil
Advance outstanding at the end of the accounting period	2,500

*Specify the Payment Orders through which advance have been provided)

RECONCILIATION OF ADVANCES GIVEN TO DEPARTMENTS (Refer Para 30.21 to 30.23 of NMAM)

24.19 The departments receiving the advances from the Accounts Department shall maintain a record of the advances received by them in Register of Permanent Advance (Form GEN-17). The Accounts Department shall also maintain a record of the advances provided to the departments in a Register of Advance (Form GEN-16).

24.20 The head of the concerned department shall send to the Accounts Department a confirmation of the advances provided to his department stating the purpose for which it was provided in the format provided in Table 24.6 below. The confirmation received shall be tallied with the Register of Advances by the Accounts Department.

24.21 Refer to example given in Para 16.20 of Chapter 16 – “Other Revenue Expenditure”, the confirmation statement for the permanent advance given to Administration department would appear as follows ;

Table 24.6
Reconciliation Statement of Permanent Advance provided to
Administration Department as on 31st March 2007

Particulars	Amount (Rs.)
Advance outstanding at the beginning of the accounting period	Nil
<u>Add:</u> Further advance given /replenished during the current accounting period (Cash Payment voucher number yyyy dated 15 th January 2007)*	1,000
Total Advance Provided	1,000
<u>Less:</u> Expenditure incurred against the advance provided (Voucher number xxxx dated 15 th January 2007)	500
Less: Amount Recovered	500
Advance outstanding at the end of the accounting period	Nil

* Specify the payment order through which the payment have been provided

RECONCILIATION OF ADVANCES GIVEN TO EMPLOYEES ([Refer Para 30.24 to 30.27 of NMAM](#))

24.22 MMC had given an employee (Mr. 'Z') his May month salary of Rs 6,500 in advance for meeting his unexpected personnel expenditure and it was agreed that it would be recovered from his salary over a period of five months commencing from the month next to disbursement.

24.23 The employees of the ULB may be provided with two kinds of advances namely - personal advance or miscellaneous advance.

24.24 The details of the personal advances granted to the employees shall be recorded in a Register of Advances in Form ES-2. The details of recovery of advances shall also be recorded in that Register.

24.25 At the end of the accounting period, a confirmation statement shall be obtained from each of the employees to whom advance has been provided in the format provided in Table 24.7 below.

24.26 The confirmation statement so obtained shall be reconciled with the record of the employees maintained at the Establishment Department, where a consolidated Statement of Advance provided to Employees shall be prepared and forwarded to the Accounts Department. The Accounts Department shall reconcile the total amount of advance provided with the control ledger accounts

Table 24.7
Reconciliation Statement of Personal Advance provided to
Mr. 'Z' for the year ended 31st March 2007

Particulars	Amount (Rs)
Advance outstanding at the beginning of the accounting period	Nil
<u>Add:</u> Further advance given during the current accounting period (<i>specify all the Payment Orders through which advance have been provided/replenished</i>)	6,500
Total Advance Provided	6,500
<u>Less:</u> Advance recovered including recovery from the salary during the current accounting period (Recovered from salary from June to October)	(6,500)
Advance outstanding at the end of the accounting period	Nil

24.27 In case of miscellaneous advance provided to employees for incurring expenses in the course of performing the duties of office, a confirmation statement shall be obtained from the employee for the amount advanced stating therein, the expenditure already incurred together with its details and the balance remaining in hand, in the format provided in Table 24.8 below. The statement obtained shall be confirmed with the records maintained in the Register of Advances in Form GEN-16.

24.28 Refer to our example in Para 16.25 of NMAM, the reconciliation of Miscellaneous advance given to employee

Table 24.8
Reconciliation Statement of Miscellaneous Advance provided to
Mr. 'A' for the year ended 31st March 2007

Particulars	Amount (Rs.)
Advance outstanding at the beginning of the accounting period	Nil
Add: Further advance given during the current accounting period (<i>Bank payment number xxxx dated 15th July 2006</i>)	100
Total Advance Provided	100
Less: Expenditure incurred against advance provided	200
Less: Advance adjusted (Additional expenditure reimbursed to the employee)	100
Advance outstanding at the end of the accounting period	Nil

**Specify all the Payment Orders through which advance have been provided/replenished*

RECONCILIATION OF LOANS TAKEN ([Refer Para 30.28 & 30.29 of NMAM](#))

24.29 The Accounts Department shall maintain a record of all the loans borrowed in Register of Loan (Form Loan - 1). At the end of each accounting year, the Accounts Department shall prepare and forward to the lender, a Confirmation Statement for loan borrowed in the format provided in Table 24.9 below stating therein, the amount borrowed or disbursed directly to Executing Agency, the amount repaid and interest accrued and paid on the loan.

24.30 Refer to our example in Para 18.4 of Chapter 18 – “Borrowings (Loans Received)” of NMAM, the reconciliation statement for Loan taken from “S bank” shall be as follows.

Table 24.9
Confirmation Statement of Loan borrowed

Particulars	Amounts in Rs.	
Loan outstanding at the beginning of the accounting year (Principle)	Nil	
Add: Instalments received during the accounting year	1,00,000	
Sub-total loan outstanding	1,00,000	
Less: Instalments paid during the accounting year	6,300	
Net Loan outstanding at the end of the accounting year (A)	93,700	93,700
Total Interest Payable at the beginning of the accounting year	Nil	
Add: Interest accrued during the accounting year	10,000	
Total Interest Payable	10,000	
Less: Interest paid during the accounting year	10,000	
Total Interest Payable at the end of the accounting year (B)	Nil	Nil
Total amount due (principal plus interest) at the end of the accounting year (A+B)	93,700	93,700

RECONCILIATION OF PAYABLES (SUPPLIERS AND CONTRACTORS) [Refer Para 30.30 & 31.31 of NMAM](#)

24.31 The concerned departments and the Accounts Department maintain a Register of Bill for Payment (Form GEN – 13) in which all bills submitted for payment are recorded. The concerned department shall ascertain the information required as per Table 24.10 below and forward the details to the Accounts Department.

24.32 Refer to the example given in Para 12.23 of Chapter 12 – “Public works”, the reconciliation statement of payables to AB & Co would appear as follows.

Table 24.10
Reconciliation Statement of Payables
Details for Public Works Department as on 31st March 2007
Contractor – ‘AB & Co’

Sr. No.	Particulars	Amount (Rs.)	Amount (Rs.)
A	OPENING BALANCE OF UNPAID BILLS		
i.	Bill outstanding in respect of the previous quarters/accounting periods of the current accounting year	Nil	
ii.	Bill outstanding in respect of previous accounting years (This detail should be given year-wise, wherever applicable)	Nil	
B	Add: Bills received during the current quarter/period	12,500	12,500
C	GROSS TOTAL LIABILITY OUTSTANDING (A + B)	12,500	12,500
D	PAYMENTS DURING THE CURRENT QUARTER/PERIOD		
i.	Payment of bills pertaining to current quarter/accounting period of the current accounting year	12,500	
ii.	Payment of bills pertaining to previous quarters/accounting periods of the current accounting year during the current quarter/accounting period	Nil	
iii.	Payment of bills pertaining to previous accounting years during the current quarter/accounting period (This detail should be given year-wise, wherever applicable)	Nil	
E	Total payments during the current quarter/accounting period (i + ii + iii)	12,500	12,500
F	CLOSING BALANCE OF UNPAID BILLS	Nil	Nil
i.	Bill outstanding in respect of the current quarters/accounting periods of the current accounting year [B – D(i)]		
ii.	Bill outstanding in respect of the previous quarters/accounting periods of the current accounting year [A(i) – D(ii)]		
iii.	Bill outstanding in respect of previous accounting years (This detail should be given year-wise, wherever applicable) [A(ii) – D(iii)]		

24.33 The Reconciliation Statement received by the Accounts Department shall be reconciled with the respective ledger accounts maintained by the Accounts Department. The reasons for differences, if any, shall be identified and rectification entries passed wherever required by the department, which has recorded the entry incorrectly.

SUMMARY

1. Reconciliation procedures are to ensure that, if accounting information is recorded at more than one place, there are no discrepancies between the different sets of records.
2. Normally the following reconciliations are carried out on a fixed period of time, say monthly, quarterly, annual.
 - a. Bank Reconciliation,
 - b. Inter-unit reconciliation,
 - c. Reconciliation of deposits,
 - d. Reconciliation of receivables and collections in respect of:
 - i. Water supply;
 - ii. Property and other taxes;
 - iii. Cess;
 - iv. Other heads of revenues.
 - e. Reconciliation of advances to:
 - i. Contractors/suppliers;
 - ii. Departments of the ULB; and
 - iii. Employees of the ULB.
 - f. Reconciliation of loans received (borrowings) ,
 - g. Reconciliation of payables including contractors' payables,
 - h. Reconciliation of balances with Government, quasi-Government agencies, Government Corporations, and
 - i. Reconciliation of loans given to others
3. Bank Reconciliation is a procedure which aims at reconciling the bank balance as shown in the Cash Book (Form GEN - 1) of the ULB with the bank balance as per the pass book/statement received from the bank.
4. The procedure for preparation of Bank reconciliation is given in Para 24.4 to 24.8.
5. Similarly procedures for preparing other reconciliations like deposits, Receivables, Advances to contractors, loans & advances to employees etc are covered elaborately in this chapter.

EXERCISE

1. Prepare the bank reconciliation for State Bank of India for the month of September 2006.

**State Bank of India
Bank Statement for the period 01/09/2006 to 30/09/2006**

			Rs
Date	Particulars	Amount	Balance
	Opening balance		50,000
1/9/2006	Cash deposited	1,00,000	1,50,000
9/9/2006	Payment to Y through cheque no 462889	25,000	1,25,000
12/9/2006	Bank DD commission charges	2,000	1,23,000
15/9/2006	Cash deposited	2,50,000	3,73,000
19/9/2006	Deposit through cheque - cheque no 678389	1,50,000	5,23,000
30/9/2006	Bank charges	5,000	5,18,000
30/9/2006	Bank interest credited to the account	25,000	5,43,000

**Bank Book - State Bank of India
Period - 01/09/2006 to 30/09/2006**

Date	Voucher No	Debit	Credit
	Opening balance	50,000	
1/9/2006	TFR -2007001563 Being cash collected at various counters deposited in the bank	1,00,000	
3/9/2006	BRV – 102 Being cheques received towards property tax at various counters	2,50,000	
5/9/2006	BPV -170 Being payment to contractor 'Z' cheque no 273890		75,000
9/9/2006	BPV -180 Payment to Y through cheque no 462889		25,000
15/9/2006	TFR -2007001566 Being cash collected at various counters deposited in the bank	2,50,000	
19/9/2006	BRV – 110 Being cheques received for property tax cheque no.678389	1,50,000	
	Total for the period	7,50,000	1,00,000
	Closing balance		700000

2. What is the objective of carrying out the following reconciliations
 - a Bank reconciliation statement.
 - b Reconciliation of deposits
 - c Reconciliation of receivables and collections
 - d Reconciliation of payables
 - e Reconciliation of advance to employees

BROAD STRUCTURE FOR PREPARING PRESENTATION SLIDES

- Introduction
- Reconciliation
 - Bank
 - Deposits
 - Receivables and collections
 - Advance given to contractor/suppliers
 - Advance given to departments
 - Advance given to employee
 - Loans taken
 - Payables

CHAPTER 25

FINANCIAL STATEMENTS

LEARNING OBJECTIVE

At the end of this Chapter, the reader will

- *Be familiar with the statements that form part of annual financial statements.*
- *Be familiar with the method of preparation of Trial Balance, Income & Expenditure account, Balance Sheet, Cash flow and Receipts & Payments account.*
- *Be familiar with the method of computation of various ratios which are indicators of performance of the ULB.*

CHAPTER OVERVIEW

The financial statements indicate the state of affairs and the performance of the ULB for a stated period usually a year. This chapter focus on the method of preparation of Trial Balance, Income & Expenditure, Balance sheet, Cash Flow and Receipts & Payments account. A model financial statement compiled on basis of entries passed in other chapters of the manual is provided in this chapter. Only those schedules that were necessary for preparation of financial statements of MMC are provided, for other schedules please refer NMAM.

INTRODUCTION

25.1 The provisions and rules of the Act governing the ULB stipulate for preparation of the Annual Administration Report and a Statement of Accounts by the ULB. The report shall be in such form and shall contain such information as the Standing Committee may from time to time direct. Preparation of Financial Statements comprising of various reports as stated below are the responsibility of the Head of the Accounts Department.

25.2 The Annual Report of the ULB shall include the following:

- a Financial Statements consisting of:
 - i. Balance Sheet;
 - ii. Income and Expenditure Statement;
 - iii. Statement of Cash flows (a summary of an enterprise's cash flow over a given period of time);
 - iv. Receipts and Payments Account (detailed as per the account heads);
 - v. Notes to Accounts; and
 - vi. Financial Performance Indicators.
- b Report of the Municipal Chief Auditor;
- c Municipal commissioner's Report on the Annual Financial Statements and the qualifications and comments made in the Report of the Municipal Chief Auditor; and
- d Standing Committee's Action Taken Report on the qualifications and comments made in the Report of the Municipal Chief Auditor and the Report of the Municipal commissioner.

25.3 In determining the accounting treatment and manner of disclosure of an item in the Income and Expenditure Statement and/or the Balance Sheet, due consideration shall be given to the materiality of the item.

25.4 The ULB shall also prepare the financial statements like the Balance Sheet, Income and Expenditure Statement, Statement of Cash flows and Receipts and Payments Account, at the end of each quarter. Balance Sheet shall disclose figures as on a date for the current year and the previous year. Income and Expenditure Statement, Statement of Cash flows and the Receipts and Payments Account shall disclose quarterly figures, progressive year-to-date totals and the figures of the corresponding quarter of the previous year and the quarterly movements in various accounts. In addition, the Income and Expenditure Statement shall also disclose the annual budget figures. In respect of the accounting year, the ULB shall prepare all the statements and reports specified in Para. 25.2.

TRIAL BALANCE

25.5 The process of preparation of the Financial Statements shall be preceded by preparation of a Trial Balance. The Trial Balance is a list of closing balances in all the accounts in the Ledger and the Cash Books. The purpose of preparing a Trial Balance is to determine the equality of posted debits and credits, and to generate a basic summary of accounts for facilitating preparation of the Financial Statements like Income and Expenditure Statement, Balance Sheet, Statement of Cash flows and Receipts and Payments account. The Financial Statements are essentially drawn from the Trial Balance.

25.6 The following points should be noted while preparing the Trial Balance:

- a The income accounts shall generally have credit balances and the expense accounts shall generally have debit balances.
- b The asset accounts shall generally have debit balances and the liability accounts and the reserve funds shall generally have credit balances.

25.7 The following are the steps involved in the preparation of a Trial Balance:

- a All the ledger accounts shall be closed at period end and the debit or credit balance shall be calculated.
- b The debit balances shall be posted in the debit column of the Trial Balance and the credit balances in the credit column of the Trial Balance.
- c The posting of Ledger Accounts in the Trial Balance shall be in the same order as shown in the Chart of Accounts.
- d The Cash Books shall be closed and the balances shall be posted in the Trial Balance.
- e Both the Debit Column and the Credit Column of the Trial Balance shall be totalled.

25.8 Since every debit entry has a corresponding credit entry, the sum-total of the debit balances in various account heads shall be equal to the sum-total of the credit balances in the other account heads.

25.9 If the entries explained in various chapters of the training manual are posted on to respective ledgers accounts and from there a Trial balance is drawn then it would appear as provided in Table 25.1 given below.

Table 25.1
Model Municipal Corporation (MMC)
Trial balance for the period from 01.04.06 to 31.03.07

Code No	Particulars	Debit(Rs)	Credit(Rs)
	Fixed Assets		
410-10-(a)	Land	3,00,000	
410-20(a)	Building	1,30,000	
410-30-(a)	Roads & Bridges	65,000	
410-40-(a)	Plant & Machinery	45,000	
410-50-(a)	Vehicles	12,500	
410-30-(a)	Fixed assets – foot bridge	25,500	
	Accumulated Depreciation		
411-20-(a)	Accumulated depreciation – Building		31,500
411-30-(a)	Accumulated depreciation - Roads & Bridges		19,875
411-40-(a)	Accumulated depreciation - Plant & Machinery		12,000
411-50-(a)	Accumulated depreciation – Vehicles		5,000
	Depreciation		
272-20-(a)	Depreciation – Building	6,500	
272-30-(a)	Depreciation - Roads & Bridges	4,875	
272-40-(a)	Depreciation - Plant & Machinery	5,000	
272-50-(a)	Depreciation – Vehicles	2,500	
	Capital work in progress		
412-10-(a)	Capital work in progress - School buildings	16,500	
412-10-(a)	Capital work in progress - Parks & Plays ground	25,000	
	Investments		
420-90-(a)	Municipal fund investment - treasury bills	5,000	
421-80-(a)	Investment - other funds- Indian bank	5,000	
421-10-(a)	Family welfare grant investment - central Government securities	6,000	
	Loans to others		
460-30-(a)	Loans to others - MTU1	6,000	
460-30-(a)	Loans to others – MSB	0	
460-30-(a)	Loans to others - MTU2	8,350	
460-10-(a)	Loan to employees	4,700	
460-20-(a)	Employee provident fund - loan account	2,250	
	Stock in hand		
430-10-(a)	Stock in hand - Water supply stores	5,000	
430-10-(a)	Stock in hand – Electrical stores	10,000	
430-10-(a)	Stock in hand - Engineering stores	1,000	
430-10-(a)	Stock in hand - purchase of medical stores	14,800	
	Advances		
460-40-(a)	Advance to suppliers & contractors – School building	4,000	
460-40-(a)	Advance to suppliers & contractors - Machinery stores	2,500	
	Prepaid expenses		
440-30-(a)	Prepaid expense others - AMC computers	1,800	
	Miscellaneous expenditure not written off		

Code No	Particulars	Debit(Rs)	Credit(Rs)
480-10-(a)	Loan issue expense – deferred	2,400	
	Incomes		
180-30-(a)	Profit on sale of asset - Plant & Machinery		1,000
171-30-(a)	Interest on loan to others - MTU2		1,000
160-20-(a)	Re imbursement of Government grant		16,000
160-10-(a)	Motor tax - Revenue Grant		12,000
120-10-(a)	Tax and duties collected by others - Entertainment tax		75,000
120-10-(a)	Tax and duties collected by others - duty on Transfer of Property		75,000
110-51-(a)	Octroi & toll – Octroi		18,000
110-51-(a)	Octroi & toll - Account current importers		4,000
140-12-(a)	Fees for grant of permit - Transit fees		2,000
140-10-(a)	Empanelment registration charges – Cess		10,000
110-52-(a)	Cess - net income		45,000
160-10-(a)	Grant income - revenue grant		17,500
140-50-(a)	Parking fees -fees & user charges		7,500
130-90-(a)	Rental income from municipal properties		3,000
140-11-(a)	Licensing fees - shops & bazaars		4,000
140-(b)	Fees & User charges - Medical fees		15,000
170-10-(a)	Income from investment -interest (treasury bills)		550
170-40-(a)	Profit on sale of investment		1,500
140-50-(a)	User charges - water supply		7,000
140-50-(a)	User charges – sewerage		4,000
140-50-(a)	User charges - meter charges		3,000
140-50-(a)	User charges - water tankers		15,000
140-(b)	Fees & User charges - water supply		5,500
110-01-(a)	Property tax – residential		3,00,000
110-01-(a)	Property tax commercial		4,00,000
110-02-(a)	Water tax		3,50,000
110-03-(a)	Sewerage tax		150,000
170-10-(a)	Investment income - interest from Municipal fund investment		138
280-10-(a)	Prior period income property tax - residential - 2005		2,000
280-10-(a)	Prior period income property tax - commercial - 2005		4,000
140-40-(a)	Other fees - property transfer charges		5,000
140-70-(a)	Service and administration charges		4,000
171-20-(a)	Interest on loans advanced to employees		135
	Provision for receivable		
270-10-(a)	Provision for doubtful receivable Cess – 2004	3,000	
270-10-(a)	Provision for doubtful receivable –Cess 2005	2,000	
270-10-(a)	Provision for doubtful receivables – fees & user charges – 2005	4,000	
270-10-(a)	Provision for doubtful receivables – fees & user charges – 2004	3,000	
270-10-(a)	Provision for doubtful receivable - property tax - 2005	2,500	
270-10-(a)	Provision for doubtful receivable - property tax - 2004	1,750	
270-10-(a)	Provision for doubtful receivable - property tax - 2003	750	
270-20-(a)	Provision for other assets - Loan to MTU1	6,000	

Code No	Particulars	Debit(Rs)	Credit(Rs)
	Other liabilities		
340-20-(a)	Deposit revenues –rent		1,000
350-10-(a)	Other liabilities - Sundry Creditors – Suppliers		44,000
350-20-(a)	Recoveries payable from TDS contractors		4,000
340-10-(a)	Deposit received from contractors/suppliers security deposit		1,500
350-20-(a)	Recoveries payable from contractors – TDS		1,000
340-10-(a)	Contractors/suppliers - Security deposit		5,000
350-20-(a)	Recoveries payable – works contract tax – park		250
350-20-(a)	Recoveries payable from contractors – TDS		1,250
340-10-(a)	Contractors/suppliers - Security deposit - School building		1,800
340-10-(a)	Contractors/suppliers - Security deposit - Parks & Play ground		1,000
340-20-(a)	Deposit revenues water supply		3,000
340-10-(a)	From contractors/suppliers - security deposit stores		1,000
360-10-(a)	Provision for expense – Communication expenses		1,500
360-20-(a)	Interest & Financial charges payable		2,500
340-80-(a)	Other security deposits –opening		17,200
350-10-(a)	Other liabilities - Sundry Creditors - Contractors		43,000
360-10-(a)	Provision for other expenses		34,050
350-11-(a)	Employees liabilities - unpaid salaries		1,000
340-80-(a)	Rental deposit – others		15,000
	Special fund		
311-10-(a)	Special funds - Tree authority fund		625
320-(b)	Grant for specific purpose - family welfare project		7,860
	Receivables		
431-20-(a)	Receivable for Cess -2006	4,500	
431-20-(a)	Receivable for Cess -2005	4,000	
431-20-(a)	Receivable for Cess -2004	6,000	
431-20-(a)	Receivable for Cess -2003	0	
431-30-(a)	Receivables for fees & user charges - water supply 2006	14,000	
431-30-(a)	Receivables for fees & user charges - water supply 2005	8,000	
431-30-(a)	Receivables for fees & user charges - water supply 2004	6,000	
431-10-(a)	Property tax receivable on residential buildings - 2005	12,000	
431-10-(a)	Property tax receivable on commercial buildings - 2005	4,000	
431-10-(a)	Property tax receivable on commercial buildings - 2004	7,000	
431-10-(a)	Property tax receivable on residential buildings - 2003	3,000	
431-10-(a)	Property tax receivable on residential buildings - 2002	0	
431-40-(a)	Receivable from other sources - interest on Loan to MSB	0	
431-40-(a)	Receivable from other sources - interest accrued on Loan MTU 2	0	
431-50-(a)	Receivable from Government – Entertainment tax	25,000	
431-19-(a)	Receivable for other taxes - Octroi from Account current holders	3,000	
431-40-(a)	Receivable from other source - interest accrued and not due - Municipal fund investment	138	
431-40-(a)	Receivable from other source - interest accrued and not due - Special fund investment	125	

Code No	Particulars	Debit(Rs)	Credit(Rs)
431-40-(a)	Receivable from other source - interest accrued and not due - Grant fund investment	120	
431-40-(a)	Receivables from other sources-interest accrued and not due on employee loans	135	
	Borrowings		
331-50-(a)	Loans from bank and financial institution for art gallery -S bank		93,700
331-70-(a)	11% debentures		50,000
	Accumulated Provision on outstanding receivables		
432-30-(a)	Provision for outstanding fees & user charges - water supply – 2005		4,000
432-30-(a)	Provision for outstanding fees & user charges - water supply – 2004		6,000
432-10-(a)	Provision for outstanding property tax – 2005		2,500
432-10-(a)	Provision for outstanding property tax – 2004		3,500
432-10-(a)	Provision for outstanding property tax – 2003		2,250
432-20-(a)	Provision for outstanding Cess – 2004		6,000
432-20-(a)	Provision for outstanding Cess – 2005		2,000
461-10-(a)	Provision for outstanding loans to others(MTU1)		6,000
	Expenditures		
130-90-(a)	Rent, refund and remission	2,500	
280-60-(a)	Prior period expenses Refund of other revenues rent	500	
240-50-(a)	Interest & Financial charges (Loan)	10,000	
240-60-(a)	Interest & Financial charges (Debentures)	5,500	
270-50-(a)	Miscellaneous exp written off	600	
230-59-(a)	Repairs & Maintenance others - AMC computers	600	
220-12-(a)	Communication expense	1,500	
220-21-(a)	Printing & stationery expense	700	
140-90-(a)	Fees remission & refund - water supply	2,000	
280-60-(a)	Prior period expenses refund of other revenues - water supply	500	
110-90-(a)	Tax remission & refund - property tax	3,000	
280-50-(a)	Prior period expenses- refund of taxes - property taxes	2,000	
230-30-(a)	Consumption of medical stores	7,200	
271-10-(a)	Loss on sale of stores	2,000	
230-50-(a)	Repairs & maintenance infrastructure assets	25,000	
260-10-(a)	Family welfare grant expenditure	17,500	
	Cash & Bank		
450-10-(a)	Cash in hand	1,000	
450-21-(a)	Bank balance	13,99,100	
450-(b)	Designated loan bank account	1,50,000	
450-41-(a)	Provident fund bank account	50,050	
450-42-(a)	Pension fund bank account	38,000	
450-41-(a)	Water supply bank account	14,000	
450-41-(a)	Designated bank account - Tree Authority Fund	500	
450-41-(a)	Designated bank account - Family Welfare Grant	6,740	
	Earmarked fund		
311-71-(a)	Provident Fund		52,300
311-70-(a)	Pension Fund		38,000
311-13-(a)	Water supply Fund		14,000

Code No	Particulars	Debit(Rs)	Credit(Rs)
311-(b)	Gratuity & Leave encashment Fund		20,000
310-10-(a)	Municipal Fund		1,95,500
312-50-(a)	Reserves		96,700
312-10-(a)	Capital contribution		2,00,000
	Salary		
210-20-(a)	Basic salary	4,500	
210-20-(a)	Dearness allowance	4,000	
210-20-(a)	House rent allowance	2,000	
210-20-(a)	Conveyance allowance	1,500	
210-20-(a)	Medical allowance	1,000	
210-10-(a)	Establishment expense –bonus	1,500	
210-10-(a)	Establishment expense - overtime allowance	1,000	
210-30-(a)	Pension/family pension expense	3,000	
210-40-(a)	Other terminal expenses - leave encashment	7,500	
210-40-(a)	Other terminal expenses - Gratuity	12,500	
	Total	26,16,183	26,16,183

INCOME AND EXPENDITURE STATEMENT

25.10 The ULB shall also prepare an Income and Expenditure Statement for every accounting period. The Income and Expenditure Statement discloses the results of the working of the ULB during the period covered by the statement. It shows incomes and expenditures of the ULB for an accounting period and the excess of income over expenditure or vice-versa for that period.

25.11 Since the Financial Statements are prepared under accrual basis, the Income and Expenditure Statement shall include all the income earned during the year whether actually received or not and all the expenditure incurred whether actually paid or not.

25.12 The Income and Expenditure Statement is drawn from the Trial Balance. The various heads of incomes and expenditures shall be posted from the Trial Balance to the Income and Expenditure Statement.

25.13 Any income or expenditure under a particular individual head, which is more than 1% of the total gross income of the ULB or Rs. 1,00,000 whichever is higher, shall be shown separately in the Schedules annexed to the Income and Expenditure Statement. *For the purpose of example (given below), the above disclosure requirement is not considered.*

25.14 The Income & Expenditure of the Model Municipal Corporation prepared from the Trail balance given above would appear as given in Table 25.2 below.

Table 25.2
Model Municipal Corporation (MMC)
Income & Expenditure Statement for the period 01.04.06 to 31.03.07

Code No.	Item/ Head of Account	Schedule No	Current Year	Previous Year
			Amount (Rs.)	Amount (Rs.)
1	2	3	4	5
	INCOME			
1-10	Tax Revenue	I-1	12,64,000	
1-20	Assigned Revenues & Compensation	I-2	1,50,000	
1-30	Rental Income from Municipal Properties	I-3	500	
1-40	Fees & User Charges	I-4	80,000	
1-50	Sale & Hire Charges	I-5	0	
1-60	Revenue Grants, Contributions & Subsidies	I-6	45,500	
1-70	Income from Investments	I-7	2,188	
1-71	Interest Earned	I-8	1,135	
1-80	Other Income	I-9	1,000	
A	Total – INCOME		15,44,323	
	EXPENDITURE			
2-10	Establishment Expenses	I-10	38,500	
2-20	Administrative Expenses	I-11	2,200	
2-30	Operations & Maintenance	I-12	32,800	
2-40	Interest & Finance Expenses	I-13	15,500	
2-50	Programme Expenses	I-14		
2-60	Revenue Grants, Contributions & subsidies	I-15	17,500	
2-70	Provisions & Write off	I-16	23,600	
2-71	Miscellaneous Expenses	I-17	2,000	
2-72	Depreciation		18,875	
B	Total – EXPENDITURE		1,50,975	
<i>A-B</i>	<i>Gross surplus/ (deficit) of income over expenditure before Prior Period Items</i>		13,93,348	
2-80	Add: Prior period Items (Net)	I-18	3,000	
	<i>Gross surplus/ (deficit) of income over expenditure after Prior Period Items</i>		13,96,348	
2-90	Less: Transfer to Reserve Funds			
	Net balance being surplus/ deficit carried over to Municipal Fund		13,96,348	

SCHEDULES FORMING PART OF THE INCOME & EXPENDITURE ACCOUNT**Schedule I-1: Tax Revenue [Code No 110]**

Minor Code No	Particulars	Current year	Previous year
		(Rs.)	(Rs.)
1	2	3	4
110-01	Property tax	7,00,000	
110-02	Water tax	3,50,000	
110-03	Sewerage Tax	1,50,000	
110-51	Octroi & Toll	22,000	
110-52	Cess	45,000	
110-80	Other taxes		
	Sub-total	12,67,000	
	Less		
110-90	Tax Remissions and Refund [Schedule 1 – 1 (a)]	3,000	
	Sub-total		
	Total tax revenue	12,64,000	

Schedule I-1 (a): Remission and Refund of taxes

Code No. *	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
1	2	3	4
110-90	Property taxes	3,000	
	Water tax		
	Advertisement tax		
	Others		
	Total refund and remission of tax revenues	3,000	

* Insert the Detailed Codes of Account as applicable

Note: The totals of this Schedule should be equal to the amount as per the total in Schedule I – 1

Schedule I-2 : Assigned Revenues & Compensation [Code No 120]

Code No.	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
1	2	3	4
120-10	Taxes and Duties collected by others	1,50,000	
120-20	Compensation in lieu of Taxes / duties		
120-30	Compensations in lieu of Concessions		
	Total assigned revenues & compensation	1,50,000	

Schedule I-3: Rental income from Municipal Properties [Code No 130]

Code No.	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
1	2	3	4
130-10	Rent from Civic Amenities		
130-20	Rent from Office Buildings	3,000	
130-80	Other rents		
	Sub-Total	3,000	
130-90	Less: Rent Remission and Refunds	2,500	
	Sub-total		
	Total Rental Income from Municipal Properties	500	

Schedule I-4 : Fees & User Charges [Code No 140]

Code No.	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
1	2	3	4
140-10	Empanelment & Registration Charges	10,000	
140-11	Licensing Fees	4,000	
140-12	Fees for Grant of Permit	2,000	
140-13	Fees for Certificate or Extract		
140-40	Other Fees	5,000	
140-50	User Charges	42,000	
140-60	Entry Fees		
140-70	Service / Administrative Charges	4,000	
140-80	Other Charges	15,000	
	Sub-Total	82,000	
140-90	Less: Rent Remission and Refunds	2,000	
	Sub-total	2,000	
	10.1 Total income from Fees & User Charges – Income head-wise	80,000	

Schedule I-5 : Sale & Hire Charges [Code No 150]

Detailed Head Code	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
1	2	3	4
150-10	Sale of Products		
150-11	Sale of Forms & Publications		
150-12	Sale of stores & scrap		
150-30	Sale of Others		
150-40	Hire Charges for Vehicles		
150-41	Hire Charges for Equipment		
	10.2 Total Income from Sale & Hire charges – income head-wise	0	

Schedule I-6: Revenue Grants, Contributions & Subsidies [Code No160]

Code No.	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
1	2	3	4
160-10	Revenue Grant	29,500	
160-20	Re-imbusement of expenses	16,000	
60-30	Contribution towards schemes		
	Total Revenue Grants, Contributions & Subsidies	45,500	

Schedule I-7: Income from Investments – General Fund [Code No 170]

Code No	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
1	2	3	4
170-10	Interest on Investments	688	
17020	Dividend		
170-30	Income from projects taken up on commercial basis		
170-40	Profit in Sale of Investments	1,500	
170-80	Others		
	Total Income from Investments	2,188	

Schedule I-8: Interest Earned [Code No 171]

Code No.	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
1	2	3	4
171-10	Interest from Bank Accounts		
171-20	Interest on Loans and advances to Employees	135	
171-30	Interest on loans to others	1,000	
171-80	Other Interest		
	Total. – Interest Earned	1,135	

Schedule I-9: Other Income [Code No180]

Code No.	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
1	2	3	4
180-11	Lapsed Deposits		
180-30	Profit on Disposal of Fixed asses	1,000	
180-40	Recovery from Employees		
	Total Other Income	1,000	

Schedule I-10: Establishment Expenses [code no 210]

Code No.	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
1	2	3	4
210-10	Salaries, Wages and Bonus	2,500	
210-20	Benefits and Allowances	13,000	
210-30	Pension	3,000	
210-40	Other Terminal & Retirement Benefits	20,000	
	3.1 Total establishment expenses – expense head wise	38,500	

Schedule I-11: Administrative Expenses [Code No 220]

Code No.	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
1	2	3	4
220-10	Rent, Rates and Taxes		
220-11	Office maintenance		
220-12	Communication Expenses	1,500	
220-20	Books & Periodicals		
220-21	Printing and Stationery	700	
220-30	Travelling & Conveyance		
	Total administrative expenses – expense head wise	2,200	

Schedule I-12: Operations and Maintenance [Code No 230]

Code No.	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
1	2	3	4
230-10	Power & Fuel		
230-30	Consumption of Stores	7,200	
230-40	Hire Charges		
230-51	Repairs & maintenance –Infrastructure Assets	25,000	
230-59	Repairs & maintenance – Others	600	
230-80	Other operating & maintenance expenses		
	Total operations & maintenance - expense head wise	32,800	

Schedule I-13: Interest & Finance Charges [Code No 240]

Code No.	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
1	2	3	4
240-50	Interest on Loans from Banks & Other Financial Institutions	10,000	
240-60	Other Interest	5,500	
240-70	Bank Charges		
240-80	Other Finance Expenses		
	Total Interest & Finance Charges	15,500	

Schedule I-14: Programme Expenses [Code No 250]

Code No.	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
1	2	3	4
250-10	Election Expenses		
250-20	Own Programmes		
250-30	Share in Programmes of others		
	Total Programme Expenses		

Schedule I-15: Revenue Grants, Contributions & Subsidies [Code No 260]

Code No.	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
1	2	3	4
260-10	Grants [give details]	17,500	
260-20	Contributions [give details]		
	Total Revenue Grants, Contributions & Subsidies	17,500	

Schedule I-16: Provisions & Write off [Code No 270]

Code No.	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
1	2	3	4
270-10	Provisions for Doubtful receivables	17,000	
270-20	Provision for other Assets	6,000	
270-40	Assets written off		
270-50	Miscellaneous Expense written off	600	
	Total Provisions & Write off	23,600	

Schedule I-17: Miscellaneous Expenses [Code No 271]

Code No.	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
1	2	3	4
271-10	Loss on disposal of Assets	2,000	
271-20	Loss on disposal of Investments		
	Total Miscellaneous expenses	2,000	

Schedule I-18: Prior Period Items (Net) [Code No 280]

Code No.	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
1	2	3	4
	Income		
280-10	Taxes	6,000	
280-20	Other – Revenues		
280-40	Other income		
	Sub – Total Income (a)	6,000	
	Expenses		
280-50	Refund of Taxes	2,000	

Code No.	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
1	2	3	4
280-60	Refund of Other – Revenues	1,000	
280-80	Other Expenses		
	Sub – Total Income (b)	3,000	
	Total Prior Period (Net) (a-b) -	3,000	

BALANCE SHEET

25.15 The ULB shall prepare a Balance Sheet at the end of each accounting period. The Balance Sheet is a statement, which reflects the financial position of the ULB as on a particular date. It presents the assets, liabilities and reserves of the ULB as on a specified date.

25.16 The Balance Sheet is also drawn from the Trial Balance. Assets, liabilities and reserve heads shall be posted from the Trial Balance to the Balance Sheet as discussed above.

25.17 The details of various Balance Sheet items would be given in separate schedules attached to the Balance Sheet. The contents and formats for the various schedules to the Balance Sheet have been shown subsequent to the schedules of Income and Expenditure Statement.

25.18 While preparing the Balance Sheet and the Income and Expenditure Statement, the following shall be done:

- a. The balances in the asset accounts, which generally have a debit balance and are recorded on the debit side of the Trial Balance, shall be posted on the Asset side of the Balance Sheet;
- b. The balances in the liabilities accounts, which generally have a credit balance and are recorded on the credit side of the Trial Balance, shall be posted on the Liability side of the Balance Sheet;
- c. The balances in the income accounts, which generally have a credit balance and are recorded on the credit side of the Trial Balance, shall be posted on the Income side of the Income and Expenditure Statement;
- d. The balances in the expense accounts, which generally have a debit balance and are recorded on the debit side of the Trial Balance, shall be posted on the Expenditure side of the Income and Expenditure Statement;
- e. The excess of income earned by the ULB over expenses incurred by the ULB shall be transferred to and added to the Municipal Fund in the Balance Sheet. Likewise, excess of expenses incurred over income earned shall be transferred to and reduced from the Municipal Fund in the Balance Sheet.
- f. No items in the trial balance are left out without carrying them either to Income and Expenditure Account or the Balance sheet.

25.19 The balance sheet of MMC prepared on the basis of Trial balance given in Table 25.1 would be as given below (Table 25.3).

Table 25.3
Model Municipal Corporation (MMC)
Balance sheet of Model Municipal Corporation as on 31st March 2007

Code No	Description of items	Schedule No.	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
	<u>LIABILITIES</u>			
	Reserve & Surplus			
3-10	Municipal (General) Fund	B-1	15,91,848	195,500
3-11	Earmarked Funds	B-2	1,24,925	114,000
3-12	Reserves	B-3	2,96,700	96,700
	Total Reserves & Surplus		20,13,473	406,200
3-20	Grants, Contributions for specific purposes	B-4	7,860	
	Loans			
3-30	Secured Loans	B-5	0	
3-31	Unsecured Loans	B-6	1,43,700	0
	Total Loans		1,43,700	0
	Current Liabilities and Provisions			
3-40	Deposits Received	B-7	46,500	35,000
3-41	Deposit works	B-8	0	
3-50	Other Liabilities (Sundry Creditors)	B-9	1,04,500	75,000
3-60	Provisions	B-10	38,050	39,050
	Total Current Liabilities and Provisions		1,89,050	144,050
	TOTAL LIABILITIES		23,54,083	550,250
	<u>ASSETS</u>			
	Fixed Assets	B-11		
4-10	Gross Block		5,78,000	327,500
4-11	<u>Less: Accumulated Depreciation</u>		68,375	52,500
	Net Block			
4-12	Capital Work-in-Progress		41,500	24000
	Total Fixed Assets		5,51,125	299,000
	Investments			
4-20	Investment – General Fund	B-12	5,000	0
4-21	Investments – Other Funds	B-13	11,000	0
	Total Investments		16,000	
	Current Assets, Loans and Advances			
4-30	Stock in Hand (Inventories)	B-14	30,800	38,000
4-31	Sundry Debtors (Receivables)			
	Gross amount outstanding	B-15	97,018	69,500

Code No	Description of items	Schedule No.	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
4-32	Less: Accumulated provision against bad and doubtful Receivables		(26,250)	(13,250)
	<i>Net amount outstanding</i>		70,905	56,250
4-40	Prepaid Expenses	B-16	1,800	0
4-50	Cash and Bank Balances	B-17	16,59,390	144,000
4-60	Loans, advances and deposits	B-18	27,800	18,000
4-61	Less: Accumulated provision against Loans		(6,000)	(5,000)
	<i>Net Amount outstanding</i>		21,800	13,000
	Total Current Assets, Loans & Advances		7,58,558	251,250
4-70	Other Assets	B-19		
4-80	Miscellaneous Expenditure (to the extent not written off)	B-20	2,400	0
	TOTAL ASSETS		23,54,083	550,250

The various schedules to the Balance Sheet have been provided below:

Schedule B-1: Municipal (General) Fund [Code No 310]

Code No.	Particulars	Opening balance as per the last account (Rs.)	Additions during the year (Rs.)	Total (Rs.)	Deductions during the year (Rs.)	Balance at the end of the current year (Rs.)
1	2	3	4	5 (3+4)	6	7 (5-6)
310-10	Municipal Fund	1,95,500	13,96,348	15,91,848		
310-90	Excess of Income & Expenditure					
	Total Municipal fund (310)	1,95,500	13,96,348	15,91,848	0	0

Schedule B-2: Earmarked Funds

Schedule B – 2: Special Funds/Sinking Fund/Trust or Agency Fund [Code No 311]

Amount in Rs.

Particulars	Gratuity & Leave encashment	Tree Authority fund	Pension fund	Provident fund	Water supply fund
Code No.					
(a) Opening Balance	Nil	Nil	45,000	55,000	14,000
(b) Additions to the Special Fund	20,000				14,000
(i) Transfer from Municipal Fund			3,000	300	
(ii) Interest/Dividend earned on Special Fund Investments		625			
(iii) Profit on disposal of Special Fund Investments					
(iv) Appreciation in Value of Special Fund Investments					
(v) Other addition (Specify nature)					
Total (b)		625	3,000	300	
Total (a+b)	20,000	625	48,000	55,300	14,000
(c) Payments out of funds					
(i) Capital expenditure on					
Fixed Assets*					
Others					
Sub –total	0	0	0	0	0

Particulars	Gratuity & Leave encashment	Tree Authority fund	Pension fund	Provident fund	Water supply fund
(ii) Revenue Expenditure on					
Salary, Wages and allowances etc.			10,000	3,000	
Rent					
Other administrative charges					
Sub –total	0	0	10,000	3,000	0
(iii) Other:					
Loss on disposal of Special Fund Investments					
Diminution in Value of Special Fund Investments					
Transferred to Municipal Fund					
Sub –total	0	0	0	0	0
Total of (i+ii+iii) (c)			10,000	3,000	
Net balance at the year end – (a+b)-(c)	20,000	625	38,000	52,300	
Grant Total of Special Funds	20,000	625	38,000	52,300	14,000

Schedule B-3: Reserves [Code No 312]

Code No.	Particulars	Opening balance (Rs.)	Additions during the year (Rs.)	Total (Rs.)	Deductions during the year (Rs.)	Balance at the end of the current year (Rs.)
1	2	3	4	5 (3+4)	6	7 (5-6)
312-10	Capital Contribution		200,000	200,000		200,000
312-11	Capital Reserve			0		0
312-20	Borrowing Redemption Reserve			0		0
312-30	Special Funds (Utilised)			0		0
312-40	Statutory Reserve			0		0
312-50	General Reserve	96,700		96,700		96,700
312-60	Revaluation Reserve			0		0
	Total Reserve funds	96,700	200,000	296,700	0	296,700

Schedule B-4: Grants & Contribution for Specific Purposes [Code No 320]*Amount in Rs.*

Particulars	Grants from Central Government	Grants from State Government – Family welfare Grant	Grants from Other Government Agencies	Grants from Financial Institutions	Others
Code No.					
(a) Opening Balance					
(b) Additions to the Grants *					
(i) Grant received during the year			25,000		
(ii) Interest/Dividend earned on Grant Investments			360		
(iii) Profit on disposal of Grant Investments					
(iv) Appreciation in Value of Grant Investments					
(v) Other addition (Specify nature)					
Total (b)			25,360		
Total (a+b)			25,360	0	0
(c) Payments out of funds					

Particulars	Grants from Central Government	Grants from State Government – Family welfare Grant	Grants from Other Government Agencies	Grants from Financial Institutions	Others
(i) Capital expenditure on Fixed Assets* Others					
Sub –total		Nil	0	0	0
(ii) Revenue Expenditure on Salary, Wages and allowances etc. Rent Other administrative charges		17,500			
Sub –total		17,500	0	0	0
(iii) Other: Loss on disposal of Grant Investments Diminution in Value of Grant Investments Grants Refunded					
Sub –total		Nil	0	0	0
Total (c) [i+ii+iii]					
Net balance at the year end – (a+b)-(c)		7,860			
Total Grants & Contribution for Specific Purposes		7,860	0	0	0

Schedule B-5: Secured Loans [Code No 330]

Code No.	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
1	2	3	4
330-10	Loans from Central Government		
330-20	Loans from State government		
330-30	Loans from Govt. bodies & Associations		
330-40	Loans from international agencies		
330-50	Loans from banks & other financial institutions	0	
330-60	Other Term Loans		
330-70	Bonds & debentures		
330-80	Other Loans		
	Total Secured Loans	0	

Schedule B-6: Unsecured Loans [Code No 331]

Code No.	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
1	2	3	4
331-10	Loans from Central Government		
331-20	Loans from State government		
331-30	Loans from Govt. bodies & Associations		
331-40	Loans from international agencies		
331-50	Loans from banks & other financial institutions	93,700	
331-60	Other Term Loans		
331-70	Bonds & debentures	50,000	
331-80	Other Loans		
	Total Un-Secured Loans	143,700	

Schedule B-7: Deposits Received [Code No 340]*Amount in Rs.*

Code No.	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
1	2	3	4
340-10	From Contractors	10,300	
340-20	From Revenues	4,000	
340-30	From staff		
340-80	From Others	32,200	
	Total deposits received	46,500	

Schedule B-8: Deposits Works [Code No 341]

Code No.	Particulars	Opening balance as the beginning of the year Amount (Rs)	Additions during the current year Amount (Rs)	Utilisation / expenditure Amount (Rs)	Balance outstanding at the end of the current year Amount (Rs)
1	2	3	4	5	6
341-10	Civil Works				
341-20	Electrical works				
341-80	Others				
	Total of deposit works				

Schedule B-9: Other Liabilities (Sundry Creditors) [Code No 350]*Amount in Rs.*

Code No.	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
1	2	3	4
350-10	Creditors	97,000	
350-11	Employee Liabilities	1,000	
350-12	Interest Accrued and Due		
350-20	Recoveries Payable	6,500	
350-30	Government Dues Payable		
350-80	Others		
	Total Other liabilities (Sundry Creditors)	104,500	

Schedule B-10: Provisions [Code No. 360]

Code No.	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
1	2	3	
360-10	Provision for Expenses	35,550	
360-20	Provision for Interest	2,500	
360-30	Provision for Other Assets	0	
	Total Provisions	38,050	

Schedule B-11: Fixed Assets [Code No. 410 & 411]

Amount in Rs.

Code No	Particulars	Gross Block				Accumulated Depreciation		Net Block	
		Opening Balance	Additions during the period \$	Deductions during the period	Cost at the end of the year	Opening Balance	Additions during the period	At the end of current year	At the end of the previous year
1	2	3	4	5	6	7	8	11	12
410-10	Land	100,000	200,000		300,000			300,000	100,000
410-20	Buildings	100,000	30,000		130,000	25,000	6,500	98,500	75,000
	<u>Infrastructure Assets</u>				0			0	0
410-30	Roads and Bridges	65,000	25,500		90,500	15,000	4,875	70,625	50,000
410-31	Sewerage and drainage				0			0	0
410-32	Water ways				0			0	0
410-33	Public Lighting				0			0	0
	<u>Other assets</u>				0			0	0
410-40	Plants & Machinery	50,000		5000	45,000	10,000	2,000	33,000	40,000
410-50	Vehicles	12,500			12,500	2,500	2,500	7,500	10,000
410-60	Office & other equipment				0			0	0
410-70	Furniture, fixtures, fittings and electrical appliances				0			0	0
410-80	Other fixed assets				0			0	0
	Total	327,500	255,500	5000	578,000	52,500	15,875	509,625	275,000

\$ - Additions include fixed assets created out of Earmarked Funds and Grants transferred to Urban Local Body's fixed block as referred to in Schedule B-2 and B-4

Schedule B-12: Investments – General Fund [Code 420]*Amount Rs.*

Code No.	Particulars	With whom invested	Face value (Rs.)	Current year Carrying Cost (Rs.)	Previous year Carrying Cost (Rs.)
1	2	3	4	5	6
420-10	Central Government Securities				
420-20	State Government Securities				
420-30	Debentures and Bonds				
420-40	Preference Shares				
420-50	Equity Shares				
420-60	Units of Mutual Funds				
420-80	Other Investments		5,000		
	Total of Investments General Fund		5,000	0	0

Schedule B-13: Investments - Other Funds [Code 421]*Amount Rs.*

Code No.	Particulars	With whom invested	Face value (Rs.)	Current year Carrying Cost (Rs.)	Previous year Carrying Cost (Rs.)
1	2	3	4	5	6
421-10	Central Government Securities		6,000		
421-20	State Government Securities				
421-30	Debentures and Bonds				
421-40	Preference Shares				
421-50	Equity Shares				
421-60	Units of Mutual Funds				
421-80	Other Investments		5,000		
	Total of Investments Other Funds		11,000		

1. Insert the other Heads of Account and the corresponding Codes of Account for other investments made by the ULB
2. Provide break-up of other investments as provided for General Fund Investments.

Schedule B-14: Stock in Hand (Inventories) [Code 430]*Amount in Rs.*

Code No.	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
1	2	3	4
430-10	Stores	30,800	
430-20	Loose Tools		
430-30	Others		
	Total Stock in hand	30,800	

Schedule B-15: Sundry Debtors (Receivables) [Code No 431]

Code No.	Particulars	Gross Amount (Rs.)	Provision for Outstanding revenues (Rs.)	Net Amount (Rs.)	Previous year Net amount (Rs.)
1	2	3	4 (Code No 432)	5 = 3 - 4	6
431-10	<u>Receivables for Property Taxes</u> Less than 5 years * More than 5 years*	26,000	8250	17,750	
431-91	Sub – total Less: State Government Cesses/Levies in Taxes – Control Accounts				
	<u>Net Receivables of Property Taxes</u>	26,000	8,250	17,750	
431-19	<u>Receivable of Other Taxes</u> Less than 3 years* More than 3 years*	3,000		3,000	
431-99	Sub- total Less: State Government Cesses/Levies in Taxes – Control Accounts				
	<u>Net Receivables of Other Taxes</u>	3,000			
431-20	<u>Receivables of Cess Income</u> Less than 3 years* More than 3 years*	8,500 6,000	8,000	6,500	
	Sub- total	14,500			
431-30	<u>Receivables for Fees and User Charges</u> Less than 3 years* More than 3 years*	28,000	10,000	18,000	
	Sub – total	42,500	18,000	27,500	
431-40	Receivables from Other Sources Less than 3 years* More than 3 years*	518			
	Sub – total	518		518	
431-50	Receivables from Government	25,000		25,000	
	Total of Sundry Debtors (Receivables)	97,018	26,250	70,768	

Note:

The provision made against accrual items would not affect the opening/ closing balances of the Demand and Collection

Schedule B-16: Prepaid Expenses [Code No 440]

Code No.	Particulars	Current year Amount (Rs.)	Previous year Amount (Rs)
1	2	3	
440-10	Establishment		
440-20	Administrative		
440-30	Operations & Maintenance	1,800	
	Total Prepaid expenses	1800	

Schedule B-17 :Cash and Bank Balances [Code No 450]

Code No.	Particulars	Current year Amount (Rs.)	Previous year Amount (Rs.)
1	2	3	4
450-10	Cash	1,000	
	Balance with Bank – Municipal Funds		
450-21	Nationalised Banks	13,99,100	
450-22	Other Scheduled Banks		
450-23	Scheduled Co-operative Banks		
450-24	Post Office		
	Sub-total	14,00,100	
	Balance with Bank – Special Funds		
450-41	Nationalised Banks	109,290	
450-42	Other Scheduled Banks		
450-43	Scheduled Co-operative Banks		
450-44	Post Office		
	Sub-total		
	Balance with Bank – Grant Funds	150,000	
450-61	Nationalised Banks		
450-62	Other Scheduled Banks		
450-63	Scheduled Co-operative Banks		
450-64	Post Office		
	Sub-total		
	Total Cash and Bank balances	1659,390	

Schedule B-18: Loans, advances and deposits [Code 460]

Code No.	Particulars	Opening Balance at the beginning of the year (Rs.)	Paid during the current year (Rs.)	Recovered during the year (Rs.)	Balance outstanding at the end of the year (Rs.)
1	2	3	4	5	6
460-10	Loans and advances to employees		4,700		
460-20	Employee Provident Fund Loans		2,250		
460-30	Loans to Others		14,350		
460-40	Advance to Suppliers and Contractors		6500		
460-50	Advance to Others				
460-60	Deposit with External Agencies				
460-80	Other Current Assets				
	Sub –Total		27,800		
461-	Less: Accumulated Provisions against Loans, Advances and Deposits (Schedule B – 18 (a))		6,000		
	Total Loans, advances, and deposits		21,800		0

Schedule B-18 (a): Accumulated Provisions against Loans, Advances, and Deposits (Code No 461)

Code No.	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
1	2	3	4
461-10	Loans to Others	6,000	
461-20	Advances		
461-30	Deposits		
	Total Accumulated Provision	6,000	

Note: The totals of this Schedule should equal to the amount as per the total in Schedule B – 18

Schedule B-19: Other Assets [Code No 470]

Code No	Particulars	Current year	Previous year
		Amount (Rs.)	Amount (Rs.)
1	2	3	
470-10	Deposit Works		
470-20	Other asset control accounts		
	Total Other Assets		

Schedule B-20: Miscellaneous Expenditure (to the extent not written off) [Code No 480]

Code No	Particulars	Current year	Previous year
		Amount (Rs.)	Amount (Rs.)
1	2	3	
480-10	Loan Issue Expenses Deferred	2,400	
480-20	Discount on Issue of Loans		
480-30	Deferred Revenue Expenses		
480-90	Others		
	Total Miscellaneous expenditure	2,400	

CASH FLOW STATEMENT

25.20 Cash Flow statement is prepared in order to have information about the cash flows of an enterprise. It is useful in providing users of financial statements with a basis to assess the ability of the enterprise to generate cash and cash equivalents and the needs of the enterprise to utilise those cash flows.

25.21 A Cash Flow Statement, when used in conjunction with the other Financial Statements, provides information that enables users to evaluate the changes in assets and liabilities of an ULB, its financial status, and the actual performance in terms of cash inflows and outflows.

25.22 The Cash flow of MMC would be as provided in Table 25.4 below.

Table 25.4
Model Municipal Corporation (MMC)
Statement of Cash Flow for the year ended 31st March, 2007

Particulars	Current Year (Rs.)		Previous Year (Rs.)	
	Amount (Rs)	Amount (Rs)	Amount(Rs)	Amount (Rs)
a. Cash flows from operating activities				
Gross surplus/ (deficit) over expenditure		13,96,348		
Adjustments for				
Add:				
Depreciation	18,875			
Interest & finance expenses	15,500			
Provision for doubtful debts	23,000			
Less:				
Profit on disposal of assets	(1,000)			
Interest income	(1,822)			
Investment income	(1,500)			
Adjusted income over expenditure before effecting changes in current assets and current liabilities and extra ordinary items.		14,49,401		
Changes in current assets and current liabilities				
(Increase) / decrease in Sundry debtors	(27,246)			
(Increase) / decrease in Stock in hand	7,200			
(Increase) / decrease in prepaid expenses	(1,800)			
(Increase) / decrease in other current assets	850			
(Decrease)/ increase in Deposits received	11,500			
(Decrease)/ increase in other current liabilities	29,500			
(Decrease)/ increase in provisions	(5,000)			
Extra ordinary items (Specify)				
Net cash generated from/ (used in) operating activities (a)		14,64,405		
b. Cash flows from investing activities				
(Purchase) of fixed assets	(55,500)			
(Purchase) of CWIP	(17,500)			
(Increase) / Decrease in Special funds/grants				
(Decrease) / Increase in Earmarked funds	18,785			
(Purchase) of Investments	(21,000)			
Add:				
Proceeds from disposal of assets	3,000			
Proceeds from disposal of investments	6,500			
Interest income received	1,550			
Recovery of Loan	1,950			
Loan advanced to employee	(5,000)			
Loan advanced to MTU2	(10,000)			
Net cash generated from/ (used in) investing activities (b)		(77,215)		
c. Cash flows from financing activities				

Particulars	Current Year (Rs.)		Previous Year (Rs.)	
Add:				
Loans from banks/others received	150,000			
Less:				
Loan repaid	(6,300)			
Finance expenses	(15,500)			
Net cash generated from (used in) financing activities (c)		128,200		
Net increase/ (decrease) in cash and cash equivalents (a + b + c)		15,15,390		
Cash and cash equivalents at beginning of period		144,000		
Cash and cash equivalents at end of period		16,59,390		
Cash and Cash equivalents at the end of the year comprises of the following account balances at the end of the year:				
i. Cash Balances		1,000		
ii. Bank Balances		16,58,390		
iii. Scheduled co-operative banks				
iv. Balances with Post offices				
v. Balances with other banks				
Total		16,59,390		

RECEIPTS AND PAYMENTS ACCOUNT

25.23 The Receipts and Payments Account shows the sources of funds and the applications of funds during the accounting reporting periods.

25.24 The Receipts and Payments Account shall be prepared from the Balance Sheet, Income and Expenditure Statement, Ledgers and Cash Book.

25.25 The following shall be noted in relation to preparation of Receipts and Payments Account:

- a The receipts considered are on cash basis and does not take into account the receivables. Similarly, the payments considered are on cash basis and does not take into account the payables.
- b Non-cash items like Depreciation, Miscellaneous Expenditure w/off (written off), Profit/Loss on disposal of Fixed Assets, Profit/Loss on disposal of Investments will not be considered while preparing this statement.
- c If any loan is obtained by the ULB in such a way that the disbursement of installments is directly made to the appointed Contractor, then the loan, though not directly received in cash by the ULB, should be shown as 'Receipts'. Similarly, corresponding payments made to the Contractor, though not made in cash by the ULB, should be shown as 'Payments'.

25.26 The Receipts and Payments account of MMC would be as provided in Table 25.5 given below.

Table 25.5
Model Municipal Corporation (MMC)
Receipt and Payments accounts for the period from 01.04.2006 to 31.03.07

Code No.	Head of Account	Current Period Amount (Rs.)	Corresponding Previous Period Amount (Rs.)	Code No.	Head of Account	Current Period Amount (Rs.)	Corresponding Previous Period Amount (Rs.)
	Opening Balances#	144,000					
	Cash balances including Imprest	1,000					
	Balances with Banks/Treasury (including balances in designated bank accounts)	143,000					
	Operating Receipts	15,34,290			Operating Payments	89,650	
1-10	Tax Revenue	13,03,000		2-10	Establishment Expenses	16,350	
1-20	Assigned Revenues & Compensations	125,000		2-20	Administrative Expenses	200	
1-30	Rental income from Municipal Properties	3,000		2-30	Operations and Maintenance	15,100	
1-40	Fees & User Charges	55,500		2-40	Interest & Finance Charges	15,500	
1-50	Sale & Hire Charges			2-50	Programme Expenses		
1-60	Revenue Grants, Contributions & Subsidies	45,500		2-60	Revenue Grants, Contributions & Subsidies	17,500	
1-70	Income from Investments	1,290					
1-71	Interest Earned	1,000		4-30	Purchase of Stores	5,000	
1-80	Other Income				Other Collections on behalf of State and Central Government	20,000	
	Non-Operating Receipts	285,150			Non-Operating Payments	214,400	
3-30/31	Loans Received	150,000		3-50	Other Payables	54,300	
3-40	Deposits Received	43,500		3-50	Refunds Payable	10,500	
3-20	Grants and contribution for specific purposes	25,000		**	Repayment of Loans	6,300	
3-50	Sale proceeds from Assets	3,000		**	Refund of Deposits	29,000	

Code No.	Head of Account	Current Period Amount (Rs.)	Corresponding Previous Period Amount (Rs.)	Code No.	Head of Account	Current Period Amount (Rs.)	Corresponding Previous Period Amount (Rs.)
4-20	Realisation of Investment – General Fund	6,500		4-10	Acquisition / Purchase of Fixed Assets	30,000	
4-21	Realisation of Investment – Other Funds			4-12	Capital Work – in – Progress		
3-41	Deposit works	50,000		3-41	Deposit works	28000	
	Revenue Collected in Advance			4-20	Investments – General Fund	10000	
	Loans & Advances to Employees (recovery)			4-21	Investments – Other Funds	11000	
4-60	Other Loans & Advances (recovery)	2,150		4-60	Loans & Advances to Employees	5000	
	Deposits with External Agencies (recovery)			4-40	Prepaid Expenses	1800	
	Other Receipts			4-60	Other Loans & Advances - MTU2	10000	
3-50	Unclaimed salaries	1,000		4-60	Deposits with External Agencies		
3-50	Sale proceeds of stores	2,000		4-60	Advance to contractors & others	13000	
3-50	Recovery from Contractors	2,000		4-80	Loan issue expense deferred	3000	
				4-60	Employee provident fund Loan	2500	
					Closing Balances #	16,59,390	
					Cash balances including Imprest	1,000	
					Balances with Banks/Treasury (including balances in designated bank accounts)	16,58,390	
	GRAND TOTAL	19,63,440			GRAND TOTAL	19,63,440	

NOTES TO ACCOUNTS

25.27 The Notes to Accounts shall comprise of Statement of Significant Accounting Principles, Statement on Contingent Liabilities, Subsidy Report and Other Disclosures.

Significant Accounting Policies

25.28 The Statement of Significant Accounting Principles shall state important accounting principles followed by the ULB in respect of accounting for its transactions and in the preparation and presentation of the Financial Statements.

25.29 Where any of the accounting principles adopted by the ULB while preparing its Financial Statements is not in conformity with the principles prescribed in the National Municipal Accounting Manual and the effect of deviation from the accounting principles is material, the particulars of the deviation shall be disclosed together with the reasons therefore and the financial effect thereof, except where such effect is not ascertainable. The disclosure of such deviation reasons thereof and financial effect thereof shall be made in the section "Other Disclosures". In case the financial effect thereof is not ascertainable, either wholly or in part, the fact that it is not so ascertainable shall be indicated.

25.30 Likewise, any change in the accounting principles which has no material effect on the Financial Statements for the current period but which is reasonably expected to have a material effect in later periods, the fact of such change should be appropriately disclosed in the period in which the change is adopted.

25.31 The Notes to Accounts forming part of financial statements of Model Municipal Corporation (MMC) would be as follows:

1. Basis of accounting

The financial statements are prepared on a going concern and under historical cost basis under accrual basis of accounting. The method of accounting is the double entry system.

2. Recognition of revenue

i. **Revenue**

- a Property and Other Taxes are recognised in the period in which they become due and demands are ascertainable
- b Revenues in respect of Profession Tax on Organisations / entities are accrued in the year to which it pertains and when demands are raised.
- c Advertisement taxes are accrued based on Demand or the contract.
- d Revenue in respect of Trade License Fees is accrued in the year to which it pertains and when Demands are raised.
- e Assigned revenues like Entertainment Tax, Duty / Surcharge on transfer of Immovable properties are accounted during the year only upon actual receipt. However, at year-end, they are accrued if sanction order (or proceedings) is passed and the amount is ascertained.
- f Other Incomes, which are of an uncertain nature or for which the amount is not ascertainable or where demand is not raised in regular course of operations, is recognised on actual receipt

ii. **Provision against receivables**

- a Prudential norms are applied based on type of income and age of receivable. Based on the principle on provisioning, incomes that have been accrued and are doubtful of recovery are provided for.

3. Recognition of expenditure
 - a Expenses on Salaries, bonus and other allowances are recognised as and when they are due for payment
 - b All revenue expenditures are treated as expenditures in the period in which they are incurred.
 - c In case of works, expenditures are accrued as soon as the work has been measured and becomes due for payment.
 - d Provision for expenses are made at the year-end for all bills received upto a cut off date.
4. Fixed Assets
 - i. **Recognition**
 - a. All Fixed Assets are carried at cost less accumulated depreciation. The cost of fixed assets include cost incurred/money spent in acquiring or installing or constructing the fixed asset, interest on borrowings directly attributable to acquisition or construction of qualifying fixed assets up to the date of commissioning of the assets and other incidental and indirect expenses incurred up to that date.
 - b. All assets costing less than Rs.5,000/- would be expensed / charged to Income & Expenditure Account in the year of purchase.
 - c. Any Fixed Asset, which has been acquired free of cost or in respect of which no payment has been made, is recorded at nominal value of Re. 1/-.
 - ii. **Depreciation**
 - d. Depreciation is provided on Straight Line Method.
 - iii. **Revaluation of Fixed Assets:**
 - e. Revaluation of fixed assets is undertaken either at the time of issue of municipal bonds or when commercial development / lease of properties is made.
 - f. Increase in net book value arising on revaluation is credited to 'Revaluation Reserve Account'. Decrease in net book value is charged to Income and Expenditure account.
 - g. Revaluation reserve is amortised by equivalent amount of depreciation charged on the revalued portion of the cost of the fixed assets.
5. Borrowing cost

Borrowing cost is recognised as revenue expenditure on accrual basis except in the case of fixed assets.
6. Inventories

Inventories are valued as follows:

 - a. Raw materials are valued at Cost based on first in first out method
 - b. Finished goods are valued at lower of the cost or market value.
7. Grants
 - a. General Grants, which are of revenue nature, are recognised as income on actual receipt
 - b. Grants, which are re-imburement of specific revenue expenditure is recognised as income in the accounting period in which the corresponding revenue expenditure is charged to the Income and Expenditure Account.
 - c. Grant received towards capital expenditure is treated as a liability till such time the fixed asset is constructed or acquired. On construction/acquisition of fixed asset, the grant corresponding to the value of the asset so constructed/acquired is treated as a capital receipt and transferred to capital contribution.

8. Employee benefits
 - a. Separate Funds are formed for meeting the pension and other retirement benefits including Gratuity and Leave encashment.
 - b. Contribution towards Pension and other retirement benefit funds are recognised as and when it is due.
9. Investments
 - a. All investments are initially recognised at Cost. The cost of investment shall include cost incurred in acquiring the investment and other incidental expenses incurred for its acquisition.
 - b. Long-term investments are carried at their cost. However in the event of any permanent diminution in their value as on the date of balance sheet, these are provided for.
 - c. Short-term investments are carried at their cost or market value (if quoted) whichever is lower.

Statement on contingent liabilities

25.32 The Contingent Liabilities represent an obligation, relating to a past transaction or other event or condition, that may arise in consequence of a future event now deemed possible but not probable. They represent a claim against the ULB which is contingent on the happening of a future uncertain event, the financial implications of which may or may not be ascertainable at the end of an accounting period. The following shall be disclosed by the ULB in the 'Statement on Contingent Liabilities':

- a. Amount of Capital Contracts remaining to be executed and not provided for;
- b. Amount of claim in respect of suits filed against the ULB for which the ULB may be liable, in case the ULB loses suits;
- c. Claim against the ULB not acknowledged as debts; and
- d. Other money for which the ULB is contingently liable.

FINANCIAL RATIO ANALYSIS

25.33 A ratio is an arithmetical relationship between two figures. Ratios are indicators of performance of the ULB/Department. Financial Ratio Analysis is a study of ratios between various items or groups of items in the Financial Statements of the ULB.

25.34 The financial ratios of Model Municipal Corporation (MMC) computed from the financials above would be as given in Table 25.6 follows.

Table 25.6
Financial ratios of Model Municipal Corporation for the period ended 31st March 2007

Sr. No.	Particulars	Current Year	Previous Year
	Income Ratios		
1	Tax Revenue to Total Income Ratio... (%)	81.85	
2	Property & Other Taxes to Total Income Ratio... (%)	77.70	
	Octroi to Total Income Ratio... (%)	1.42	
3	Cess to Total Income Ratio... (%)	2.91	
4	Assigned Revenues & Compensations to Total Income Ratio... (%)	9.71	

Sr. No.	Particulars	Current Year	Previous Year
5	Rental Income from Municipal Properties to Total Income Ratio... (%)	0.03	
6	Fees & User Charges to Total Income Ratio... (%)	5.18	
7	Revenue Grants, Contributions & Subsidies to Total Income Ratio... (%)	NA	
	Expense Ratios		
8	Establishment Expenses to Total Income Ratio... (%)	2.49	
9	Administrative Expenses to Total Income Ratio... (%)	0.14	
10	Operations & Maintenance to Total Income Ratio... (%)	2.12	
11	Interest Expense to Total Income Ratio... (%)	1.00	
	Net Income Ratios		
12	Cash Surplus / Deficit to Total Income Ratio... (%)	1.03	
	Efficiency Ratios		
13	Gross Property Tax Receivables Ratio... (No. of Days)	482	
14	Gross Cess Receivables Ratio... (No. of Days)	103	
15	Property Tax Receivable to Property Tax Income Ratio... (%)	46.15	
16	Cess Receivable to Cess Income Ratio... (%)	3.79	
17	Operations & Maintenance to Gross Fixed Assets Ratio... (%)	5.67	
18	Interest Expense to Loans Ratio... (%)	10.79	
	Leverage Ratios		
19	Loans to Reserves Ratio or Debt-Equity Ratio... (times)	0.07	
20	Interest Coverage Ratio... (times)	79.62	
21	Debt Service Coverage Ratio... (times)	74.65	
	Investment Ratios		
22	Earmarked Fund Investments to Earmarked Funds Ratio... (%)	8.81	
23	Interest on Investments Ratio... (%)	13.68	
	Liquidity Ratio		
24	Current Assets to Current Liabilities Ratio... (times)	9.44	
	Asset Ratios		
25	Fixed Assets to Total Assets Ratio... (%)	23.41	
	Performance Ratios		
26	Income per Employee... (Rs.)	30886.46	
27	Expenditure per Employee... (Rs.)	3019.50	
28	Income per Citizen... (Rs.)	NA	
29	Expenditure per Citizen... (Rs.)	NA	

Note: It is assumed that the total staff strength is 50.

SUMMARY

1. The financial statements indicate the state of affairs and the performance of the ULB for a stated period usually a year.
2. Financial statement comprise of the following
 - a. Balance Sheet;
 - b. Income and Expenditure Statement;
 - c. Statement of Cash flows (a summary of an enterprise's cash flow over a given period of time);
 - d. Receipts and Payments Account (detailed as per the account heads);
 - e. Notes to Accounts; and
 - f. Financial Performance Indicators.
3. The process of preparation of the Financial Statements shall be preceded by preparation of a Trial Balance.
4. The **Trial Balance** is a list of closing balances in all the accounts in the Ledger and the Cash Books. The purpose of preparing a Trial Balance is to determine the equality of posted debits and credits, and to generate a basic summary of accounts for facilitating preparation of the Financial Statements
5. The ULB shall also prepare an **Income and Expenditure Statement** for every accounting period. The Income and Expenditure Statement discloses the results of the working of the ULB during the period covered by the statement. It shows incomes and expenditures of the ULB for an accounting period and the excess of income over expenditure or vice-versa for that period.
6. The ULB shall prepare a **Balance Sheet** at the end of each accounting period. The Balance Sheet is a statement, which reflects the financial position of the ULB as on a particular date. It presents the assets, liabilities and reserves of the ULB as on a specified date.
7. Cash Flow statement is prepared in order to have information about the cash flows of an enterprise. It is useful in providing users of financial statements with a basis to assess the ability of the enterprise to generate cash and cash equivalents and the needs of the enterprise to utilise those cash flows.
8. The Receipts and Payments Account shows the sources of funds and the applications of funds during the accounting reporting periods.
9. Notes to Accounts shall comprise of Statement of Significant Accounting Principles, Statement on Contingent Liabilities, Subsidy Report and Other Disclosures.
10. Ratios are indicators of performance of the ULB/Department. Financial Ratio Analysis is a study of ratios between various items or groups of items in the Financial Statements of the ULB.

EXERCISE**Fill in the blanks**

1. is a list of closing balances in all the accounts in the ledger and the cash book.
2. The Income and Expenditure Statement shows of the ULB
3. Any income or expenditure under a particular individual head, which is or which ever is higher, shall be shown separately in the Schedules annexed to the Income and Expenditure Statement.
4. Balance sheet reflects of the ULB.
5. A cash flow is classified in to, & Activities.

Answer the following questions

1. What do financial statements comprise off?
2. What is the purpose of Cash flow statement?
3. State any five differences between “Receipts and Payments account” and “Cash flow statement”?
4. In a Cash flow statement what does “Cash flow from investing activities” mean?
5. What do negative balance in “Cash flow from operating activities” signifies?
6. What do the following ratios signify and how it is computed?
 - a. Tax revenue to total income ratio
 - b. Gross property tax receivable ratio.
 - c. Operations and maintenance to gross fixed asset ratio.
 - d. Debt service coverage ratio
 - e. Current asset to current liabilities ratio.

BROAD STRUCTURE FOR PREPARING PRESENTATION SLIDES

- Introduction
- Trial balance
- Income & expenditure statement
- Balance sheet
- Cash flow statement
- Receipts and Payments Account
- Notes to Accounts
- Financial ratio analysis

GLOSSARY

1. **Account** - A formal record of a particular type of transaction expressed in money or other unit of measurement and kept in a ledger.
2. **Accounting Entry** - A record of financial transaction in the books of account like journal, ledger, cash book, etc.
3. **Account Payable** - Amount owed by an enterprise on account of goods purchased or services received or in respect of contractual obligations. Also termed as trade creditor or sundry creditor.
4. **Accounting Period** - The period of time for which an operating statement is customarily prepared.
5. **Accounting Principle** - The general principles and procedures under which the accounts of an individual organisation are maintained; any one such principle or procedure. An accounting principle is an adaptation or special application of a principle necessary to meet the peculiarities of an organisation or the needs of its management. Thus, principles are required for the computation of depreciation, the recognition of capital expenditures, and the disposal of retirements.
6. **Account Receivable** - Person from whom amounts are due for goods sold or services rendered or in respect of contractual obligations. Also termed as debtor, trade debtor, sundry debtor. The words 'Receivables' and 'Debtors' are used interchangeably.
7. **Accounting Unit** - An accounting unit shall be defined as a Zone, Circle, Divisional or Ward office identified by the ULB as an unit for maintenance of accounting records.
8. **Accounting Year** - The "Official Year" or "Year" means a year commencing on the first day of the Accounting period.
9. **Accrual** - Recognition of revenues and costs as they are earned or incurred (and not as money is received or paid). It includes recognition of transactions relating to assets and liabilities as they occur irrespective of the actual receipts or payments.
10. **Accrual Basis of Accounting** - The method of accounting whereby revenues and expenses are identified with specific periods of time, such as a month or year, and are recorded as incurred, along with acquired assets, without regard to the date of receipt or payment of cash; distinguished from cash basis.
11. **Accrued & Due** - In respect to an **asset** (or a **liability**) it means a claim which has become enforceable, which arises from the sale/rendering (purchase) of goods/services or otherwise and has become receivable (payable).
In respect to an **income** (or an **expense**) it means the amount earned (incurred) in an accounting period, for which a claim has become enforceable, and it arises from the sale/rendering (purchase) of goods/services or otherwise and has become receivable (payable).
12. **Accrued But Not Due** - In respect to an **asset** (or a **liability**) it means a claim which has not yet become enforceable, which accumulates with the passage of time or arises from the sale/rendering (purchase) of goods/services which, on the date of period-end, have been partly performed and are not yet receivable (payable).
In respect to an **income** (or an **expense**) it means the amount earned (incurred) in an accounting period, but for which no enforceable claim has become due in that period. It accumulates with the passage of time or arises from the sale/rendering (purchase) of goods/services goods which, at the date of accounting, have been partly performed and are not yet receivable (payable).

13. **Accumulated Depreciation** - The total to date of the periodic depreciation charges on depreciable assets.
14. **Advance** - Payment made on account of, but before completion of, a contract, or before acquisition of goods or receipt of services.
15. **Amortisation** - The gradual and systematic writing off of an asset or an account over an appropriate period. The amount on which amortisation is provided is referred to as amortisable amount. Depreciation accounting is a form of amortisation applied to depreciable assets. Depletion accounting is another form of amortisation applied to wasting assets. Amortisation also refers to gradual extinction or provision for extinction of a debt by gradual redemption or sinking fund payments or the gradual writing off to revenue of miscellaneous expenditure carried forward.
16. **Annual Report** - Any report prepared at yearly intervals.
A statement of the financial condition and operating results of an ULB, prepared yearly for submission to interested parties; summarising its operations for the preceding year and including a balance sheet, income & expenditure statement, often a receipts & payment statement, and the auditor's report, together with comments by the Head of Council or the Municipal Commissioner of the ULB on the year's operations.
17. **Assets** - Tangible objects or intangible rights owned by the ULBs and carrying probable future benefits.
18. **Assigned Revenues** - Assigned revenues are revenues in the nature of a share in the revenues of the state government, to compensate for certain losses in revenue and arrangement of resources of the ULBs. The ratio of the share in revenues is determined on the basis of the revenues collected by ULBs and the recommendations of the State Finance Commissions and devolution of funds to ULBs.
19. **Asset Replacement Fund** - A fund created for the purpose of replacement of an asset. The fund shall normally be equal to the amount of depreciation provided on the Fixed Assets and shall be utilised only for the purpose of replacement of those Fixed Assets or for any other purpose as resolved by the ULBs.
20. **Bad Debts** - Debts owed to the ULBs, which are considered to be irrecoverable, e.g., arrears of taxes, fees and other revenue left uncollected and considered to be irrecoverable.
21. **Balancing** - In order to balance an account, the two sides, namely Debit and Credit are totalled up separately and the difference is ascertained. This difference is put on the side that is lower to balance the two sides of an account.
22. **Balance Sheet** - A statement of the financial position of an ULB as at a given date, which exhibits its assets, liabilities, capital, reserve and other account balances at their respective book values.
23. **Bank Reconciliation Statement** - A statement, which reflects the nature and amount of transaction not responded either by the ULB or the Bank as on a particular date. Such statement may also reflect errors/omission in the recording of transaction inter-se between the ULB and the Bank.
24. **Books of Original Entry** - A record book, recognised by law or custom, in which transactions are successively recorded, and which is the source of postings to ledgers; a journal. Books of original entry include general and special journals, such as cash books.
25. **Budget** - It means quantitative plan of activities and programs expressed in terms of money in respect of assets, liabilities, revenues and expenses. The budget expresses the ULB goals in terms of specific financial and operating objectives.

26. **Capitalisation** - An expenditure for a fixed asset or addition thereto that has the effect of enlarging physical dimensions, increasing productivity, lengthening future life, or lowering future costs.
27. **Capital Expenditure** - An expenditure intended to benefit future period in contrast to a revenue expenditure, which benefits a current period. The term is generally restricted to expenditure that adds fixed asset units or that has the effect of improving the capacity, efficiency, life span or economy of operations of an existing asset.
28. **Capital Work in Progress** - Expenditure on capital assets which are in the process of construction or completion.
29. **Cash Book** - A book of original entry for cash receipts, disbursements, or both.
30. **Cash flow Statement** - A financial statement prepared for an accounting period to depict the inflows and outflows of cash and cash equivalents of an enterprise. The cash flow statement reports cash flows classified by operating, investing and financing activities.
31. **Casting** - It means totalling of the amounts in the books of account.
32. **Chart of Accounts** - A systematically arranged list of accounts applicable to a specific concern, giving account names and numbers, if any.
33. **Code of Account** - A unique numeric or alphanumeric identification given to each Account to facilitate classification and ease of recording.
34. **Contingent Liability** - An obligation relating to an existing condition or situation which may arise in future depending on the occurrence or non-occurrence of one or more uncertain future events.
35. **Contra Entry** - An item on one side of an account which offsets fully or in part one or more items on the opposite side of the same account.
36. **Control Account** - Control account is an account in the general ledger that consists of related sub-accounts. The total of the related sub-accounts should total the balance in the related control account.
37. **Cost** - The amount of expenditure incurred on or attributable to a specified article, product or activity.
38. **Cost of Acquisition** - The cost of acquisition of a Fixed Asset comprises its purchase price and includes import duties and other non-refundable taxes or levies and any directly attributable cost of bringing the asset to its working condition for its intended use; any trade discounts and rebates are deducted in arriving at the purchase price.
39. **Cost of Investment** - The amount of expenditure incurred on or attributable to the purchase/acquisition of an investment. The cost of an investment amongst others includes acquisition charges such as brokerage, fees and duties.
40. **Credit** - A book-keeping entry recording the reduction or elimination of an asset or an expense, or the creation of or addition to a liability or item of net worth or revenue; an entry on the right side of an account; the amount so recorded.
41. **Current Assets** - Cash and other assets that are expected to be converted into cash or consumed in rendering of services in the normal course of operations of the ULBs.
42. **Current Liability** - Liability including loans, deposits and bank overdrafts which fall due for payment in a relatively short period, normally not more than twelve months.
43. **Debenture** - A formal document constituting acknowledgement of a debt by an ULB, usually given under its common seal and normally containing provisions regarding payment of interest, repayment of principal and security, if any. It is transferable in the appropriate manner.

44. **Debit** - The goods or benefit received from a transaction; a book-keeping entry recording the creation of or addition to an asset or an expense, or the reduction or elimination of a liability, or item of net worth or revenue; an entry on the left side of an account; the amount so recorded.
45. **Deferred Revenue Expenditure** - Expenditure for which payment has been made or a liability incurred but which is carried forward on the presumption that it will be of benefit over a subsequent period or periods. This is also referred to as Deferred Expenditure.
46. **Deficit** - The excess of expenditure over income of the ULB for an Accounting Period under consideration.
47. **Depreciable Amount** - The historical cost, or other amount substituted for historical cost of a depreciable asset in the financial statements, less the estimated residual value.
48. **Depreciable Asset** - An asset which is expected to be used during more than one accounting year, has a limited useful life, and is held by the ULBs for use in the supply of goods and services, for rental to others, or for administrative purposes and not for the purpose of sale in the ordinary course of operations of the ULB.
49. **Depreciation** - A measure of the wearing out, consumption or other loss of value of a depreciable asset arising from use, effluxion of time or obsolescence through technology and market changes. It is allocated so as to charge a fair proportion in each accounting period during the useful life of the asset. It includes amortisation of assets whose useful life is predetermined and depletion of wasting assets.
50. **Depreciation Method** - The arithmetic procedure followed in determining a provision for depreciation (an expense) and maintaining the accumulated balance.
51. **Depreciation Rate** - A percentage which when applied to the depreciable amount will yield depreciation expense for a year.
52. **Dividend Income**. An income received from investments by a ULB in shares/units.
53. **Earmarked Funds** - Funds representing Special Funds to be utilised for specific purposes.
54. **Expenses** - A cost relating to the operations of an accounting period or to the revenue earned during the period or the benefits of which do not extend beyond that period.
55. **Financial Statement** - A balance sheet, income statement (income and expenditure), receipts & payment statement or any other supporting statement or other presentation of financial data derived from accounting records.
56. **Finished Goods** - Goods held for sale in the ordinary course of business.
57. **Fixed Asset** - Asset held for the purpose of providing services and that is not held for resale in the normal course of operations of the ULB.
58. **Fixed Deposit** - Deposit for a specified period and at specified rate of interest.
59. **Fund** - The term fund refers to amount set aside for a general or specific purpose, whether represented by specifically earmarked assets or not.
60. **Folio reference** - A page number or voucher or other number in a book or document of original or final entry, which refers to the disposition or source of an entry or posting.
61. **Grants** - Grants are assistance by government in cash or kind to an enterprise for past or future compliance with certain conditions. They exclude those forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the enterprise.
62. **Gross Block** - The total cost of acquisition/purchase of all the Fixed Assets of the ULB.

63. **Income** - Money or money equivalent earned or accrued during an accounting period, increasing the total of previously existing net assets, and arising from provision of any type of services and rentals.
64. **Income and Expenditure Statement** - A financial statement, often prepared by non-profit making entities like clubs, associations, ULBs, etc., to present their revenues and expenses for an accounting period and to show the excess of revenues over expenses (or vice-versa) for that period. It is similar to profit and loss statement and is also called revenue and expense statement.
65. **Interest** - The service charge for the use of money or capital, paid at agreed intervals by the user, and commonly expressed as an annual percentage of outstanding principal.
66. **Investments** - Assets held not for operational purposes or for rendering services, i.e., assets other than fixed assets or current assets (e.g. securities, shares, debentures, immovable properties).
67. **Inter unit transactions** - Transactions between one or more accounting units of the Urban Local bodies.
68. **Infrastructure Assets** - Those assets with the characteristics of being, a part of a system or network, specialised in nature and do not have alternative uses, immovable, and subject to constraints on disposal.
69. **Journal Book** - The book of original entry in which are recorded transactions not provided for in specialised journals.
70. **Joint Venture** - Joint Venture is a contractual arrangement whereby two or more parties undertake an economic activity to share expertise in a single defined project, which is subject to joint control.
71. **Lapsed Deposits** - Deposits unclaimed for more than such period or periods as defined in the act or provisions governing the ULBs.
72. **Ledger** - A compilation of all accounts used for accounting purposes.
73. **Lease** - A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period. A lease agreement also includes a Hire Purchase agreement. A lease is classified as a finance lease if it transfers substantially the entire risks and rewards incident to ownership. All other leases are classified as operating leases.
74. **Liability** - An amount owing by one person to another, payable in money, or in goods or services: the consequence of an asset or service received or a loss incurred or accrued; particularly, any debt (a) due or past due (current liability), (b) due at a specified time in the future (e.g. funded debt, accrued liability), or (c) due only on failure to perform a future act (contingent liability).
75. **Long term investments** - Any investment falling outside the ambit of current investments are treated as long-term investments.
76. **Mortgage** - A lien on land, buildings, machinery, equipment, and other property, fixed or movable, given by a borrower to the lender as security for his loan; sometimes called a deed of trust.
77. **Municipal fund** - The municipal or general fund is the general operating fund of an ULB. It is used to account for all financial resources except those related to any special or trust funds.
78. **Narration** - A brief description written below an Accounting Entry. It is normally written in brackets and starts with the word "Being". It explains as to why the entry has been recorded and other related aspects of the entry.

79. **Net Assets** - The excess of the book value of the assets of an accounting unit over its liabilities to outsiders.
80. **Net Block** - Gross Block less Accumulated Depreciation of all the Fixed Assets of the ULB.
81. **Period End** - the last day of any Accounting Period, e.g., quarter, half-year, year-end.
82. **Pooling of interest method** - Pooling of interests is a method of accounting for amalgamations the object of which is to account for the amalgamation as if the separate operations of the amalgamating entities were intended to be continued by the transferee entity. Accordingly, only minimal changes are made in aggregating the individual financial statements of the amalgamating entities.
83. **Posting** - An act of entering separately the debit and credit aspect of transactions from the books of original entry in respective accounts maintained in the ledger.
84. **Prepaid Expense** - Payment for expense in an accounting period, the benefit for which will accrue in the subsequent accounting period(s).
85. **Provision for Expense** - An amount written off or retained by way of providing for depreciation or diminution in value of assets or retained by way of providing for any known liability the amount of which cannot be determined with substantial accuracy.
86. **Provision for Unrealised Revenue** - A provision made for revenue considered doubtful of recovery.
87. **Qualifying Fixed Asset** - A Qualifying Fixed Asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Ordinarily a period of twelve months is considered as substantial period unless a shorter or longer period can be justified on the basis of facts and circumstances of the case. In estimating the period, the time which an asset takes, technologically and commercially, to get it ready for its intended use or sale should be considered.
88. **Receipt** - A written acknowledgement of something acquired; hence, an accounting document recording the physical receipt of cash/cheques.
89. **Receipts & Payments Statement** - A financial statement prepared for an accounting period to depict the changes in the financial position and to present the cash received in and paid out in whatever form (cash, cheques, etc.) under certain headings. All non-cash related transactions are ignored while preparing this Statement.
90. **Reconciliation** - It means adjusting the difference between two items (i.e. amounts, balances, accounts or statements) so that the figures agree.
91. **Report of the Municipal Chief Auditor** - The formal expression of opinion by the Municipal Chief Auditor on the Financial Statements, books of accounts and transactions of the ULB.
92. **Revenue Expenditure** - It means outlay benefiting only the current year. It is treated as an expense to be matched against revenue.
93. **Sinking Fund** - A fund created for the repayment of a liability or for the replacement of an asset.
94. **Special Fund** - An amount set aside for a specific purpose represented by specifically earmarked assets.
95. **Straight Line Method (SLM)** - The method under which the periodic charge for depreciation is computed by dividing the depreciable amount of a depreciable asset by the estimated number of years of its useful life.

96. **Sub-Account**: One or more accounts that make up the Control Account. These sub-accounts are related to the control account and provide more detail of the Control Account. The total of the related sub-accounts will equal the related Control Account.
97. **Surplus** - The excess of income over expenditure of the ULB for an Accounting Period under consideration.
98. **Short term investments** - Those investments which are readily realisable, and are intended to be held for not more than twelve months from the date of investment.
99. **Trial Balance** - A list or abstract of the balances or of total debits and total credits of the accounts in a ledger, the purpose being to determine the equality of posted debits and credits and to establish a basic summary for financial statements.
100. **Useful Life** - The period over which a depreciable asset is expected to be used by the enterprise; or (ii) the number of production or similar units expected to be obtained from the use of the asset by the enterprise.
101. **Voucher** - A document which serves as an authorisation for any financial transaction and forms the basis for recording the accounting entry for the transaction in the books of original entry, e.g., Cash Receipt Voucher, Bank Receipt Voucher, Journal Voucher, Payment Voucher, etc.
102. **Work in progress** - Goods in the process of production for their sales or usage.
103. **Written Down Value (WDV)** - In respect of a fixed asset means its cost of acquisition or substituted value less accumulated depreciation.
104. **Written Down Value (WDV) Method** - A method under which the periodic charge for depreciation of an asset is computed by applying a fixed percentage to its historical cost or substituted amount less accumulated depreciation (net book value). This is also referred to as “Diminishing Balance Method”.

TRAINERS NOTES

The participative method expects the trainer to be prepared for any possible response from the participants. The task of the trainer is to elicit and guide participants' contributions and help them share their views and concerns.

Do's and Don'ts for the Trainer

- Have a thorough understanding of the concepts.
- Ensure a logical flow of the topics covered in the training.
- Make the participants to do some pre-training exercise on the topics intended to be covered in the training.
- Ensure that live examples are used, to the extent possible, so that participants relate to what is being explained.
- Illustrate how the entries passed by the users are reflected in the published financial statements.
- Make use of presentation tools like projectors, blackboard, slides etc.
- Avoid use of jargons and customize the training based on the profile of the participants
- Don't overload with too many topics on a single day/session.
- Clarify all the doubts at the end of the session itself.
- Give case studies to the participants to help them improve their understandings.
- Quickly revise the topics that were covered in the previous day.
- Help them how to make reference to NMAM and other books and materials.

Trainer's notes

General notes

- 1 Briefly introduce the objective and relevance of each chapter to ULB.
- 2 Explain each accounting principle in detail. As far as possible explain the same with an illustration and accounting entries.
- 3 Walk through the day to day entries of the ULB with illustrations.
- 4 Make the participants pass a few entries giving them live examples.
- 5 Explain how all the entries are reflected in the financial statements. Demonstrate to the participants as to how the entries they have passed have been reflected in the financial statements.

Specific notes

Accounting Concepts & Conventions (including Accrual system of accounting)

- 1 Explain the meaning of the term Accounting 'concept' & 'Conventions'
- 2 Explain the logic and the usefulness of these concepts.
- 3 Explain the various concepts and conventions used.
- 4 Explain each concept and convention with examples.
- 5 Explain the meaning of Accrual basis of Accounting
- 6 Differentiate Accrual basis of accounting with cash based accounting system.
- 7 Explain the benefits of Accrual basis of accounting system.
- 8 Give examples.

Chart of Accounts

- 1 Explain the conceptual basis of Chart of Accounts.
- 2 Explain how transactions are coded, in reference to standard Chart of accounts.
- 3 Apply the code to typical transactions involving expense, revenue, asset and liability for easy understanding.

General Accounting Procedures

- 1 Explain what is meant by books of accounts and what accounting document is.
- 2 Explain classifications of Accounting document and accounting books.
- 3 Show the participants the format/template of each accounting document and books.
- 4 Explain the step by step procedure to be followed for collection/ payment of cash.
- 5 Demonstrate the method for preparation of vouchers like cash, bank, journal etc.

Property & Other taxes

- 1 Explain various source of revenue to ULB like property tax, water tax, sewerage tax , water charges, Octroi, Cess, Assigned revenues etc.
- 2 Briefly explain each source of revenue to the participants.
- 3 Explain the accounting entries for raising of bill, collection, refunds, remission, provisioning of doubtful receivables and write offs.

Employees related transactions & stores

- 1 Explain the accounting entry for recording of salary, allowances and deductions from salary like provident fund, TDS etc.
- 2 Explain the accounting entry for disbursement of loans to employees and recovery of the same.
- 3 Explain the accounting treatment of retirement benefits like provident fund, pension, gratuity and leave encashment.
- 4 Explain the accounting entry for receipt, returns and issue of materials for consumption.
- 5 Briefly explain the method of valuation of closing stock at the year end.

Public works

- 1 Explain the nature/types of public works undertaken by ULB like original works, repairs & maintenance, deposit works etc.
- 2 Explain the accounting entry for repairs and maintenance works, deposit works with illustrations.
- 3 Explain the accounting entry for capital work in progress and capitalization of the same.

Fixed Assets

1. Explain the meaning of fixed assets with examples and the broad classification of fixed assets.
2. Explain the various modes of purchase of fixed asset like grants, sinking fund, and purchase through own funds etc.
3. Explain the meaning of the term depreciation and its purpose.
4. Explain various methods of computation of depreciation like straight line method and written down value method in detail. Use the same example and compute depreciation under both the methods.
5. Explain the accounting treatment for write off or disposal of asset and method of ascertaining the profit/loss arising from sale of asset.
6. Explain the presentation and disclosure with respect to fixed assets.

Investments

- 1 Explain the classification of investments – short term & long term and explain the meaning of each of them.
- 2 Explain the accounting treatment for recording investments made from municipal fund, special fund and grant.
- 3 Explain the method of computation of interest from investment and the accounting entry to be passed.
- 4 Explain the method of valuation of investment i.e. Cost vs market value.

Borrowings

- 1 Explain the different source of borrowing for ULB
- 2 Explain the accounting treatment for receipt, repayment of borrowings, accrual and payment of interest.
- 3 Explain the accounting treatment for “Interest accrued and not due” at the end of the financial year in detail.

Grants

1. A step by step procedure shall be given for accounting of various grants like general grant, Specific grant, Revenue grant and grant for capital expenditure.

Loans & Advances

- 1 Briefly introduce the undertakings to whom loans are usually advanced by ULB – like school board, transport undertakings.
- 2 Explain the accounting entries for disbursement, recovery and accrual of interest with respect to loans.
- 3 Explain in detail the provisioning policy with respect to outstanding loans.
- 4 Explain the accounting entries for provisions and write offs.

Financial statements

1. Explain what financial statement means and comprises off.
2. Explain the reason for preparation of financial statements.
3. Explain the method of preparation of each statement like Trial balance, Income & expenditure, Balance sheet, Receipts & Payments account and Cash flow and their uses.
4. Explain the disclosure aspect relating to notes to accounts.

Illustrative training schedule

This is an illustrative training schedule; the trainer can use this as a basis for preparing their training schedule.

Session	Contents	Duration
Day 1	Introduction	30 Minutes
	a. Project Background	
	b. Introduction to NMAM	
	c. Introduction to Training Manual	
	Accounting Rules	1 ½ hours
	a. Accounting Concepts	
	b. Accounting Conventions	
	c. Accrual basis of Accounting	
	c. Rules of Accounting	
	Guidelines for preparation of opening balance sheet	1 hour
	a. General guidelines	
	b. Guidelines for Immovable Assets, Current Asset	
	c. Guidelines for determination of value of Loans and borrowings	
	Coding Structure & Chart of Accounts	2 hours
	General Accounting Procedures	1 hour
	a. Books of Accounts	
b. Accounting documents		
c. Procedure for collection/payment		
<i>Section Exercise</i>	1 hour	
Day 2	Revenue	
	a. Property & Other Taxes	2 hours
	b. Water Supply	1 hour
	d. Octroi	1 hour
	e. Cess	1 hour
	f. Rental, Fees & Other incomes	1 hour
	g. Assigned Revenues	
	<i>Section Exercise</i>	1 hour
Day 3	Revenue Expenditure	
	a. Stores	1 ½ hour
	b. Employee Related Transactions	1 ½ hours
	c. Public Works	2 hours
	d. Health & Sanitation	30 Minutes
	e. Other Revenue Expenditures	30 Minutes

Session	Contents	Duration
	<i>Section Exercise</i>	1 hour
Day 4	Balance Sheet Items	
	a. Grants	1 hour
	b. Borrowings (Loans Received)	1 hour
	c. Special Funds	1 hour
	d. Investments	1 hour
	e. Fixed Assets	1 hour
	f. Loans & Advances	1 hour
	<i>Section Exercise</i>	1 hour
Day 5	Period End Requirements & Financial Statements	
	a. Period-end Procedures	1 hour
	b. Reconciliation Procedures	2 hour
	c. Financial Statements	2 hours
	<i>Section Exercise</i>	1 hours
	Discussions	30 Minutes
	Summing Up and Feedback.	30 Minutes