

# UTTARAKHAND MUNICIPAL ACCOUNTING MANUAL 2021



**Government of Uttarakhand**  
**Department of Urban Development**

# UTTARAKHAND MUNICIPAL ACCOUNTING MANUAL

## Preface

The Ministry of Urban Development & Housing Department, in 2004 developed a Model National Municipal Accounting Manual (NMAM) which was to be adopted and followed by the State Governments after making required modifications to align it with the policies procedures and practices in the State.

Based on the NMAM, The Urban & Housing Development Department, Govt. of Uttarakhand developed Uttarakhand Municipal Accounting Manual (UMAM) in the year 2011. The manual provided comprehensive details on the accounting policies, procedures, guidelines and was designed to ensure prudent municipal accounting.

To make the manual compatible with current accounting practices, contemporary financial transactions, good practices and changes in law, it was necessary to update the manual. Accordingly, the UMAM has been updated during 2020-2021.

This manual has considered the recommendations of Accounting Standard for Local Bodies (ASLB) issued by the Institute of Chartered Accountants of India (ICAI). To follow the best practices, ULBs should follow ASLBs issued by the ICAI from time to time. GoUK may approve relevant ASLBs for adoption, for which Notification needs to be issued. This Manual comprises of three parts, the Accounting Manual, Appendix-I and Appendix-II.

We thank Shri Amit Singh Negi, IAS: Shri Binod Kumar Suman, IAS: Shri Ashok K Pandey, Addl. Director UDD: Shri Anand Singh Tomar, FC, UDD: Shri Kamlesh Mehta, Jt. Director, UDD: Shri Rajat Kumar Mehra, UKPFMS: Shri L.M. Verma, Finance Expert, UKPFMS: Shri L.N. Pant, Deputy Project Director, UKPFMS: Shri S. Krishnamurthy, Shri Puneet Kapoor and Smt. Astha Saharia from World Bank: who provided valuable comments in the preparation of the manual. We thank the authors of the National Municipal Accounting Manual, Karnataka Municipal Accounting Manual, and Tamil Nadu Municipal Accounting Manual which was referred and good practices were incorporated in this manual, and M/s EY LLP who has updated the manual.

We hope this Manual will facilitate and assist the Urban Local Bodies in prudent accounting and preparing accounts on a timely basis. The Manual will be periodically reviewed and updated by the Director of Urban Development, based on the implementation experience. Clarification requests or queries in respect of the manual may be addressed to the Director of Urban Development, Govt of Uttarakhand.

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# UTTARAKHAND MUNICIPAL ACCOUNTING MANUAL

## LIST OF ACRONYMS

Acronym	Full Form
AS	Accounting Standard
ASLB	Accounting Standard for Local Bodies
BPV	Bank Payment Voucher
BRS	Bank Reconciliation Statement
CA	Chartered Accountant
C&AG	Comptroller and Auditor General of India
CPV	Cash Payment Voucher
CWIP	Capital Work in Progress
COA	Chart of Accounts
EO	Executive Officer
F&A	Finance and Accounts
FY	Financial Year
GAAP	Generally Accepted Accounting Principles
GIS	Geographical Information System
GL	General Ledger
GO	Government Order
GoUk	Government of Uttarakhand
HP	Hire Purchase
ICAI	The Institute of Chartered Accountants of India
MB	Measurement Book
MoU	Memorandum of Understanding
No.	Number
PF	Provident Fund
PWD	Public Works Department (of each ULB)
RD	Recurring Deposit
RV	Receipt Voucher
SLM	Straight Line Method
UDD	Urban Development Directorate
ULB	Urban Local Body

## Definitions

This section covers the definitions and relevant explanation of various terms and phrases that have been used in the Accounting Manual.

1. **Account:** A formal record of a transaction expressed in money 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 for which the Financial Statement is customarily prepared. For ULBs it will be the Financial Year from 1<sup>st</sup> April to 31<sup>st</sup> March.
5. **Accounting Principle:** Any one of the general principles and procedures under which the accounts of an individual organisation are maintained. 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. **Accounting Standards for Local Bodies (ASLBs):** These are Standards and interpretations thereon issued by the Institute of Chartered Accountants of India (ICAI) for Local Bodies
7. **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, and Sundry Debtor. The words 'Receivables' and 'Debtors' are used interchangeably.
8. **Accounting Unit:** An accounting unit shall be defined as a Zone, Circle, Division or Ward office identified by the ULB as a unit for maintenance of accounting records.
9. **Accounting Year:** The "Official Year" or "Year" means a year commencing on the first day of the Accounting period.
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. 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.

11. **Accrued and due:** With respect to an income or an expense, it means a claim which has become due for receipt (or payment).
12. **Accrued but not due:** With respect to income (or an expense), it means the amount earned (incurred) in an accounting period, for which a claim has not become due.
13. **Acts:** means the Uttarakhand (UP) Municipalities Act 1916, Uttarakhand (UP) Municipal Corporation Act 1959 and includes amendments of such acts duly made by Government of Uttarakhand time to time. When separate Municipal Act is available for Uttarakhand, the definition of “Act” shall be modified accordingly.
14. **Bank:** means any Scheduled Bank or Banks in India and includes Treasury account.
15. **Accumulated Depreciation:** The total to date of the periodic Depreciation charges on depreciable assets
16. **Advance:** Payment made on account of, but before completion of, a contract, or before acquisition of goods or receipt of services.
17. **Amortisation:** Amortisation is the gradual and systematic writing off an asset or an account over an appropriate period. The amount on which Amortisation is provided is known as amortisable amount. Depreciation accounting is a form of Amortisation which is applicable 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.
18. **Asset:** Assets are tangible or intangible rights owned by the ULBs and carrying probable future benefits.
19. **Annual Report:** A statement of the financial condition and operating results of an ULB, prepared yearly for submission to Stakeholders; 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 the ULB on the year's operations.
20. **Assigned Revenues:** Assigned revenues are a share in the revenues of the state government, to compensate for certain losses in revenue and arrangement of resources

of the ULBs. The share in revenues is determined on the basis of the recommendations of the State Finance Commissions and devolution of funds to ULBs agreed by the state.

21. **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.
22. **Associate:** is an entity over which the investor has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of another entity but is not control or joint control of those policies.<sup>1</sup>
23. **Auditor:** means the Director-Audit, Uttarakhand or a member of the Institute of Chartered Accountants of India, or Auditor appointed by the Comptroller and Auditor General of India or any other Auditor appointed by the State Government to conduct audit.
24. **Bad debts:** The debts owed to ULBs, which are considered to be irrecoverable, e.g., arrears of taxes, fees and other revenue left uncollected and considered to be irrecoverable.
25. **Balancing:** In order to balance an account, the two sides, namely Debit and Credit are totaled 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.
26. **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.
27. **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.
28. **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 Cash and Bank Books.
29. **Budget:** It means quantitative plan of activities and programmes expressed in terms of money in respect of assets, liabilities, revenues and expenses. The budget expresses the

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<sup>1</sup> Exposure Draft\_AS LB 36

ULB goals in terms of specific financial and operating objectives.

30. **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.
31. **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.
32. **Capital work -in-progress:** Cost incurred to date on capital assets which are in the process of construction and yet to be completed at the Balance Sheet date.
33. **Cash Book:** A book of original entry for cash receipts, disbursements, or both.
34. **Cash Basis of Accounting:** Method of accounting where entries are made only when cash is received, or payment is made.
35. **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.
36. **Chart of Accounts:** A systematically arranged list of accounts applicable to a specific concern, giving account names and numbers, if any.
37. **Code of Account:** A unique numeric or alphanumeric identification given to each Account to facilitate classification and ease of recording.
38. **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 future events.
39. **Contingent Asset:** A possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non- occurrence of one or more uncertain future events not wholly within the control of the entity.
40. **Contra Entry:** Contra entry refers to transactions involving cash and bank account as well as a transaction involving two bank accounts. In other words, any entry which affects both cash and bank accounts as well as two bank accounts is called a contra entry. For Example, Cash deposited into Bank, Cash withdrawn from Bank, Fund transferred from one Bank account to another Bank account.



41. **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.
42. **Cost:** The amount of expenditure incurred on or attributable to a specified article, product or activity.
43. **Cost of Acquisition:** The cost of acquisition of a Fixed Asset comprises its purchase price and includes import duties and other nonrefundable 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.
44. **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.
45. **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
46. **Current assets:** An asset which satisfies any of the following criteria:
- (a) It is expected to be realised in, or is held for sale or consumption in, the entity's normal operating cycle;
  - (b) It is held primarily for the purpose of operations;
  - (c) It is expected to be realised within twelve months after the reporting date; or
  - (d) It is cash or a cash equivalent.
- 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. Current assets include cash, cash equivalents, accounts receivable, stock inventory, marketable securities, pre-paid liabilities, and other liquid assets.
47. **Current liabilities:** A liability which satisfies any of the following criteria:
- (a) It is expected to be settled in the entity's normal operating cycle;
  - (b) It is held primarily for the purpose of operations;
  - (c) It is due to be settled within twelve months after the reporting date; or
  - (d) The entity does not have an unconditional right to defer settlement of the liability for

at least twelve months after the reporting date.

Current Liability includes Creditors, loans, deposits and bank overdrafts which fall due for payment in a relatively short period, normally not more than twelve months.

48. **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.
49. **Debit:** The goods or benefit received from a transaction; a bookkeeping 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.
50. **Deficit:** The excess of expenditure over income of the ULB for an Accounting Period under consideration.
51. **Deposit works:** Deposit works denote the amount, which is received by ULBs for the construction works, on behalf of third persons. The deposit works are generally received from the MP and MLA Funds.
52. **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.
53. **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.
54. **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, if any.
55. **Depreciation method:** The arithmetic procedure followed in determining a provision for Depreciation (an expense) and maintaining the accumulated balance.
56. **Depreciation Rate:** A percentage which when applied to the depreciable amount will yield Depreciation expense for a year.

57. **Dividend Income:** An income received from investments by a ULB in shares/units.
58. **Earmarked Funds:** Funds representing Special Funds to be utilised for specific purposes.
59. **Equity method** in the context of "Investment in Associates": is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets/equity of the associate.
60. **Expenses:** A cost relating to the operations of an Accounting Period or to the revenue earned during the period the benefits of which do not extend beyond that period.
61. **Financial Statement:** A Balance Sheet, income and expenditure statement, receipts & payment statement, cash flow statement or any other supporting statement or other presentation of financial data derived from accounting records. Financial Statements consist of at least the following:
- a) Income and Expenditure Statement
  - b) Balance Sheet
  - c) Receipts and Payments Account (Optional for Audit)
  - d) Cash Flow Statement
  - e) Notes to Accounts (including disclosure)
62. **Fund:** The term fund refers to the amount set aside for a general or specific purpose, whether represented by specifically earmarked investments or not.
63. **Finance Lease:** A Finance Lease is a Lease that transfers substantially all the risks and rewards incidental to the ownership of an asset, to the lessee. For example, an unused building of ULB is leased out for any use and earning revenue, where the ULB does not have any operating and financial involvement. However, such type of lease is rare in case of ULB as lessor.
64. **Financial Year:** Financial Year is a period of twelve months starting from April 1 and ending March 31 of the next year.
65. **Fixed Asset:** A tangible asset held for long term use in producing or providing goods and services, and which is not held for sale in the normal course of operation of the ULB.
66. **Fixed Deposit:** Deposit for a specified period and at specified rate of interest held with a Bank or entity.

67. **Folio:** 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.
68. **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.
69. **Gross Block:** The total cost of acquisition/purchase of all the Fixed Assets of the ULB.
70. **Hire Purchase:** Hire purchase agreement is a contract (more often called contract of hire with an option of purchase) in which a person hires goods for a specified period and at a fixed rent, with the added condition that if he shall retain the goods for the full period and pay all the instalments of rent as they become due, under the contract the title shall vest absolutely in him.
71. **Immovable Assets:** Consists of assets, which cannot be relocated from one place to another. Example of Immovable Assets includes land, buildings etc.
72. **Income:** Money that is earned from doing any work or accrued from any investment is called Income.
73. **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.
74. **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.
75. **Infrastructure assets:** Those assets with the characteristics of being a part of a system or network, specialised in nature and not having alternative uses, immovable, and subject to constraints on disposal.
76. **Intangible assets:** An intangible asset is an identifiable non-monetary asset without physical substance held for use in the production or supply of goods or services, for rental to others, or for administrative purposes<sup>2</sup>.

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<sup>2</sup> ASLB-31

77. **Investments:** Investments are assets held by an enterprise for earning income by way of dividends, interest, rentals, capital appreciation or for other benefits to the investing enterprise.
- (e.g. securities, shares, debentures, immovable properties)
78. **Inter unit transactions:** Transactions between one or more accounting units of the Urban Local bodies.
79. **Journal Book:** The book of original entry in which are recorded transactions not provided for in specialised journals
80. **Lapsed Deposits:** Deposits unclaimed for more than such period or periods as defined in the act or provisions governing the ULBs.
81. **Ledger:** A compilation of all accounts used for accounting purposes.
82. **Leasehold lands:** Leasehold lands are lands which are under a Lease agreement to use the lands for a substantial period of time.
83. **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. One who grants the lease is called Lessor and the party taken the asset on lease, is called Lessee. 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.
84. **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).
85. **Long term investments:** Any investment falling outside the ambit of current investments are treated as long-term investments.
86. **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. Mortgage is also sometimes called a deed of trust.
87. **Movable Assets:** Consists of assets, which can be moved. Example includes Vehicles.
88. **Monetary Assets:** Monetary assets are money held and assets to be received in fixed or

determinable amounts of money. Monetary assets include cash and bank balance, deposits and account receivables.

89. **Municipal fund:** The municipal or general fund is the general operating fund of a ULB. It is used to account for all financial resources except those related to any special or trust funds. The fund is named as "Corporation Fund" in case of Nagar Nigam, and "Municipal Fund" in case of Nagar Palika Parishad and Nagar Panchayat.
90. **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.
91. **Net Assets:** The excess of the book value of the assets of an accounting unit over its liabilities to outsiders.
92. **Net Block:** Gross Block less Accumulated Depreciation of all the Fixed Assets of the ULB.
93. **Notes on account:** Notes on account is an important document attached with the Financial Statements, which contains the details with regard to Significant Accounting Policies followed by the entity as well as all mandatory disclosures as may be required by the law.
94. **Non-Monetary Asset:** Non-monetary assets are assets other than monetary assets. For example, non-monetary assets include plant and machinery, property etc.
95. **Operating Lease:** An operating Lease is a Lease that does not transfers substantially all the risks and rewards incidental to ownership of an asset. Operating Lease is basically a right to use the asset, for a short period of time. For example, a pond is given on lease for a year and for the purpose of fisheries. Only the right of use is given out for a specified period against a fee.
96. **Outstanding expenses:** Outstanding expenses are the expenses relating to the current year, which remain unpaid at the end of the Financial Year.
97. **Period End:** The last day of any Accounting Period, e.g., quarter, half-year, year-end.
98. **Posting:** An act of entering separately the Debit and Credit aspects of transactions from the books of original entry in respective accounts maintained in the Ledger.
99. **Prepaid expenses:** Payment for expense in an Accounting Period, the benefit for which will accrue in the subsequent Accounting Period(s).
100. **Provision for Expense:** A provision is the amount of an expense that an entity elects to

recognize, before it has precise information about the exact amount of the expense. For example, an ULB routinely records provisions for bad debts on some estimated basis. Normally such provisions are recognised at Financial Year end.

101. **Provision for Unrealised Revenue:** A provision made for revenue considered doubtful of recovery.
102. **Public–Private Partnership (PPP):** A PPP means a commercial arrangement between Government\ statutory entity\ Government owned entity on one side and a private sector entity on the other, for the provision of public assets and/or related services for public benefit. PPP can be investment being made by and/or management undertaken by the private sector entity for specified period of time, where there is substantial risk sharing with the private sector and private sector is paid for the service delivered.
103. **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 period of time which an asset takes, technologically and commercially, to get ready for its intended use or sale should be considered.
104. **Receipt:** A written acknowledgement of something acquired; hence, an accounting document recording the physical receipt of cash/cheques.
105. **Receipts and payment 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.
106. **Reconciliation:** It means adjusting the difference between two items i.e. amounts, balances, accounts or statements) so that the figures agree.
107. **Retirement benefits:** Retirement benefits are the benefits in the form of provident fund, gratuity, pension and other retirement benefits payable to ULB employees.
108. **Revenue Expenditure:** It means outlay benefiting only the current year. It is treated as an expense to be matched against revenue.
109. **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.
110. **Sinking fund:** A fund created for the repayment of a liability or for the replacement of an



asset.

111. **Special Fund:** An amount set aside for a specific purpose represented by specifically earmarked assets.
112. **Straight-line method of Depreciation:** 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.
113. **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.
114. **Sundry Creditors:** Sundry Creditors are persons to whom, amount is due from municipality on account of goods purchased or services received or in respect of contractual obligations. Sundry Creditors are also known as trade Creditors or Accounts Payables.
115. **Surplus:** The excess of income over expenditure of the ULB for an Accounting Period under consideration.
116. **Trial balance:** A list or abstract of the balances or net balance 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.
117. **True and Fair View:** “True” suggests that the financial statements are factually correct and have been prepared according to Generally Accepted Accounting Principles such as ASLB, and they do not contain any material misstatements that may mislead the users. “Fair” implies that the financial statements present the information faithfully without any element of bias and they reflect the economic substance of transactions rather than just their legal form. Financial statements should present true and fair view of the financial position, financial performance and cash flows of an entity. True and fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses set out in this manual. The application of accounting standards, with additional disclosures set out in the manual when necessary, is presumed to result in Financial Statements that achieve presentation of true and fair view.<sup>3</sup>
118. **Urban Local Body:** means Maha Nagar Nigam, Nagar Palika, and Nagar Panchayat as

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<sup>3</sup> ASLB-1



per the 74<sup>th</sup> Constitution Amendment Act of 1992.

119. **Useful life:** (i) 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.
120. **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.
121. **Weighted Average Cost:** A method for valuation of closing inventories. Under the weighted average cost formula, the cost of each item is determined from the weighted average of the cost of similar items at the beginning of a period, and the cost of similar items purchased or produced during the period. The average may be calculated on a periodic basis, or as each additional shipment is received, depending upon the circumstances of the entity.
122. **Work in progress:** Goods in the process of production for their sales or usage.
123. **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”.

## Chapter 1: Introduction to UMAM 2021

### 1.1 Introduction

- 1.1.1. Government of Uttarakhand has decided to implement Accrual Based Double Entry Accounting System (ABDEAS) in all the Urban Local Bodies (ULBs) in the State. However, most of the ULBs are still following cash basis accounting in day to day transactions and processes and converting their cash-based statements into accrual-based accounts at the year-end with external help.
- 1.1.2. The Uttarakhand Municipal Accounting Manual (UMAM), 2011, has been adopted partially in day to day transactions. This version of UMAM has been modified to contextualise with present accounting environment and regulatory changes as well as make it easier for the end user.

### 1.2 Applicability of UMAM, timeline for implementation and revision

- 1.2.1. The UMAM shall be applicable to all the Urban Local Bodies of the State. It shall cover Municipal Corporations (Nagar Nigam), Municipal Council (Nagar Palika Parishads) and Nagar Panchayats.
- 1.2.2. The UMAM 2021 will be applicable w.e.f. 31<sup>st</sup> March 2021. Accordingly, all ULBs will prepare their Annual Financial Statements for the financial year 2020-21 as per UMAM 2021.
- 1.2.3. The UMAM 2021 may undergo revision from time to time if required by any provision of law or found necessary to modify some clause/accounting procedure mentioned therein.

### 1.3 Objectives of UMAM

- 1.3.1. The Objectives of the UMAM are as follows:
- To enhance uniformity in accounting and reporting across ULBs
  - To maintain books of accounts based on the accrual-based accounting system
  - To prescribe the Accounting Policies, Procedures, Instructions which will be followed by ULBs under the ABDEAS
  - To prescribe a uniform Chart of Accounts, that will facilitate comparison between different ULBs and facilitate ABDEAS
  - To prescribe new formats that will have to followed by the ULBs

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- To prescribe Guidelines for the preparation of Opening Balance Sheets
- To enable computerization of Accounting system

## Introduction of the chapters

Chapter	Key contents in UMAM
<i>Chapter 1: Introduction to Uttarakhand Accounting Manual</i>	Introduction, Applicability of UMAM and Objectives of UMAM
<i>Chapter 2: Accrual Based Double Entry Accounting System (ABDEAS)</i>	Introduction, Accrual system of accounting, General Principles, Accounting Concepts and Conventions, Rules of Accounting, Concept of Accounting Policy, Accounting Estimates, Accounting Errors, Accounting Standard for Local Bodies, Accounting Documents and System, Computerized Accounting System
<i>Chapter 3: Accounting Policies</i>	Accounting Policies which are to be followed consistently (includes components of Income, Expenditure, Assets and Liabilities heads)
<i>Chapter 4: Chart of Accounts</i>	Introduction, Objectives, Structure of Accounting Code, Identification code for ULB, Procedure for change in the CoA, Format for Change Request form and Change authorisation Form
<i>Chapter 5: General Procedures and Transaction Entries</i>	Explains general accounting procedure, procedure to be followed for Accounting of collection and Payments
<i>Chapter 6: Property Tax</i>	This chapter provides the role of Assessment/ Tax department and Accounts department of an ULB in connection with accounting for property tax transactions. This chapter also provides sample accounting entries for various transactions related to property tax.
<i>Chapter 7: Water Supply</i>	This chapter provides the role of Water supply department and Accounts department of an ULB in connection with accounting for transactions related to Water charges. Chapter also includes accounting entries.
<i>Chapter 8: Rentals, Fees, User charges and other sources of income</i>	This chapter describes the records, registers, documents, forms, accounting entries, etc., in respect of accounting for transactions related to Rental, Fees and Other Incomes. This chapter also

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Chapter	Key contents in UMAM
	states the respective roles of Market/Licence department and Accounts department for the purposes of accounting.
<i>Chapter 9: Employee Related Transactions</i>	This chapter describes the records, registers, documents, forms, accounting entries, etc., in respect of accounting for transactions related to payroll. This chapter also states the respective roles of Establishment department and Accounts department for the purposes of accounting.
<i>Chapter 10: Health and Education</i>	This chapter describes the records, registers, documents, forms, accounting entries, etc., in respect of accounting for transactions related to health and sanitation. Roles of Health and Accounts Department is also defined in this chapter.
<i>Chapter 11: Other Revenue Expenditure</i>	This chapter describes the records, registers, documents, forms, accounting entries, etc., in respect of accounting for transactions related to any other expenditure incurred on revenue nature. This chapter also states the respective roles of the departments incurring such expenditure and Accounts department for the purposes of accounting.
<i>Chapter 12: Public Works</i>	This chapter includes the role of Engineering / Public Works Department and Stores Department. This chapter also includes typical transaction ULBs may have with contractors relating to construction/expansion of buildings, construction of roads etc.
<i>Chapter 13: Stores and Stocks</i>	This chapter describes the records, registers, documents, forms, accounting entries, etc., in respect of accounting for transactions related to Stores. This chapter also states the respective roles of the Stores and Accounts department for the purposes of accounting.
<i>Chapter 14: Investments</i>	This chapter describes the records, registers, documents, forms, accounting entries, etc., in respect of accounting for Investments. Various departments who have made investments have some specific responsibilities for accounting purpose. Co-ordination with Accounts department has been described.

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Chapter	Key contents in UMAM
<i>Chapter 15: Fixed Assets</i>	This chapter describes the records, registers, documents, forms, accounting entries, etc., in respect of accounting for Fixed Assets. This chapter also covers accounting for Intangible assets
<i>Chapter 16: Grants</i>	This chapter describes the records, registers, documents, forms, accounting entries, etc., in respect of accounting for Grants received from Government.
<i>Chapter 17: Borrowings or Loans received</i>	This chapter contains the accounting system for transactions relating to loans taken by the ULB
<i>Chapter 18: Special Funds</i>	This chapter describes the records, registers, documents, forms, accounting entries, etc., in respect of accounting for transactions related to Special Funds created by ULB.
<i>Chapter 19: Lease and Hire Purchase</i>	This chapter contains the accounting system for transactions relating to fixed assets purchased or sold under hire purchase and leases by ULBs. Procurer department/s is/are responsible to provide all such procurement details to Accounts department in time for proper accounting of Lease and Hire purchase transactions
<i>Chapter 20: Public Private Partnership arrangements</i>	This chapter contains the accounting system Public Private Partnership transactions, with examples and accounting entries.
<i>Chapter 21: Special Transactions</i>	This chapter mainly contains Grants given by ULB to the schools or other undertaking established under an ULB; Contributions made by ULBs in creation of assets not owned by it; Income Tax applicable to an ULB if applicable by Law;
<i>Chapter 22: Investment in Associates (Smart City SPV)</i>	This chapter explains accounting procedures to be followed in case of investment in Associates (Smart City SPV) by ULB
<i>Chapter 23: Addition / Merger of Local Bodies</i>	This chapter explains accounting procedures to be followed by the ULBs for the merger of ULBs/Undertakings.
<i>Chapter 24: Accounting for transactions made</i>	Accounting for transactions made through PFMS and IFMS. Methodology and accounting entries are covered in this chapter.

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Chapter	Key contents in UMAM
<i>through PFMS and IFMS:</i>	
<i>Chapter 25: Period End Procedures</i>	ULB would follow various accounting-related procedures at yearly or such other shorter period as per this manual. This section elaborates daily, monthly, annual accounting activities for holistic achievement of accounting function.
<i>Chapter 26: Bank Reconciliation Statement (BRS)</i>	Explains the necessity for preparation of BRS, the procedure to be followed or reconciling the bank balance as per the Cash Book with the balance as per the Passbook/Bank Statement
<i>Chapter 27: Financial Statements</i>	Section contains concept and methodology of preparation of all Financial Statements, and includes Trial balance, I/E Account, R/P Account, Cash Flow Statement, Balance Sheet, Notes to Accounts, Financial Ratio analysis and reports like Annual Performance Report and City Management Report (CMR)
<i>Chapter 28: Audit</i>	Statutory Audit by the Directorate of Audit, Internal Audit by Chief Municipal Auditor (CMA), Local Fund Audit, Internal Audit for Nagar Palika parishad and Nagar panchayat, TGS audit, Transaction audit by Director, Special audit, and Information system audit.

## Chapter 2: Accrual Based Double Entry Accounting System (ABDEAS)

### 2.1. Introduction

2.1.1. This Accounting Manual is based on Accrual Based Double Entry Accounting System (ABDEAS), which has been developed keeping in view the nature of operations of ULBs.

2.1.2. This accounting system complies with the following requirements, where relevant:

- UP Municipalities Act, 1916
- UP Municipal Corporation Act, 1959
- National Municipal Accounts Manual issued by the Ministry of Urban Development, Government of India
- Generally Accepted Accounting Principles and Accounting Standards for Local Bodies (ASLB) issued by the Institute of Chartered Accountants of India.

2.1.3. The following important reports will be generated from the Accrual Based Double Entry system of accounting:

- Trial Balance
- Income and Expenditure Account
- Balance Sheet
- Receipts and Payments Account
- Cash Flow Statement, and
- Financial Ratio Analysis

### 2.2. Accrual System of accounting

2.2.1. Accrual system of accounting is 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, fulfilment (partially or fully) of contracts, diminution in values, etc., even though actual receipts or payments of money may not have taken place and thus, enhances their relevance, neutrality, timeliness, completeness and comparability.

2.2.2. In this system, there is a change in accounting for transactions and reporting the financial results so as to provide the ULBs and the Government with the Financial Reports, in the

form of two important Financial Statements for the purposes noted against each:

Statement	Purpose
<b>Income &amp; Expenditure Statement</b>	To Determine the Financial Performance of the ULBs
<b>Balance Sheet</b>	To assess the Financial Status of the ULBs

## 2.3. General Principles

2.3.1. The accounts and Financial Statements of the ULBs shall be made on the basis of Double Entry accrual system of accounting.

2.3.2. The accounts and the Financial Statements of the ULBs are based on a set of Accounting Policies, which have been stated in the Chapter 3 of this manual.

## 2.4. Accounting Concepts and Conventions

2.4.1. 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

2.4.2. Accounting Concepts are the necessary assumptions, conditions or postulates upon which the accounting is based. They are developed to facilitate communication of the 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.

2.4.3. The Accounting Concepts are as follows:

- Entity Concept;
- Dual Aspect or Accounting Equivalence Concept;
- Going Concern Concept;
- Money Measurement Concept;
- Cost Concept;
- Accounting Period Concept;
- Accrual Concept;
- Matching Concept



- Realization Concept.

2.4.4. Accounting conventions are the customs or traditions guiding the preparation of accounts. They are adopted to make Financial Statements clear and meaningful.

2.4.5. The Accounting Conventions are as follows:

- Convention of Disclosure;
- Convention of Materiality;
- Convention of Consistency; and
- Convention of Conservatism.

## **Accounting Concepts**

Each of the Accounting Concepts is discussed below:

### **2.4.6. Entity Concept**

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 ULBs, including citizens, State Government, environmentalists, etc., do not own the ULBs. 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.

### **2.4.7. Dual Aspect or Accounting Equivalence Concept**

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:

**Assets = Own Funds + Liabilities**

## **2.4.8. Going Concern Concept**

It is assumed that the organisation will continue for a long time, unless and until it has entered into a state of liquidation.

## **2.4.9. Money Measurement Concept**

In accounting, every transaction is recorded in terms of money. Events or 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.

## **2.4.10. Historical Cost Concept**

All assets/liabilities in the Balance Sheet are ordinarily recorded at its historical cost and this cost is the basis for all subsequent accounting for the asset. This basically signifies that each time the Financial Statements are prepared, the fixed assets are shown at historical cost and need not be revised and recorded at its realisable or replacement or market value unless there is a revaluation.

## **2.4.11. Accounting Period Concept**

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 i.e. from April to March.

## **2.4.12. Accrual Accounting Concept**

Accrual basis of accounting recognises income when earned and expenses when incurred. Income that is earned but yet to be received is shown as “Receivable (asset)” and expenses that are incurred but are yet to be paid are shown as “Payable (liability)”. Though strictly speaking, accrual basis accounting implies accounting of all relevant incomes and expenses as and when the right to receive or the obligation to pay arises, in practice, it is governed by the accounting

policies. Another important aspect of Accrual accounting is that it matches periodic revenue with similar period cost.

## **2.4.13. Periodic Matching of Cost and Revenue Concept**

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. 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.

## **2.4.14. Realisation Concept**

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**

Each of the accounting conventions are discussed below:

## **2.4.15. Convention of Disclosure**

The term “disclosure” implies that there must be a sufficient revelation of information which is of material interest to all 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 an opinion on the performance of such entity, which in turn would allow them to take informed 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.

## **2.4.16. Convention of Materiality**

An item should be regarded as material, if there is a sufficient reason to believe that knowledge of it would influence the decision of users of the Financial Statements. The accounts and the Financial Statements should disclose all material information so that true and fair view of the state of affairs of the entity is given to its stakeholders. Hence, keeping the convention of materiality in view, material items are shown in the Financial Statements as well as appropriate disclosures are made while 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 ULBs, 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.

## **2.4.17. Convention of Consistency**

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 organisation 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., Weighted Average should be consistently followed. In case a change is made, it should be disclosed.

## **2.4.18. Convention of Conservatism**

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. For example, while provision for doubtful debts and discount is made on debtors or Accounts Receivable, no provision is made for likely discount receivable from creditors or Accounts Payable. Similarly, provision is made for diminution in value of investments, however, no provision is made for any appreciation in value of investments.

## 2.5. Rules of Accounting

2.5.1. The basic rules of accounting flow from the accounting equation:

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

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

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

2.5.3. A decrease in the asset, e.g., Cash may result in:

- Increase in another asset, e.g., Medical Equipment
- Decrease in liability, e.g., Payment of Loans or payment of suppliers outstanding

2.5.4. Decrease in own funds through expenditure:

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

<i>Type of Account</i>	<b>Debit Signifies</b>	<b>Credit Signifies</b>
<b><i>Asset Accounts</i></b>	Increases	Decreases
<b><i>Liability Accounts</i></b>	Decreases	Increases
<b><i>Own Funds</i></b>	Decreases	Increases

2.5.5. 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. The debit will always equal credit.

**Total Debit in an entry = Total Credits in that entry**

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

<i>Type of Account</i>	<b>Debit Signifies</b>	<b>Credit Signifies</b>
<b><i>Income</i></b>	Decreases	Increases
<b><i>Expenditure</i></b>	Increases	Decreases
<b><i>Grants Received</i></b>	Decreases	Increases

## **2.6. Accounting Policy**

2.6.1. Accounting policies are the specific principles, bases, conventions, rules, and practices applied by an entity in preparing and presenting Financial Statements. Accounting Policies are given in Chapter-3.

## **2.7. Accounting Estimates**

2.7.1. As a result of the uncertainties inherent in delivering services, conducting trading, or other activities, many items in Financial Statements cannot be measured with precision but can only be estimated. Estimation involves judgments based on the latest available, reliable information. For example, estimates may be required of:

- Bad debts arising from uncollected taxes;
- Inventory obsolescence;
- The fair value of financial assets or financial liabilities, where applicable; and
- The useful lives of or expected pattern of consumption of future economic benefits or service potential embodied in depreciable assets, or the percentage completion of road construction.

2.7.2. An entity should disclose the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect on future periods, except for the disclosure of the effect on future periods when it is impracticable to estimate that effect. If the amount of the effect in future periods is not disclosed because estimating it is impracticable, the entity should disclose that fact.

## **2.8. Accounting Errors**

2.8.1. Unintentional omission or commission of amounts and accounts in the process of recording the transactions known as accounting error. These various errors can be committed at the stage of collecting financial information/data on the basis of which financial statements are drawn or at the stage of recording this information. Error may also occur as a result of mathematical mistakes, mistakes in applying accounting policies, misinterpretation of facts or oversight.

2.8.2. An entity should correct material prior period errors in the first set of Financial Statements authorised for issue after their discovery by recognising the same in the determination of surplus or deficit for the current period. Prior period errors are omissions from, and

misstatements in, the entity's Financial Statements for one or more prior periods arising from a failure to use, or a misuse of, reliable information that: (a) was available when Financial Statements for those periods were authorised for issue; and (b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those Financial Statements. Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

2.8.3. Disclosure of Prior Period Errors - ULB should disclose the following:

- a) The nature of the prior period error;
- b) For the current period, to the extent practicable, the amount of the correction for each Financial Statement line item affected;
- c) The amount of the correction at the beginning of the current period.

2.8.4. Accounting impact of prior period errors have been detailed in subsequent and respective paragraphs.

## **2.9. Accounting Standard for Local Bodies (ASLB)<sup>4</sup>**

2.9.1. The Institute of Chartered Accountants of India (ICAI), being the premier Accounting Standard setting body in India, has been issuing Accounting Standards for Local Bodies (ASLBs), which lays down the sound accounting principles for local bodies that will improve the quality of their financial reporting and bring consistency and comparability.

The accounting and financial reporting system in UMAM is based on ASLBs to the extent applicable to the ULBs in Uttarakhand, which is a major base for formulating accounting policies as given in chapter 3.

2.9.2. Accounting Standard for Local Bodies may become mandatory for Local Bodies in the State from w.e.f. 31<sup>st</sup> March 2021, i.e. for preparation of Annual Financial Statements for the financial year 2020-21. A summary table of ASLB issued by the ICAI has been given in Annexure-1

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<sup>4</sup> Issued by the Institute of Chartered Accountants of India. [https://icai.org/new\\_post.html?post\\_id=1527&c\\_id=270](https://icai.org/new_post.html?post_id=1527&c_id=270)

## 2.10. Accounting Documents and System

### **Accounting Documents**

2.10.1. The accounting documents can be classified into the following based upon the nature of transactions.

- Primary accounting documents
- Primary Books of Accounts
- Ledgers
- Trial Balance

### **Primary Accounting Documents**

2.10.2. The primary accounting document would reflect the evidence of the financial transaction.

2.10.3. The following primary accounting documents would be used by the ULBs

- Bank Payment Voucher (B.P.V)
- Receipt Voucher (R.V)
- Cash Payment Voucher (C.P.V)
- Journal Voucher (J.V)
- Contra Voucher (C.V)

2.10.4. Bank Payment Voucher will be used by the ULBs for making payments out of bank. The bank payment voucher would indicate the abstract of expenditure met by cheque. No cheque shall be drawn without a BPV and a corresponding entry will be made in the Cash Book. All information as prescribed in the Bank Payment Voucher shall be duly filled in.

2.10.5. Receipt vouchers can be of two types; Cash Receipt Voucher and Bank Receipt Voucher. The mode of the receipt shall be duly filled in the column for mode of receipt i.e. cash or bank. No receipt shall be accounted for in the Cash Book, unless a Receipt Voucher has been prepared for the same.

2.10.6. Cash payment voucher shall be used by the ULBs for recording any payments made in cash.

2.10.7. Journal voucher shall be used for recording all non-cash transactions.

2.10.8. Contra voucher shall be used for recording transaction between Cash and Bank account



## Primary Books of Accounts

2.10.9. The following are the primary Books of Accounts that shall be maintained at the ULB:

- Cash Book (Form AC 05) 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.
- Journal Book (Form AC 06) shall be the Book of Original Entry for recording all transactions other than those involving cash and/or bank.
- Ledger (Form AC 07) shall be the book that shall contain all the accounts as specified in the Chart of Accounts.

## Accounting Documents

2.10.10. Vouchers prepared at the ULBs 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 ULBs are described below:

- Cash / Bank Receipt Voucher (Form AC 08) shall be the document prepared for recording receipt entries in the Cash Book. The Cash Receipt Voucher shall be prepared for receipts in cash and the Bank Receipt Voucher for receipts by cheques, demand drafts, banker's cheques, etc., which need to be deposited in the bank for realization. ***Separate series of numbers shall be maintained for cash transactions and for each bank account.*** For example, the Bank Receipt Vouchers in respect of Bank Account A and B may have the series BRV-A-1 onwards and BRV-B-1 onwards respectively.
- Cash / Bank Payment Voucher (Form AC 09) shall be the document prepared for recording payment entries in the Cash Book. Separate series of numbers shall be maintained for cash transactions and for each bank account. For example, the Bank Payment Vouchers in respect of Bank Account M and N may have the series BPV-M-1 and BPV-N-1 onwards respectively.
- Contra Voucher (Form AC 10) 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.

- Journal Voucher (Form AC 11) shall be the document prepared for recording entries in the Journal Book. These entries would not involve any cash/bank related transactions.

## **2.11. Computerized Accounting system**

2.11.1. GoUk may adopt an Accounting software or ERP to maintain the accounts of the ULBs. When such a software is implemented, the points given in following paragraphs needs to be ensured.

2.11.2. Where the accounts are prepared and maintained through software, and where records are so kept, it shall be the responsibility of the Director of Urban Development either by himself or through any agency approved by the Director to ensure that appropriate controls and procedures are exercised for the integrity and security of the data files and programmes and storage of back up of this data and its retrieval.

2.11.3. The GoUk may specify the manner and format in which such Electronic Records shall be created, prepared, maintained and issued and the manner and method of payment of fees or charges for issue of any Electronic Record. Till the time such specification is made, appropriate provisions of GoUK's Information Technology policy and guidelines will be followed.

2.11.4. During Development and implementation of Municipal Accounting Software, the formats of Books/Registers/ Vouchers etc. prescribed in UMAM, may undergo modification to align with the requirement of such software.

2.11.5. When the Director of Urban Development is satisfied that the computerised system has stabilised and sufficient security and back-up systems have been put in place, he may request the Government to direct for dispensing with manual maintenance of such forms and registers that he deems fit for such Municipalities that have these systems in place. On receipt of such a request, the Government may thereafter direct such Municipalities to dispense with the manual maintenance of such forms and registers and direct that they be maintained in a computerised system only. Envisaged accounting procedure for Urban Local Bodies in Computerised environment has been briefly explained in Annexure-2

## Annexure-1: Snapshot of some Accounting Standard for Local Bodies

ASLB	Key Contents
ASLB 1- Presentation of Financial Statements	The objective of this Standard is to prescribe the manner in which general purpose Financial Statements should be presented to ensure comparability both with the ULB's Financial Statements of previous periods and with the Financial Statements of other ULBs.
ASLB 2- Cash Flow Statement	The objective of this Standard is to require the provision of information about the historical changes in cash and cash equivalents of an entity by means of a cash flow statement that classifies cash flows during the period from operating, investing and financing activities
ASLB 3- Accounting Policies, Changes in Accounting Estimates and Errors	The objective of this Standard is to prescribe the criteria for selecting and changing accounting policies, together with the (a) accounting treatment and disclosure of changes in accounting policies, (b) changes in accounting estimates, and (c) the corrections of errors.
ASLB 4- The Effects of Changes in Foreign Exchange Rates	This standard provides guidance on the (a) exchange rate(s) to use, and (b) to report the effects of changes in exchange rates in the financial Statements, for the transactions where foreign currency is involved.
ASLB 5- Borrowing Costs	The standard prescribes accounting treatment for borrowing costs. This Standard does not deal with the actual or imputed cost of net assets/ equity. Where a capital charge is applied to individual entities, judgement will need to be exercised whether the charge meets the definition of borrowing costs or whether it should be treated as an actual or imputed cost of net assets/ equity. Charges will be treated as borrowing costs only if it meets the definition of borrowing costs
ASLB 9- Revenue from Exchange Transactions	The objective of this Standard is to prescribe the accounting treatment of revenue arising from exchange transactions and events. Revenue is recognised when it is probable that future economic benefits or service potential will flow to the entity and these benefits can be measured reliably. This Standard identifies the circumstances in which these criteria will be met, and revenue is recognised.
ASLB 11 - Construction Contracts	<p>This standard is applied where an ULB is acting as a contractor to build structures, construct facilities, produce goods, or render services to the specifications of another entity.</p> <p>The objective of this Standard is to prescribe the accounting treatment of costs and revenue associated with construction contracts. The Standard:</p> <ul style="list-style-type: none"> <li>•Identifies the arrangements that are to be classified as construction contracts;</li> </ul>

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ASLB	Key Contents
	<ul style="list-style-type: none"> <li>• Provides guidance on the types of construction contracts that can arise in the local bodies; and</li> <li>• Specifies the basis for recognition and disclosure of contract expenses and, if relevant, contract revenues.</li> </ul>
ASLB 12- Inventories	The objective of this Standard is to prescribe the accounting treatment for inventories. This Standard provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realisable value. It also provides guidance on the cost formulas that are used to assign costs to inventories.
ASLB 13- Leases	The objective of this Standard is to prescribe, for lessees and lessors, the appropriate accounting policies and disclosures to apply in relation to finance and operating leases.
ASLB 14- Events After the Reporting Date	The objective of this Standard is to prescribe: a) When an entity should adjust its Financial Statements for events after the reporting date b) The disclosures that an entity should give about the date when the Financial Statements were authorised for issue and about events after the reporting date.
ASLB 16 – Investment Property	Investment property is property (land or a building – or part of a building – or both) held to earn rentals or for capital appreciation or both. The objective of this Standard is to prescribe the accounting treatment for investment property and related disclosure requirements.
ASLB 17- Property, Plant and Equipment	The objective of this Standard is to prescribe the accounting treatment for property, plant and equipment, with key purpose of recognition of the assets, determination of carrying amounts, depreciation charges and impairment losses.
ASLB 18- Segment Reporting	The objective of this Standard is to establish principles for reporting financial information by segments. The disclosure of this information will: a) Help users of the Financial Statements to better understand the entity's past performance, and to identify the resources allocated to support the major activities of the entity and b) Enhance the transparency of financial reporting and enable the entity to better discharge its accountability obligations
ASLB 19- Provisions, Contingent Liabilities and Contingent Assets	The objective of this Standard is to define provisions, contingent liabilities and contingent assets, identify the circumstances in which provisions should be recognised, how they should be measured and the disclosures that should be made about them.

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ASLB	Key Contents
ASLB 20- Related Party Disclosures	The objective is to require the disclosure of the existence of related party relationships where control exists and the disclosure of information about transactions between the entity and its related parties in certain circumstances. This information is required for accountability purposes and to facilitate a better understanding of the financial position and performance of the reporting entity.
ASLB 21- Impairment of Non-Cash-Generating Assets	The objective of this Standard is to prescribe the procedures that an entity applies to determine whether a non-cash generating asset is impaired, and to ensure that impairment losses are recognised. This Standard also specifies when an entity would reverse an impairment loss and prescribes disclosures.
ASLB 23- Revenue from Non-Exchange Transactions (Taxes and Transfers)	The objective of this Standard is to prescribe requirements for the financial reporting of revenue arising from non-exchange transactions, other than non-exchange transactions that give rise to an entity combination. The Standard deals with issues that need to be considered in recognising and measuring revenue from non-exchange transactions including the identification of contributions from owners.
ASLB 24 - Presentation of Budget Information in Financial Statements	This Standard requires a comparison of budget amounts and the actual amounts and disclosure of reasons for material differences between the budget and actual amounts.
ASLB 26- Impairment of Cash-Generating Assets	The objective of this Standard is to prescribe the procedures that an entity applies to determine whether a cash-generating asset is impaired, and to ensure that impairment losses are recognised. This Standard also specifies when an entity should reverse an impairment loss and prescribes disclosures.
ASLB 31- Intangible Assets	The objective of this Standard is to prescribe the accounting treatment for intangible assets that are not dealt with specifically in another Standard. This Standard requires an entity to recognise an intangible asset if, and only if, specified criteria are met. The Standard also specifies how to measure the carrying amount of intangible assets and requires specified disclosures about intangible assets.
ASLB 32- Service Concession Arrangements: Grantor	The objective of this Standard is to prescribe the accounting for service concession arrangements (Public Private Partnership Contracts) by the Local Body as "Grantor".

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ASLB	Key Contents
ASLB - 33 First-Time Adoption of Accrual Basis ASLBs	The objective of this Standard is to provide guidance to a first-time adopter that prepares and presents financial statements following the adoption of accrual basis ASLBs to present high quality information.
ASLB 34 - Separate Financial Statements	The objective of this Standard is to prescribe the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements.
ASLB 36- Investments in Associates and Joint Ventures	The objective of this Standard is to prescribe the accounting for investments in associates and joint ventures and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.
ASLB 39 - Employee Benefits'	The objective of this Standard is to prescribe the accounting and disclosure for employee benefits.
ASLB 42 - Social Benefits	<p>Social benefits are cash transfers provided to: (a) Specific individuals and/or households who meet eligibility criteria; (b) Mitigate the effect of social risks; and (c) Address the needs of society as a whole.</p> <p>The standard provides guidance on recognition of liability and expenses for social benefit schemes which are provided through cash transfers.</p>

## **Annexure-2: Computerised Accounting system for ULBs**

A centrally managed computer software and IT infrastructure are pre-requisite. Data will be generated at the ULB level which will be linked with at Central server at State level/UDD. Accordingly, greater supervision, monitoring, and maintenance will be initiated while a centralised system is in place.

- a) The software should essentially include modules, which are required in a full-fledged accounting system of a ULB. The modules should be able to interface with each other and be able to produce required reports and analysis in a structured and streamlined manner.

An indicative list of such modules are:

- i. Financial Accounting System
- ii. Fixed Asset Accounting System
- iii. Property Tax module
- iv. Management of Stores
- v. Works contracts management
- vi. Stores management and accounting System
- vii. Municipal Management Information System
- viii. Payroll systems
- ix. Budget management

- b) Feature and pre-requisite of integrated modules (non-exhaustive) are:

- i. Only one entry for a transaction will update all related ledgers, all relevant Financial Statements, relevant registers, related MIS, etc.,
- ii. Respective roles are to be assigned to staffs, category-wise, Separate and distinct authorisation levels,
- iii. Finance and Accounts system is the core module integrated with all revenue, expenditure modules to receipt accounting events and perform accounting,
- iv. Collections made by the outside channels/partners on behalf of ULB is also updated in Revenue and Finance Modules on real time basis,
- v. All collection reports are available with source, department and ward views,
- vi. Budget formats are uniform across all ULBs,
- vii. Budgetary controls and variance monitoring mechanism are there in the System,
- viii. Next Financial Year budget can be generated from the System, based on the Current Financial data,

- ix. All Contingent bills created in Expenditure Modules will automatically be reflected to accounting module,
  - x. All Work bills created in works module system will automatically be reflected to accounting module,
  - xi. Recoveries pertaining to all Bills can be generated on a single step for payment,
  - xii. Module should facilitate automatic reconciliations procedures including Bank Reconciliation Statement (BRS),
  - xiii. ULBs can get accurate MIS Reports whenever required. Dash boards can be developed to monitor collections, works progress, financial position etc.,
  - xiv. Various calculations like Income Tax, TDS, Depreciation, CWIP, etc. are auto-calculated and auto-reflected in accounting system,
  - xv. Financial Statements including all schedules, Forms and Registers are auto generated in majority.
  - xvi. Producing all the financials and accounting statements as per the UMAM.
- c) In an effort to standardise ULB accounting in a computerised environment, as a first step, the Government of Uttarakhand is in the process of implementation of standard Finance & Accounting module applicable for all the ULBs of Uttarakhand. In the subsequent phases, the Government of Uttarakhand will develop and integrate sub-modules, which will be fully integrated with Finance & Accounting module. On successful implementation of Finance & Accounting Module one accounting entry will automatically impact all Ledgers, Sub-Ledgers, Financial Statements and MIS. Also, as all the ULB's will be following standardized menu, accounting reports and results can be compiled and compared automatically.
- d) Once the software is implemented, ULBs will be able to observe a change in accounting environment in computerised scenario. The phases of activities will be as below:
- (i) One-time activities
- Creation and management of Masters: There will be two levels – (1) Created by State Government, viz. Complete Chart of Accounts as per UMAM, (2) Masters created by individual ULBs as per their requirement such as name of suppliers, tax assesses, bank accounts, etc., (3) Annual process like Budget preparation
- (ii) Transaction entry on each transaction



- (a) As part of implementation of budget, actual transactions shall take place and use the same Detailed Head of Account for recording Actual financial transactions against the budget.
- (b) Voucher (Receipt, Payment, Contra, Journal) is source of accounting entries. Once a voucher is entered in the system, all revenue/ expenditure transactions automatically gets posted as vouchers in Computerised Accounting Module

### (iii) Generation of Financial Statements

Financial Statements will be automatically updated on each transaction entry as mentioned in previous step. Such Financial Statements can be generated at any point of time.

- (a) Balance sheet for a year shows the total GL code balances of all assets and liabilities of the ULB major head wise. There will be a schedule associated with each major head, on drill down the schedule report will be displayed where detailed level GL Code balances will be listed.
- (b) Income and Expenditure Statement for a year shows the total GL code balance of all income and expenditures of the ULB major head wise along with the excess or deficit of income over expense. There will be a schedule associated with each major head, on drill down the schedule report will be displayed where detailed level GL Code balances will be listed.
- (c) Receipts & Payments account for a year shows the total GL code balance of all cash/bank receipts and payments of the ULB. This report is a structured synopsis of Cash Book and all necessary details can be generated head wise, along-with Surplus or Deficit.
- (d) Cash Flow Statement generated to show the ULB's financial result under operating, investing and financing activities.
- (e) Trial balance shows GL code wise debit and credit balances along with the opening balance and closing balances for the selected date range and other parameters with drill down facility to General ledger report.

- (f) Significant Accounting Policies, Notes on Accounts and disclosures - To be written manually as per UMAM and attached with Financial Statements. If the software platform provides facility for writing these in the modules, all these would be maintained in same accounting software.

(iv) Generation of Reports/ Registers

UMAM prescribes various registers, forms and formats to be maintained and updated regularly (given in Appendix). In a computerised environment, possibility of generation of such registers, forms and formats may be categorised as below, which are indicative in nature:

- (1) Category 1: Possible to auto-generate Registers once proper “Accounting software” is in place. Some of them includes:

- Cash and Bank Book
- General Ledger and all sub-ledgers
- All vouchers
- Receipt register
- Cheque issue register
- All formats for Budgets including variance report
- Register of movable and immovable properties
- Register of Security deposit
- Register of Dishonoured cheques
- Loan register
- Grant register
- Register of bills for payment
- Advance, Deposit, Investment registers
- Statement of Creditors. Name-wise/ head-wise/Details
- Deposit works register
- Salary register

- (2) Category 2: Possible to auto-generate MIS once proper “Accounting software” is in place. UMAM also prescribes various detailed analytic ledgers and MIS to be prepared and updated by the ULBs. Some of them include:

- Summary of bills raised (and demand adjustments) with respect to property and other taxes

- Summary of head-wise collection of property and other taxes
- Statement of write-offs
- Summary statement of Deposit Works
- Revenue trend analysis
- Various reconciliation statements of receivable and payables
- Financial Ratio analysis

(3) Category 3: Possible to auto-generate Register/ MIS once proper “Sub-module software” are in place and also integrated with Accounting software.

Following are some of the reports/MIS prescribed by UMAM, which can be automatically generated once individual software sub-modules are developed and integrated with Accounting module. Once sub-modules are created, any report/MIS can be generated accurately containing such details as desired in UMAM:

- Stores Ledger (Sub module required “Stores”)
- Unpaid salary register (Sub module required “Payroll”)
- Demand Collection Balance register, Assessment list, Objection register, Mutation register (Sub module required “Property Tax”)
- Register of Works, register of projects, measurement book, contractors’ bill etc. (Sub module required “Works”)
- Separate sub-modules required, which should be integrated with Accounting software.

(4) Category 4: Generally manual in nature or standard operating system may be used –

Following are some of the reports/certificates prescribed by UMAM, which are generally manual in nature. However, use of standard operating systems like MS-Office is recommended.

- Certification of stores and other movable property
- Statement of municipal fines / arrears realised by Court
- Register of suits
- Register of Objection, etc.

## Chapter 3: Accounting Policies

### 3.1. General

#### Introduction

- 3.1.1. This chapter contains the Significant Accounting Policies to be followed in preparation of accounts of the Urban Local Body.
- 3.1.2. Accounting policies are the specific principles, bases, conventions, rules, and practices applied by an entity in preparing and presenting Financial Statements.<sup>5</sup>
- 3.1.3. The primary consideration in the selection of accounting policies by an enterprise is that the Financial Statements prepared and presented on the basis of such accounting policies should represent a true and fair view of the state of affairs of the enterprise as at the Balance Sheet date and of the profit or loss for the period ended on that date.
- 3.1.4. For this purpose, the major considerations governing the selection and application of accounting policies are:
- **Prudence:** In view of the uncertainty attached to future events, profits are not anticipated but recognized only when realised though not necessarily in cash. Provision is made for all known liabilities and losses even though the amount cannot be determined with certainty and represents only a best estimate in the light of available information.
  - **Substance over Form:** The accounting treatment and presentation in Financial Statements of transactions and events should be governed by their substance and not merely by the legal form.
  - **Materiality:** Financial Statements should disclose all “material” items, i.e. items the knowledge of which might influence the decisions of the user of the Financial Statements.
- 3.1.5. The Financial Statements of the Urban Local Body shall contain a Statement of Significant Accounting Policies as Notes to accounts in respect of important Accounting Principles adopted in preparing and presenting such information. The Significant Accounting Policies

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<sup>5</sup> ASLB 3

as mentioned in this chapter shall be followed consistently each year.

- 3.1.6. It is necessary to have accounting policies, of their application in day-to-day accounting. The choice of the accounting policies and the method of their application in the specific circumstances call for considerable judgment.
- 3.1.7. In case where there is no specific mention of an accounting policy in this Manual, the accounting policy as specified in the National Municipal Accounts Manual shall be followed. In case reference cannot be taken from the National Municipal Accounts Manual, the same shall be specified by Government of Uttarakhand. In case of any policy written in this manual, and there is a conflict with NMAM and some Accounting Standards, policy mentioned herein in this manual will be followed unless it is revised by the Government.
- 3.1.8. The following Accounting Policies shall govern the recording, accounting and treatment of transactions relating to various activities as given in Section 3.2. of this accounting manual.

## **Disclosure requirements**

- 3.1.9. All significant accounting policies adopted in the preparation and presentation of Financial Statements should be disclosed.
- 3.1.10. The disclosure of the significant accounting policies as such should form part of the Financial Statements and the significant accounting policies should normally be disclosed in one place.
- 3.1.11. Any change in the accounting policies which has a material effect in the current period, or which is reasonably expected to have a material effect in later periods should be disclosed. In the case of a change in accounting policies which has a material effect in the current period, the amount by which any item in the Financial Statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.
- 3.1.12. If the fundamental accounting assumptions, viz. Going Concern, Consistency and Accrual are followed in Financial Statements, specific disclosure is not required. If a fundamental accounting assumption is not followed, the fact should be disclosed.
- 3.1.13. Where any of the Accounting Policies adopted by the local body while preparing its Financial Statements is not in conformity with the principles prescribed in this chapter and

the effect of deviation from the Accounting Principles is material, the particulars of the deviation shall be disclosed, together with the reasons and the financial effect thereof, except where such effect is not ascertainable. In case the financial effect thereof is not ascertainable, either wholly or in part, the fact that it is not so ascertainable shall be disclosed.

3.1.14. The fact of switching over to accrual basis of accounting from traditional cash basis of accounting should be disclosed as Notes in the year of switch over.

3.1.15. Likewise, any change in the Accounting Policies 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 Financial Statements of the period in which the change is adopted.

## **3.2. Property Tax**

### **Accounting Policy**

3.2.1. Revenue in respect of Property Tax including surcharge shall be recognised in the period in which they become due and demands are ascertainable.

3.2.2. In case of any new assessment or changes in assessments, it shall be accrued in the month in which the demand is served.

3.2.3. Property Tax amount shall be booked as income on gross basis, i.e. before adjustment of any discount, rebate, etc. Such discount, rebate, etc. if any, shall be treated as expenditure in separate heads.

3.2.4. For properties, where the GoUK has waived property tax, notional demand shall be accounted for on accrual basis and written off from books immediately on raising/revising demand and accordingly to be disclosed in the Financial Statements.

3.2.5. Surcharge and Cess collected at the instruction of the State Government and billed along with the Property Tax demand and collected at the similar way as in case of property tax - Amount of surcharge and Cess will be recorded under separate liability head as payable to State Government.

3.2.6. Surcharge and Cess levied by ULB - To be included in property tax bill and accounted for as ULB's income.

## **Self-Assessment of Property Tax**

3.2.7. Existing assesses: Wherever self-assessment of taxes is prevalent, income shall be accrued based on records available with the local body when it becomes due as per the provisions of the respective municipal Acts on/or after a predetermined cut-off date (prevalent 30<sup>th</sup> April of current year).

3.2.8. New assesses: Where system of self-assessment of property tax is adopted in any municipality; the amount of tax income can be accrued only after the self-assessment forms submitted are scrutinized and approved.

3.2.9. In cases where ULB does not receive self-assessment forms for some assessee within the cut-off date, then demand for such assessee will be booked after cut-off date on the basis of past records available with ULB.

## **3.3. Other Taxes**

### **Accounting Policy**

3.3.1. Other Taxes, such as Water supply and drainage tax, elementary education tax, scavenging tax, or any other taxes when applicable from time to time, shall be accrued along with property tax.

3.3.2. Accounting treatment of Cess/surcharge shall be as given in Property Tax.

3.3.3. Revenue in respect of Property Transfer Charges/ Mutation shall be recognised on actual receipt.

3.3.4. Revenue in respect of Show tax shall be booked on cash basis on actual receipt.

## Common accounting policies of Property and Other Taxes, Water Tax, Rentals, Fees and Other Sources of Income

3.3.5. Interest and Penalties, if any, in demand shall be reckoned on accrual basis, on issue of demand notice to the assessee.

3.3.6. Revenue in respect of Notice Fee, Warrant Fee and Other Fees charged shall be recognised when the bills for the same are raised.

3.3.7. 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.

3.3.8. Provision on arrears of income shall be made by the ULBs as follows:

3.3.9. In respect of the demand outstanding beyond two (2) years provision shall be made in the demand, based on the following provisioning norms:

### **Property and other Taxes and charges**

- i) Outstanding for more than 2 year but not exceeding 3 years: 25 %
- ii) Outstanding for more than 3 years but not exceeding 4 years: 50% (additional 25%)
- iii) Outstanding for more than 4 years but not exceeding 5 years: 75% (additional 25%)
- iv) Outstanding for more than 5 years 100% (additional 25%)
- v) Sick/Closed Industries -100% of the due

### **Rental and other income**

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

3.3.10. In case collection of any income is under litigation, wherever applicable, no accrual entry will be passed and a disclosure of it will be made in the Notes to Accounts.

3.3.11. Refunds, remissions of incomes (not arising out of the events given in following para) shall be adjusted against the respective income.

3.3.12. Refunds, remissions of incomes arising out of errors or omissions arising from a failure to use or misuse of reliable information, mathematical mistakes, mistakes in application of accounting policies etc., and if pertaining to previous years then it shall be treated as prior



period error, and will be accounted for in the head “prior period”, and should be disclosed separately in the notes to accounts.

3.3.13. Write-offs of incomes shall be adjusted against the provisions made and to that extent recoverable gets reduced, subject to approval of the competent authority.

3.3.14. Any subsequent collection or recovery of 'Receivables' which were already written off shall be recognised as income under same revenue head.

3.3.15. Demands raised with retrospective effect (arising out of errors or omissions arising from a failure to use or misuse of reliable information, mathematical mistakes, mistakes in application of accounting policies etc.) will be treated as prior period income to the extent it pertains to earlier years, and should be accounted for as “prior period income”. Otherwise, such demands shall be accounted for in current year’s income.

## Assigned Revenues

3.3.16. Assigned revenues passed on by the Central/ State/Government Agencies to the ULB shall be accounted during the year only upon actual receipt.

3.3.17. At the year end these shall be accrued only if sanction order is received and the amount is ascertained and should be disclosed separately in the notes to accounts.

## Non-Accruable Income

3.3.18. Income of a non-recurring nature, the right to receive which does not devolve on the Urban Local Body in regular periodicity shall be considered as a “non accruable income”. Such other incomes are accounted as and when received. Example, sale of scrap, etc.

## 3.4. Water Supply and Sewerage Charges

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

- i. Water supply charges
- ii. Sewerage charges
- iii. Meter rent for water supply
- iv. Connection charges for water supply
- v. Water tanker charges, and

- vi. Road damage recovery charges.

## **Accounting Policy**

3.4.2 Revenue in respect of Water Charge, Water Supply Charges, Water Meter Rent, Sewerage charge, Disposal charges shall be recognised in the period in which they become due, i.e., when the bills are raised.

3.4.3 Revenue in respect of Connection Charges for Water Supply/ Sewerage shall be recognised on actual receipt.

3.4.4 Revenue in respect of Water Tanker Charges shall be accounted for on receipt.

3.4.5 Road Damage Recovery Charges, Penalties shall be accounted on actual receipt.

3.4.6 Revenue in respect of Notice Fee, Warrant Fee, and Other Fees shall be recognized when the bills for the same are raised.

## **3.5. Solid Waste Management Fees**

### **Accounting Policy**

3.5.1 Door-to-door collection fee, when collected by Municipal staffs, shall be accounted for on actual receipt.

3.5.2 Revenue in respect of Solid Waste management fee and charges, where separately levied by the ULB (and not included under any other tax) shall be recognized in the period in which they become due, i.e., when the bills for the services are raised as per agreement.

## **3.6. Rentals, Fees and Other Sources of Income**

### **Accounting Policy**

3.6.1 Revenues in respect of rents from municipal properties shall be accrued based on terms of each agreement.

3.6.2 Provision created for unrealized revenue receivables during the year shall be recognised as expenditure. Excess provision created till last year, if any, shall be written back and to

be accounted for in the income side of Income & Expenditure account.

3.6.3 Revenue in respect of renewal of Trade License Fees shall be accrued in the year to which it pertains. New license fee on registration will be accounted for on cash basis.

3.6.4 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.

3.6.5 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.

3.6.6 Revenues from fines are recognised on cash basis.

3.6.7 However, where a Court imposes a fine and the person against whom the fine has been imposed, has the right to contest before a due date, fine will be recognised after expiry of such due date.

3.6.8 Revenue generated from commercial ventures undertaken by the ULB shall be accounted for on due basis.

3.6.9 Any additional provision for demand outstanding made during the year shall be recognised as expenditure

3.6.10 Any excess provision written back shall be treated as income of the ULB.

## **3.7. PPP transactions**

### **Accounting Policy**

#### **A. Concession Arrangements (such as Design, Financing, Development and Construction, Rehabilitation, O&M, and finally asset transfer and any variants)**

##### **New Asset Creation through a Concession Arrangement**

- 3.7.1. In case of new asset creation through PPP contract, the ULB shall recognize, a concession asset at their fair value. Fair value is used to determine the cost of a constructed\developed concession asset or the cost of any upgrades to existing assets, on initial recognition.
- 3.7.2. ULB shall recognize related liability equal to the value of the concession asset adjusted by the amount of any other consideration (e.g., cash from the ULB to the operator).
- 3.7.3. The use of fair value on initial recognition does not constitute a revaluation. ULB shall follow impairment testing and accounting as set out in relevant section on impairment.
- 3.7.4. The ULB should bifurcate the payments to concessionaire as follows: (i) payments towards capital asset as a reduction in the liability recognized, (ii) payments towards finance charges and services provided by the operator are recorded as expenses.
- 3.7.5. In case of revenue sharing agreement, ULB shall recognise revenue according to the concession agreement. Asset will be recognised on hand-over at the end of concession period.

##### **Existing Asset of Grantor given for concession**

- 3.7.6. Where an existing asset of the grantor (ULB) is under concession, the ULB should reclassify the existing asset as a concession asset. The value of such an item of Fixed Asset will be measured at the fair value of the consideration given.
- 3.7.7. The ULB should not recognise a liability when an existing asset of the grantor is reclassified as a concession asset, except in circumstances where additional consideration is provided by the operator.

## General

3.7.8. Any upfront payment or a stream of payments, like premium payment because of highest financial bid received by the ULB should recognise revenue on accrual basis as and when such revenue falls due.

## B. Operation & Maintenance Arrangements (without any asset creation)

3.7.9. If the ULB receives periodic payments from operator based on a contractual arrangement throughout the O&M period, revenue shall be recognized on accrual basis as per terms of contract. Accounting entries are same as “Rental income” as provided in Chapter 8.

3.7.10. If the ULB makes periodic payments to operator based on a contractual arrangement throughout the O&M period, expenditure shall be booked on accrual basis as per terms of contract. Accounting entries are same as any vendor payments.

## C. Lease type Arrangements

3.7.11. For Lease type Arrangements, refer the Accounting policies given for Lease at Para 3.18.

## 3.8. Employee related transactions

### Accounting Policy

3.8.1. Expenses on Salaries and other allowances shall be recognised as and when they are due for payment (Generally at the month end, other than exceptional cases where salary falls due during the month).

3.8.2. 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.

3.8.3. Provision is to be created for Gratuity and Leave Encashment on annual basis. Such provision will be made on the basis of actuarial calculations provided by external experts and fund may be created with the insurers, who will ensure payment of Gratuity and leave encashment of each employee, as per calculations as per prevailing Rules and Regulations. Accordingly, annual payment to Insurance company will be treated as compliance from ULB's part towards appropriate provisioning.

3.8.4. Pension shall be accrued when it becomes due (i.e. at the month end)

3.8.5. Interest receivable on loans given to employees shall be recognised as revenue at the end of the period in which these have accrued.

3.8.6. 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.

3.8.7. 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.

## **3.9. Health and Sanitation**

### **Accounting Policy**

3.9.1. Revenue in respect of the following shall be recognised on actual receipt:

- Hospital fees, maternity homes fees, diagnostic centre fees and dispensaries fees
- Rent and/or hire charges in respect of ambulance, hearse, suction unit, meat van, slaughterhouse and road roller etc.

## **3.10. Other Revenue Expenditure**

### **Accounting Policy**

3.10.1. Other revenue expenditure" will cover all expenses other than those covered in "Public works" and "Employee related transactions".

3.10.2. All "Other Revenue expenses" supported by Work order, Bills, Indent will be accrued as and when bills are admitted. Further, expenses not supported by Work order, Bills, Indent will also be accrued on the basis of cash memo/hand bill/voucher, if each expenses cross a certain monetary limit given in next paragraph.

3.10.3. Any other revenue expenses having monetary limit given below, will be accounted for in cash basis:

- Rs.2,000 per bill for Nagar Nigam (subject to Rs. 20,000 per month under one expenditure head) and

- Rs.1,000 per bill for Nagar Palika Parishad and Nagar Panchayat (subject to Rs. 10,000 per month under one expenditure head)

3.10.4. Provisions shall be made at the year-end as per actual amount for all bills pertaining to the current Financial Year received up to a cut-off date (15th April of next Financial Year).

3.10.5. Provision is to be created for such expenses, for which bills are yet to be received, but ULB has reasonable estimate on such expenditure.

## **Prepaid Expenditure**

3.10.6. 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 a prepaid expenses in the year of spending (to the extent not pertains to the current year proportionately). Carried forward prepaid expenses shall be treated as current asset in the year of incurring the expenditure to the extent related to future period and will be treated as revenue expenditure in the period/s in which its benefit arises and/or services are received in future.

## **3.11. Public Works**

### **Accounting Policy**

3.11.1. Earnest money deposit (EMD), shall be recognized as a liability on actual receipt. On Finalisation of bid, EMD of successful bidder is generally converted into Security Deposit and EMD of unsuccessful bidders is refunded.

3.11.2. Security deposit and Retention Money received or recovered from contractor's bills shall be recognized as a liability on actual receipt/deduction.

3.11.3. If deposits are forfeited or lapsed, they shall be recognized as income in the year when they are forfeited or lapsed.

3.11.4. EMD received in form of Bank Guarantee is neither to be recognised nor to be disclosed in Financial Statements. However, if there is a probability that there might be inflow of economic benefits or service potential, but not virtually certain, Bank Guarantee will be disclosed in financial statements. In case of encashment of Bank Guarantee, amount received will be recognised as "Deposits forfeited" under "Other Income" head.

- 3.11.5. Assets under construction/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". CWIP shall be transferred to the respective asset head once the asset has been fully constructed or the asset is ready for its intended use.
- 3.11.6. Expenditure on repair/maintenance work shall be recognized as an expense as and when bills are admitted.
- 3.11.7. Provisions shall be made at the year-end for all bills received up to a cut-off date pertaining to the current Financial Year.
- 3.11.8. Deposit works: Deposit received under Deposit works from other agencies shall be treated as a liability till the related projects are completed. Upon completion of the projects, the cost incurred against it shall be reduced from the liability and balance shall be adjusted with the depositor. Any supervision charges earned on the Deposit works will be treated as income in the year to the proportion of work done. Such projects would be adjusted against deposit received.
- 3.11.9. Project executed under Delegated Loan mechanism- On receipt of monthly statement on fund spent by the executing agency, ULB shall recognize Capital-Work-In-Progress in the books. On receipt and acceptance of completion report from the executing agency, Fixed Asset will be recognized in ULB's books of accounts by crediting the Capital-Work-In-Progress account. Also, when the loan is transferred to an agency, the ULB will account both for loan and advance given.
- 3.11.10. Execution of Projects by other implementing agencies – Fund transferred by ULB to Project Implementation Agency (PIU) shall be treated as an advance. Based on Utilisation Certificate submitted by PIU to ULB, the ULB shall book project expenditure/ asset in their accounts.

## **3.12. Stores and Stocks**

### **Accounting Policy**

- 3.12.1. Expenditure in respect of material, equipment, etc., procured shall be recognised on accrual basis, i.e., on admission of bill by the ULB in relation to materials, equipment, etc., delivered. The cost of inventories shall include the purchase price including the



expenditure incurred to bring the inventories to its present location and condition i.e. cost of purchase, conversion and other costs.

3.12.2. Accounting of 'goods received & accepted but no bills received' as at the cutoff date shall be provisioned in the books based on purchase orders.

3.12.3. Inventories should be measured at the “lower of cost or net realisable value” whichever is less except:

- Where inventories are acquired through a non-exchange transaction, their cost should be measured at their fair value as at the date of acquisition
- Inventories should be measured at the lower of cost and current replacement cost where they are held for: (a) Distribution at no charge or for a nominal charge; or (b) Consumption in the production process of goods to be distributed at no charge or for a nominal charge. Agricultural products are valued on the basis of Net Realisable Value.

3.12.4. Value of period-end inventories will be determined by using the weighted average rate method for all types / classes of Inventory.

3.12.5. Cost of stationery and other consumables purchased shall be treated as expenses at the time of purchase and will not be treated as stock.

3.12.6. Obsolete store items are identified and accounted for at the time of their disposal. The difference between the book value and realised price is to be recorded as Gain / Loss on disposal of store items.

3.12.7. Revenue in respect of disposal of material shall be recognised on actual receipt.

## **3.13. Investments**

### **Accounting Policy**

- 3.13.1. Investments shall be recognised at cost. The cost shall include other incidental expenses incurred for its acquisition e.g. brokerage.
- 3.13.2. Carrying value - 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, provision shall be made for the decline in value.
- 3.13.3. Short-term investments shall be carried at their cost or market value (if quoted) whichever is lower.
- 3.13.4. An ULB with joint control of, or significant influence over, an investee should account for its investment in associate using the equity method as discussed in Chapter 22.
- 3.13.5. Interest on investments shall be recognised when the right to receive payment is established. For fixed income bearing investments, interest shall be accrued proportionately at the year end.
- 3.13.6. Dividends or equivalents should be recognised when the ULB's right to receive payment is established.
- 3.13.7. Profit/loss, if any, arising on disposal of investment made out of the Municipal Fund shall be recognised in the year when such disposal takes place.

## **3.14. Fixed Assets**

### **Accounting Policy**

- 3.14.1. All Fixed Assets shall be carried at cost less accumulated depreciation.
- 3.14.2. The cost of fixed assets shall 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 month.

- 3.14.3. Any addition to or improvement to the fixed asset that results in increasing the utility or useful life of the asset shall be capitalised and included in the cost of the fixed asset.
- 3.14.4. Expenditure in the nature of repairs and maintenance incurred to maintain the asset and sustain its functioning or the benefit of which is for less than a year, shall be charged off as Revenue Expenditure. However, if the demarcation is difficult between Capital and Revenue Expenditure, one-time expenses which exceeds 10% of the cost of specific fixed asset, subject to a minimum of Rs. 25000/- will be treated as Capital Expenditure and thus capitalised.
- 3.14.5. Any Fixed Asset, which has been received on Non-monetary basis, shall be recorded at nominal value of Rs.1/-.
- 3.14.6. Non-monetary Asset received at concessional rates, shall be recorded at the cost of acquisition. Non-monetary Asset received at free of cost shall be recorded at nominal value.
- 3.14.7. Land acquired through purchase is recorded on the basis of aggregate of purchase price paid/ payable and other costs incidental to acquisition.
- 3.14.8. Leasehold lands acquired by the ULB are taken as a part of the municipal asset at a total value payable as lease charges over the entire lease period and amortised equally over the lease period.
- 3.14.9. Cost of land improvements such as leveling, filling or any other developmental activity is capitalised as a part of the cost of land.
- 3.14.10. Statues and Heritage Assets - The value should be taken at Re 1/-.
- 3.14.11. A separate note shall be given in the Fixed Asset register for the Assets identified and evaluated technically as obsolete.
- 3.14.12. All assets which have fully depreciated but still active, shall be carried at either its scrap value or a nominal book value of at least Re. 1/-
- 3.14.13. All individual assets, whose cost is below Rs. 25,000/- (Rupees Twenty-Five Thousand Only) shall be charged to Income & Expenditure Account.

## **Intangible Assets**

3.14.14. Intangible assets acquired through purchase should initially be measured at cost. The cost of an intangible asset comprises its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates. It will also include any directly attributable cost of preparing the asset (such as professional fees for software installation, cost of software testing, etc.) for its intended use.

3.14.15. The cost of the Intangible Asset generated internally shall be derived in the following manner:

**Cost Incurred during Research Phase –** Any expenditure incurred during the Research phase shall be charged to Revenue when it is incurred and not recognised in the cost of the Intangible Asset.

**Cost Incurred during Development Phase –** All expenditures incurred during the development phase shall be recognised in the cost of the Intangible Asset if the ULB demonstrates (1) It is technically feasible and ULB has intention to use it (2) availability of adequate technical, financial and other resources to complete the development and to use the intangible asset, and (3) Its ability to measure reliably the expenditure attributable to the intangible asset during its development. Cost comprises all expenditure that can be directly attributed or allocated on a reasonable and consistent basis to create the asset / software for its intended use.

3.14.16. Where an intangible asset is acquired through a non-exchange transaction including gift/donation etc., it should be accounted at nominal value of Rs.1/-.

3.14.17. Where the Intangible Asset is acquired through exchange of a similar asset the net book value of the asset exchanged should be taken as the cost of the new asset. The cost will be adjusted for any amount paid in excess of the net book value or a refund received. Where the asset exchanged is not similar, the fair value of the asset acquired should be taken as cost.

3.14.18. After initial recognition, Intangible Assets should be carried at its cost less any accumulated amortisation \ impairment loss.

3.14.19. Expenditure below Rs. 25,000/- should be charged to revenue and not capitalized.

3.14.20. The depreciable amount of an intangible asset should be allocated on a Straight-Line basis over the best estimate of its useful life. However, in case where the useful life of an intangible asset arises from contractual arrangements, it should not exceed the period of the contractual arrangement.

## **Impairment of Assets**

3.14.21. An Asset is impaired when its carrying amount exceeds its recoverable amount.

3.14.22. ULBs are required to identify impaired assets as and when ULB decides but at least once in every five years and disclose the same in Financial statements. ULBs are also required to identify impaired assets after occurrence of any disaster including natural calamity.

3.14.23. ULB shall book impairment loss in accounts. The impairment loss is to be adjusted against revaluation reserve, if any, for that asset and any excess should be charged to the income and expenditure account.

3.14.24. Once an Asset is impaired, it is to be monitored every year, and if at any point of time it is found that the recoverable amount is exceeding carrying amount, the impairment loss booked earlier, shall be reversed.

## **Revaluation of Fixed Assets:**

3.14.25. Fixed Assets should be revalued under the following circumstances:

- (a) Commercial development of the fixed assets is taken up after the land use and architectural control have been approved by the competent authority.
- (b) At the time of lease;
- (c) At the time of issue of municipal bonds; or
- (d) As and when ULB decides to revalue

3.14.26. The increase in values arising on account of first-time revaluation of the fixed assets shall be credited to a Revaluation Reserve account. However, if there is decrease in value on first time revaluation, it will be charged to Income and Expenditure Account.

3.14.27. Increase in value of asset on subsequent revaluation will be credited to revaluation reserve if the asset was revalued upward initially. However, the increase in value will be charged to Income and Expenditure Account if the earlier revaluation of same class of Asset

resulted in decrease in value to the extent of amount recognised in the Income and Expenditure Account.

- 3.14.28. Any subsequent decrease in value will reduce the credit balance of Revaluation reserve, if the same class of asset resulted in increase in value on earlier revaluation. However, If the asset was revalued downward initially and the subsequent revaluation resulted in decrease in value of the asset, the amount will be transferred to Income and Expenditure account.
- 3.14.29. When revaluation is necessary for any asset, the entire class of asset is to be revalued. Revaluation of a class of assets shall not result in exceeding the recoverable amount of the assets.
- 3.14.30. Useful life of the revalued assets will not change due to revaluation. Depreciation on a revalued asset shall be calculated on the value after revaluation, at rates necessary to charge off the asset over the remaining useful life of the asset.
- 3.14.31. In case of depreciation on revalued assets, depreciation on original cost of asset (before revaluation) will be charged to Income & Expenditure account. Additional depreciation on account of revaluation will be charged through "Revaluation Reserve" account.

## **Depreciation**

- 3.14.32. Method adopted for depreciation of assets is straight-line method of depreciation, except for leasehold lands, which is amortized over its leased life. Depreciation method adopted is same for assets acquired on finance lease.
- 3.14.33. Depreciation on assets is calculated on the gross value of fixed asset minus estimated scrap value if any.
- 3.14.34. In case of assets for which government capital grants/specific purpose capital grants has been received, depreciation is calculated on the gross value of fixed asset (i.e. without deducting the grant amount from asset value). The grant so received is charged to the income and expenditure statement in the same proportion as the depreciation charged on such assets.
- 3.14.35. Depreciation shall be provided at full rates for assets, which are purchased/ constructed before October 1 of an Accounting Year. Depreciation shall be provided at half the rates

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for assets, which are purchased/ constructed on or after October 1 of an Accounting Year.

3.14.36. Depreciation shall be provided at full rates for assets, which are disposed on or 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.

3.14.37. Rate of depreciation to be applied for different types of Fixed Assets are given below:

S. No.	Description of Assets	Details of Assets that are to be included	Rate of Depreciation per year
1	Land	Parks, Burial Grounds, Playgrounds Roads etc. and any vacant site on which no construction available and kept as vacant site. This includes the open space donated by the layout promoters, to the council by transfer deeds	Nil
2	Building- Class I Civil Structures (Structure with R.C. roof)	Office Buildings, School Buildings, Public conveniences, Hospitals, Dispensaries, Clinics, Maternity & Child Welfare centers, Swimming pool, Market places, Slaughter houses, Dhobi Ghats, Creches, Lethal chamber, Stadia, Shopping complexes, Zoo, Bus stand, T. B. / I. B, Town hall, Community hall, Lodging Houses, Cinema theatre, Staff quarters etc.	3.17%
3	Building-class-II Civil Structures (Structure with roof other than R.C. or without roof)	Nutritious meal centers, Compound walls	4.75%
4	Subways and Cause ways	Cause ways, vehicular subways, pedestrian over bridges	6.33%
5	Bridges and Flyovers	Bridges and Flyovers	3.17%
6	Storm water Drains- open Drains & Culverts	Storm water Drains-open Drains & Culverts	6.33%
7	Heavy Vehicles	Lorry, Tractor, Tipper, Bus, etc.	9.50%
8	Light Vehicles	Jeeps, Cars, Power Tillers, Motorcycles, Mini lorry, Auto rickshaw etc.	9.50%

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S. No.	Description of Assets	Details of Assets that are to be included	Rate of Depreciation per year
9	Other Vehicles	Single driven RC, Double Driven RC, Cart etc. (RC-Rubbish cart), Bi-cycles, Tricycles	31.67%
10	Furniture, Fixtures, Office Equipment etc.	Steel chairs, Steel Tables, Wooden chairs, Wooden tables Steel racks, Wooden racks, Steel cupboards, Typewriters, Duplicators, Xerox machines, Communication Equipment, Calculators, Air conditioners, Water coolers, Refrigerators, Fans, Electrical fittings, Other Office equipment Radios, TVs, Stools, Public address systems, Wireless equipment , Gestetners etc.	9.50%
11	Plant / Machinery & Equipment (excluding office equipment)	Road rollers, Bulldozers, Mechanical Sweeper, Pay Loader, Submersible pumps, Mixing mortars, other Civil Engineering equipment, Medical equipment in Hospitals, Dispensaries & Maternity centers, School equipment, Public health equipment, Tower clocks, Electrical equipment including generators, Motor pumps, Expensive Vats and Bins, other Plant & Machinery etc.	9.50%
12	Roads & Pavements Concrete (including barricades)		13.57%
13	Bituminous road over Stone metal		31.67%
14	Road with metal only		47.50%
15	Pavements with Brick & Brick Paved Road		9.50%
16	Water Supply pipeline	M.S/G.I/ C.I/D.I	2.38%
		Asbestos/Plastic	9.50%
17	Pumps and Motor		9.50%
18	Water Reservoir		2.38%
19	a) Deep Tubewell		9.50%
	b) Hand Tubewell		19.00%
20	Amenities of parks and playgrounds		19.00%



S. No.	Description of Assets	Details of Assets that are to be included	Rate of Depreciation per year
21	Light post		9.50%
22	Electrical installation Transformers, Cables	HT & LT	6.33%
23	Electrical Installations for	Mercury Vapour, Sodium Vapour, Tube Light	19.00%
24	Computer	Computer Machinery, peripherals like printers, mouse etc.	19.00%
25	Carts	Single & Double Bullock carts	19.00%
26	Wheel Barrow		47.50%

## 3.15. Borrowing Cost

### Accounting Policy

- 3.15.1. Borrowing costs should be recognised as an expense in the period in which they are incurred, except to the extent that they are capitalized.
- 3.15.2. 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 i.e. interest accrued to be paid but not due.
- 3.15.3. Borrowing costs that are specifically incurred for the acquisition, construction, or production of a qualifying asset should be capitalised as part of the cost of that asset.
- 3.15.4. Capitalisation of borrowing costs should commence when all the following conditions are satisfied:
- Expenditure for the construction or acquisition of the asset is being incurred. Borrowing costs are being incurred specifically for the acquisition, construction or production of a qualifying asset<sup>6</sup>; and
  - The activities that are necessary to prepare the asset for its intended use are in

<sup>6</sup> ASLB-5: Qualifying 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 of time unless a shorter or longer period can be justified on the basis of facts and circumstances of the case.

progress.

- 3.15.5. Capitalisation of the borrowing cost shall cease when substantially all the activities that is necessary to prepare the asset for its intended use or sale is complete. An asset is normally ready for its intended use or sale when its physical construction or production is complete even though the routine administrative work might still continue.
- 3.15.6. Borrowing transaction/s among controlling and controlled entities: To be treated as any other borrowing.

## **3.16. Grants**

### **Accounting Policy**

- 3.16.1 Untied (General) Revenue Grants, which are of a revenue nature, shall be recognised as income on actual receipt.
- 3.16.2 At the end of the year, if a sanction order has been received, and the amount is ascertained, the amount sanctioned shall be accounted as income, and correspondingly as "Receivable from Government".
- 3.16.3 A specified revenue grant shall be accounted as a liability on receipt and will be treated as income once the specific condition has been fulfilled. Grants received or receivable in respect of specified 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.
- 3.16.4 Capital grants received: Grants received towards capital expenditure shall be treated as a liability till such time that the fixed asset is constructed or acquired. Any balance amount of grants would be refunded to the Grantor.
- 3.16.5 Grants received for depreciable fixed assets - 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 deferred Income and shall be transferred to Deferred Income – Grant against Fixed Asset Account. Amount proportionate to depreciation of the asset shall be credited to the Income and Expenditure Account every year.

- 3.16.6 Grants received for non-depreciable assets (with no conditions attached) shall be credited to Capital Reserve.
- 3.16.7 Grants received for non-depreciable assets (with conditions attached) - In case the grant requires fulfillment of certain obligations, then it is credited to income over the same period over which cost of meeting such obligation is charged to income.
- 3.16.8 In the case of building/ constructing of an asset by an external Govt. controlled agency out of Govt. grants with the pre-condition that the asset thus built/ constructed would be immediately handed over to the ULB, the whole of the capital cost of the asset as well as the grant should be shown in the books of accounts of the said ULB on the day the assets are transferred to the ULB.

## **3.17. Special Funds**

### **Accounting Policy**

- 3.17.1. Special Fund will be created from the Municipal Fund. Special Funds created for specific purpose shall be treated as a liability on their creation.
- 3.17.2. 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 adjusted to Special Fund Account.
- 3.17.3. 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.
- 3.17.4. Whenever a Fixed Asset is created / procured and the purpose for which the Special Fund created is fully achieved, the amount of capital expenditure incurred as well as the unspent balance lying at the credit of the respective special fund shall be transferred to Municipal fund. The amount lying in the special fund bank account will be transferred back to the Main Bank Account.

## **3.18. Lease and Hire Purchase**

### **Accounting Policy-Finance Lease**

#### **Finance lease in the books of lessee<sup>7</sup>**

- 3.18.1 At the commencement of the lease term, both asset and a liability will be recognised. The lease item would be recognized as an asset and a corresponding liability associated with lease obligation at the lower of:
- Fair value of the leased asset at the commencement of lease.
  - Present value of minimum lease payment from the standpoint of the lessee.
- 3.18.2 Amount of lease payments would be apportioned between the finance charge and the principal repayment. The principal repayment would reduce the lease liability and the finance charges would be considered as an expense.
- 3.18.3 Depreciation on such assets shall be provided at the same rates as in case of owned assets.

#### **Finance lease in the books of Lessor<sup>8</sup>**

- 3.18.4 The ULB as a lessor would consider the lease in the balance sheet as receivable at the agreed value and recognize the transaction of relinquishing the rights as a disposal of asset.
- 3.18.5 The ULB (Lessor) should recognize gains or losses on relinquishment of the asset as a result of Finance Lease.
- 3.18.6 Of the lease payments received, the ULB should recognize the finance income on a systematic and rational basis and recognize the same as an income for the year. The

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<sup>7</sup> When a ULB (as a lessee) have obtained an asset on lease, effecting the lease agreement as a finance lease, then it have assumed all the risks and rewards incident to ownership.

<sup>8</sup> When a ULB (as a lessor) have granted an asset on lease, effecting the lease agreement as a finance lease, then it have relinquished all the risks and rewards incidental to ownership.

balance should be applied against the receivables.

- 3.18.7 No depreciation shall be provided by the ULB (as a lessor) when the lease is of a finance lease.

## Accounting Policy-Operating Lease

### **Operating lease in the books of lessee<sup>9</sup>**

- 3.18.8 All lease payments should be recognized as an expense.
- 3.18.9 No depreciation to be provided on assets held under operating leases.

### **Operating lease in the books of Lessor<sup>10</sup>**

- 3.18.10 Assets given under operating lease shall be accounted as own assets but need to be separately disclosed in the schedule of Fixed Assets in Financial Statements.
- 3.18.11 Lease income from operating leases shall be recognised and accrued on the respective due dates as per lease agreement.
- 3.18.12 Depreciation on such assets shall be provided at the same rates as in case of owned assets.

## Accounting Policy-Hire Purchase

### **Hire purchase in the books of ULB as buyer**

- 3.18.13 The purchase price shall be capitalised as the cost of fixed assets.
- 3.18.14 Hire Purchase (HP) instalments paid shall be apportioned between the finance charge and the reduction of the principal outstanding. The finance charge shall be allocated so as to

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<sup>9</sup> When a ULB (as a lessee) have obtained an asset on lease, effecting the lease agreement as an operating lease, then it have not assumed all the risks and rewards incidental to ownership, as all such risks are still with the lessor.

<sup>10</sup> When a ULB (as a lessor) have granted an asset on lease, effecting the lease agreement as an operating lease, then it have not relinquished all the risks and rewards incident to ownership.

produce a constant periodic rate of interest on the remaining balance of the liability.

- 3.18.15 The depreciation principle for assets purchased under HP should be consistent with that for owned assets.

### **Hire purchase in the books of ULB as seller**

- 3.18.16 The sale price (including the interest portion) shall be accounted as receivable from HP agreement and recognize the transaction of relinquishing the rights as a disposal of asset.
- 3.18.17 HP instalments shall be apportioned between the interest income and the reduction of the principal amount receivable (the finance income to be allocated so as to produce a constant periodic rate of interest on the remaining balance of the receivable).

## **3.19. Municipal School**

- 3.19.1. Fees and fines received from primary schools shall be recognised on actual receipt.
- 3.19.2. Contribution receivable from other local bodies/ municipalities shall be recognised on actual receipt basis.

## **3.20. Addition / Merger of Local Bodies**

### **Accounting Policy**

- 3.20.1. When new areas are added to existing ULBs, an opening Balance Sheet is prepared for each of the added local bodies. The opening Balance Sheets are then consolidated with the Balance Sheet of the parent ULB at the carrying amounts of the assets and liabilities.
- 3.20.2. When one or more ULBs are merged to form a single ULB, the Financial Statements of the merging local bodies/undertakings shall be consolidated at the cut-off dates under the pooling of interest method.
- 3.20.3. The assets, liabilities, reserves and fund balances of the merging local bodies are recorded at their existing carrying amounts. However, it must be ensured that accounting policies adopted for preparation of Financial Statements of merging local bodies should be same.
- 3.20.4. Where the accounting policies of the merging and merged entities are different, the Financial Statements of the merging entities must be recast as on the cut off date in line

with the policies of the merged ULB before consolidation. The fact of the recasting of Financial Statements and its impact shall be disclosed in the Financial Statements.

- 3.20.5. In situation similar to de-merger, where the area/jurisdiction of one ULB is reduced partially to be merged with another ULB, its Balance Sheet is to be re-drafted as on the date of de-merger. The assets, liabilities, reserves and fund balances of the de-merged (reduced) ULB are recorded in the Balance Sheet to the extent of their merger by the ultimate ULB.
- 3.20.6. The merger will be effected considering a cut-off date provided in the G.O.

### **3.21. Financial Year Cut off date**

- 3.21.1. **Preparation of Accounts manually:** The Books of Accounts shall be kept open upto 15<sup>th</sup> April of the next Financial Year to account for all the bills received pertaining to the Financial Year. Accounts must be finalised on or before 30<sup>th</sup> June of the next Financial Year.
- 3.21.2. **Preparation of Accounts in a computerised environment:** Once the ULB's accounting system is computerised (and preparation of manual accounts has been discontinued), the Books of Accounts shall be closed on the last day of the Financial Year. Accounts must be finalised by 30<sup>th</sup> June of the next Financial Year.

## Chapter 4: Chart of Accounts

### 4.1. Introduction

4.1.1 Chart of Accounts (COA), defines the heads under which the transactions are classified and will facilitate maintenance of accounts and preparation of financial statements in a standardized manner. 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 collate to facilitate generation of various information reports. COA has been mapped with the Schedules of Financial Statements for better and quick understanding of the trail between CoA and Financial Statements.

4.1.2 The CoA is divided into the following Heads:

- Primary Accounting code, and
- Secondary Accounting code

4.1.3 The ULBs are not permitted to change the codes, except where permission has been provided, and it is compulsory to follow the prescribed coding structure.

### 4.2. Objective

4.2.1 The various objectives of preparing a chart of accounts are

- To achieve uniformity in the operations of ULBs across Uttarakhand.
- To facilitate the entry of transactions in a computerised environment.
- To act as a reference for the accounting transactions to be passed.
- To generate various MIS reports.

### 4.3. Structure of Primary Accounting Code

4.3.1 Each primary accounting code consists of seven digits. The Accounting code depicts Major Head code, Minor head code and Detailed Head code.



Major Head Code



Minor Head Code



Detailed Head Code

**Major Head Code**



4.3.2 Major Head code will be a three-digit code; the first digit in the major head code will be an identification digit, (ID digit) which shall indicate the nature of the transaction.

- If the first digit is "1", it would represent Income
- If the first digit is "2", it would represent Expenditure
- If the first digit is "3", it would represent Liabilities
- If the first digit is "4", it would represent Assets

4.3.3 The next two digits in the Major Head code would be the running serial number of the respective major head code. For example, if the first digit is 1 i.e. Revenue Income, then the next two digits would represent the different sources of Revenue Income i.e. Tax Revenue, Non-Tax Revenue, Assigned Revenues and Compensations, etc.

## Minor Head Code

4.3.4 The minor head code is a two-digit code, representing further details of the major head code. As an example, if the Revenue Receipt is a Property Tax income, it will be shown as follows:

1	Major Head	(Identification ID digit) Revenue Income
10	Major Head	Tax Revenue
01	Minor Head	Property Tax

## Detailed Head Code

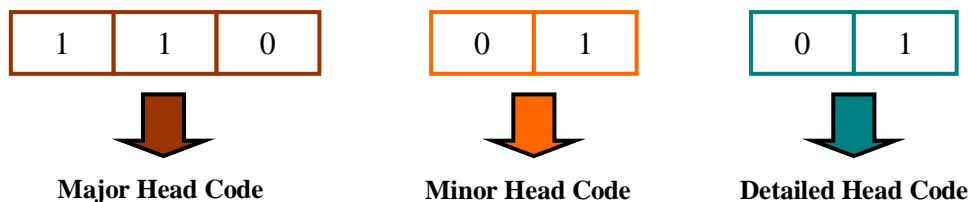
4.3.5 The Detailed - Head code gives details of the Minor Head code. The Detailed -Head code is a two digits code starting from 01.

As an example, if the Revenue Receipt is a Property Tax income from Residential buildings, it will be shown as follows:

1	Major Head	Revenue Income
10	Major Head	Tax Revenue
01	Minor Head	Property Tax
01	Detailed Head	Residential Buildings

The following diagram illustrates operation of accounting codes for "Property tax on

residential buildings".



4.3.6 List of Primary Accounting code is given in Appendix.

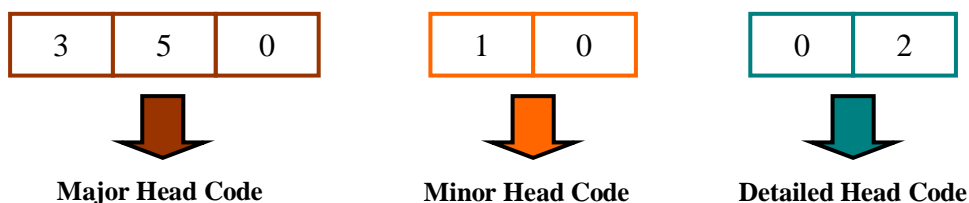
## 4.4. Structure of Secondary Accounting Code

4.4.1 Secondary accounting code will reflect the subsidiary ledgers and other analysis ledgers. This will enable the ULBs for party-wise accounting. For example, the Contractors and Suppliers account can be maintained contractor wise at this level. A three-digit code is prescribed for the subsidiary ledger of each control account. The use of secondary accounting code can be explained with the following illustration.

**Bill received from Mr. X, a contractor and booked as liability under Contractor**

**Payable**

3	Major Head	Capital Receipts and Liabilities
50	Major Head	Other Liabilities
10	Minor Head	Creditors
02	Detailed Head	Contractors



**Secondary Accounting Code**



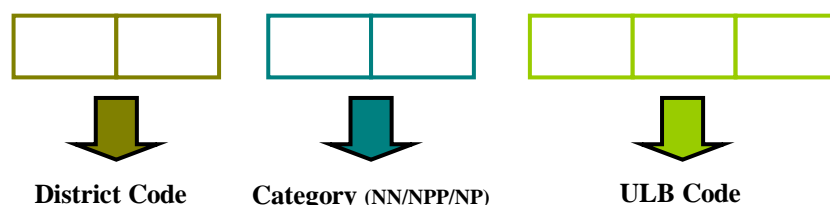
4.4.2 The secondary accounting code 000001 can be used for payable to a particular contractor, say Mr. X, whose "Sub-Ledger" has been created first.

4.4.3 Further, in case of attaching a code for a Property Tax assessee may run in six digits in

some ULBs. Similar coding logic may also be used for identification of specific Asset.

## 4.5. Identification code for ULB

4.5.1 The Chart of Accounts will be same for all ULB's across Uttarakhand. Thus, each ULB will have a unique identification code for itself, which shall be in the following format.



## 4.7. Format for Change Request Form

4.7.1 This Form shall be used by ULBs for sending their requests to Urban Development Department or any other authority as may be authorised by Urban Development Department for any addition/change in the accounting codes.

Name of ULB	Change Request No.

Name of person (with designation) requesting change	Date

Details of Codes to be amended		
Group Reference	Code Reference	Description

Details of Codes to be added		
Group Reference	Code Reference	Description

Clarification Required

## 4.8. Format for Change Authorised Form

4.8.1 This form shall be used by the Urban Development Department, or any other authority as may be authorised by Urban Development Department, to authorise the change requested by ULBs.

Change Request No.	Name of ULB

Change Request Viewed by

Same number as change request number

Details of Codes to amended

Authorization

Signature	Date

Same number as change request number

Change Request Authorized by

Comments

Accepted
Rejected

Signature	
Date	

## Chapter 5: General Accounting Procedures and Transaction Entries

### 5.1. General Accounting Procedure

#### Procedure to be Followed for Accounting of Collections

5.1.1. 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). The general procedure for the receipt, deposit and accounting of the collection shall be as follows:

- (a) **Collection at Counters:** For receipt of cash or any amount received in the form of cheques/draft, a Receipt, duly signed and dated shall be issued in Form AC 12. In cases where the payer has to submit Bills/Challans, one copy shall be returned to the payer along with the Receipt. All cheques/drafts received shall be recorded in perforated sheets, so that the second copy can be used for depositing cheques with Bank or other Collection Offices of the ULB.
- (b) **Deposit of amount collected:** The amount collected (cash, cheques as well as drafts) shall be deposited into Designated Bank Accounts or with the other designated Collection Offices of ULBs, by the end of the day. The amount shall be deposited in the bank on the same day or on the next working day.
- (c) **Remittance of collections to other Collection Offices:** The Collection Office receiving the cash/ cheque/ demand draft/ banker's cheque from other collection centres, shall issue a Receipt (Form AC 12) to acknowledge the receipt of cash/ cheque / demand draft / banker's cheque from other collection offices. The receiving Collection Centre shall record the receipt issued for receipt of the cheques/ drafts received from other collection centres in its receipt register maintained in Form AC 13.
- (d) **Entry in Collection Register:** The Collection Offices and Collection Centres shall record the particulars of each Receipt issued on a daily basis. This Collection Register shall be maintained in triplicate where in one copy can be sent to the concerned departments along

with one copy of the Bill / Challan Collected, if any, one can be sent to the Accounts Department and other one will be retained as book copy.

- (e) **Preparation of a Summary of Daily Collection:** Based on the details from the collection register, the collection offices shall prepare a Summary of Daily Collection in Form Coll 01. The Summary of Daily Collection is a covering sheet that provides a summary of the total revenues collected by the Collection Office / Centre.
- (f) **Collection at branches of Designated Banks directly from the payers:** The officers, designated for the purpose of coordinating with the branches collecting the receipt directly from the payers, shall also prepare a Summary of Daily Collection in Form Coll 01.
- (g) **Preparation of Bank Receipt Voucher:** The Accounts Department shall prepare a Bank Receipt Voucher in Form AC 08 and pass the entry for recording the collections based on the Summary of Daily Collection (Form Coll 01) received.
- (h) **Entry in Cash Book:** In practice, the above entry shall be passed in the Main Cash Book (Form AC 05) in the "Bank" column on the "Receipt" side.
- (i) **Posting in the Ledger:** From the Cash Book, a posting shall be made to the Ledger (Form AC 07)
- (j) **Updation of Subsidiary Ledgers:** The Accounts Department shall maintain separate Subsidiary Ledger for each of the Major revenues in Form AC 20. The Subsidiary Ledgers would provide function-wise break-up of above-mentioned income earned / received by the ULBs on a daily basis.
- (k) Separate folios shall be maintained for each function within the Subsidiary Ledger for recording incomes in respect of each function. When some amount is collected, 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.
- (l) Summary total of major heads of Income prepared as stated above must agree with the major income head wise schedules prepared from Trial Balance.

- (m) **Updation of details regarding cheques / drafts deposited:** The realisation / return of the cheques / drafts shall be followed up with the bank. The details of the realisation / non-realisation of the cheques / drafts shall be updated in the Receipt Register (Form AC 13) as well as communicated to the concerned officer for follow-up. The details should be intimated to the Accounts Department by the Collection Office / Centre who have actually deposited the cheques and coordinating with the bank, through a Statement on Status on Cheques Received, prepared in Form AC 14.
- (n) Based on the Statement on Status on Cheques Received (Form AC 14), the Accounts Department shall reverse the entry passed in “g” above i.e. on preparation of Bank Receipt Voucher.  
For e.g. Security Deposit received by cheques and deposited in Main Bank Account is dishonored. The Accounts Department shall pass entry for reversal of receipt.  
Subsidiary Ledgers shall be adequately updated for the reversal entry to be passed in respect of Fees & User Charges and Sale & Hire Charges due to dishonour of cheques.
- (o) Collections by Treasury Adjustments: The amounts due to the ULB towards surcharge on duty on transfer of property, entertainment tax, grants loans etc. are paid by various government departments by presenting bills in the Government Treasury and adjusting to the credit of the Personal Ledger Account (PLA) of the ULB concerned, maintained in the respective Government Treasury. These credits should be accounted for by passing BRV as and when such transactions take place and watched at the time of reconciliation of the passbook and the Government Treasury account (monthly). The Personal Ledger Account is akin to a Bank Account.

## Online Collection

- 5.1.2. Direct remittances and Online collections: In case of direct remittance and online remittances in the designated bank accounts, the collection bank branches shall prepare a Daily Collection Statement giving details of Payer, Holding number etc. (preferably all the details as given in Form Coll 01) and send it to the Link Bank. The Link Bank will it turn consolidate all the Daily Collection Statements and send them to the Municipal Head Office for accounting. Receipt entries shall be passed debiting the concerned bank account and crediting the income/receivable accounts based on the consolidated statement. The payer will use the Remittance challan prepared in triplicate for direct remittance into bank. One



copy will be retained by the bank, second copy is to be handed over to the concerned ULB and the third copy will be handed over to the payer.

## Internal Controls for Collections

5.1.3. The following general internal controls for collection shall be observed by all the ULBs:

- (a) Cash should be deposited to the bank in the same day or the very next day in case of holidays. 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.
- (b) 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.
- (c) Cash in chest should be insured for theft, fire etc.
- (d) 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.
- (e) 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) In no case the duplicate receipt or copy of the receipt shall be issued on any condition but if necessary, a certificate for payment can be issued.
- (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 Coll 01.

- (i) Original copies of all the cancelled documents such as receipts vouchers shall be retained in the office file with reasons / justification for cancellation written on the cancelled documents.
- (j) All the registers and books of accounts should be serially numbered and bound.
- (k) The Head of the Accounts Department shall ensure that all the bank charges accounted for based on the reconciliation statement are supported with original bank debit advises.
- (l) The errors in records can be rectified in RED INK and initialed by the designated officer with date.
- (m) Erasers shall on no account be permitted in registers, statements, cheques, vouchers or accounts of any description.
- (n) The Head of Accounts Department shall verify the Bank Reconciliation statement, reconciliation of receivables, deposits, income and collections, cash balance with the physical cash, verification of the number of receipts issued as reported by collection office with the collection register, details of which has been provided in Chapter 25 "Period end procedures".

## List of forms to be maintained

Serial number	Form name	Form number	Department (Main Responsibility first)
1	Summary of Daily Collection at Collection Office/Collection Centre	COII 01	Tax, Licence, Rent, Accounts
2	Register of Notice Fee, Warrant Fee, Other Fees and Penalties Charged	COII 02	Tax, Licence, Rent, Accounts
3	Statement of Receivables	AC04	Accounts
4	Cash Book	AC05	Accounts
5	Ledger Account	AC07	Accounts
6	Cash/Bank Receipt Voucher	AC08	Accounts
7	Receipt	AC12	Accounts
8	Receipt Register	AC13	Accounts

Serial number	Form name	Form number	Department (Main Responsibility first)
9	Statement on Status of Cheques Received	AC14	Accounts
10	Deposit Register	AC19	Accounts
11	Function-Wise Income Subsidiary Ledger	AC20	Accounts
12	Bank Reconciliation Statement	AC34	Accounts

## 5.2. Procedure to be followed for Accounting of Payments

5.2.1. The general procedure in respect of payments, which 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., is described below:

- (a) **Receipt of bills / claims:** The bills or claims against ULB shall be received at the various functions of ULB as per the procedures laid down in this behalf. The concerned department shall verify the bills / claims received. On satisfactory verification, the bills / claims shall be entered into the Register of Bills. Then the bills shall be forwarded to accounts department for payments.
- (b) **Preparation of Payment Order:** On approval of the payment by the concerned authorities at the respective departments, the department shall forward the bills for payment together with the payment order in Form AC 15 to the Bill Passing Authority.
- (c) **Bill Passing / Approval of Bills:** Before release of a payment, the Accounts / Audit department whoever is responsible for passing shall verify and ensure the following relating to a payment order:
  - Whether the supporting documents such as invoices, bills, etc. are stamped with 'certified for payment' and signed by the authorities of the concerned department
  - Whether adequate budget appropriation / provision is available under the particular head
  - Whether evidence of entry into purchase / fixed assets / investments register with folio and reference numbers are attached / available

- A work / job completion certificate is received, and a copy is attached with the payment voucher in the case of release of security or other caution deposits relating to construction or acquisition of fixed assets
  - Whether a copy of the purchase order with update of items / stocks received along with the reference to goods in good condition / satisfactory condition as per specification receipt etc. is attached with the payment voucher
  - Further, physical verification of the concerned registers such as fixed assets / stocks / investments, etc. may also be carried out to ensure that the bills under 'payment order' are entered in the registers
- (d) In case of any queries in the process of verification of 'payment order' explained above, including non-reference to the relevant folio / page number of the Stock / Measurement Book of Fixed Asset Register or Register of Bills for Payment, the same shall be noted on the Payment Order and shall be forwarded back to the respective department.
- (e) The concerned department shall resolve the query raised (above), make the necessary changes in the Payment Order and the other registers / forms, if required, and forward the documents back to the Bill Passing authority for review of the revised payment order.
- (f) When a payment is made on a duplicate bill or a duplicate receipt is attached to any paid bill, the Chairman or the Commissioner/ Executive Officer shall certify thereon that the original bill has not been paid or that the original receipt has not been used in support of any other bill, as the case may be.
- (g) **Forwarding for payment:** After a satisfactory verification of the payment order and its supporting, the payment order shall be released for payment.
- (h) On approval of payment, subsidiary ledger will be updated by Accounts Department.
- (i) **Preparation of a Cash / Bank Payment Voucher:** A Cash / Bank Payment Voucher (Form AC 09) shall be prepared for payment and verified.
- (j) **Preparation of Cheque:** On verification of the Cash / Bank Payment Voucher, a cheque shall be prepared. The date of preparation of the Bank Payment Voucher shall be the date of the cheques. The person preparing the cheques shall mention the date of the cheques. An entry of the cheques prepared shall be made in the Cheque Issue Register, maintained in Form AC 16.

- (k) **Signing of the cheques:** The authorized signatories shall sign the cheques, Cash / Bank Payment Voucher and Cheque Issue Register.
- (l) **Recording of entry for payment:** After the signing of the Cash / Bank Payment Voucher, the Accounts Department shall pass the entry for the payment.
- (m) **Payment through PFMS/IFMS:** Separate section has been provided in subsequent section in this manual.
- (n) **Entry in Cash Book:** In practice, the above entry shall be passed in the Cash Book (Form AC 05), in the “Bank” column on the “Payment” side.
- (o) **Posting in the Ledger:** From the Cash Book, a posting shall be made to the Ledger (Form AC 07) on the “Debit” side
- (p) In practice, the above entry shall be passed in the Cash Book (Form AC 05), in the ‘Bank’ column on the “Payment” side and posted to the Ledger
- (q) **Updation of Subsidiary Ledgers for expenditures:** The Accounts Department shall maintain separate Subsidiary Ledger for each of the Major expense head in Form AC 21. The Subsidiary Ledgers would provide function-wise break-up of above-mentioned expenses incurred by the ULBs 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.
- (r) 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.

## Internal Controls for Payments

5.2.2. The following general internal controls for payments shall be observed by all the ULBs

- (a) 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.
- (b) 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.
- (c) Original copies of all the cancelled documents such as payment vouchers shall be retained in the office file with reasons / justification for cancellation written on the cancelled documents.
- (d) Period-end procedures, as given in this manual, are followed.
- (e) Liability for Stale Cheques account should be reviewed at the end of every quarter and all the stale cheques dated more than six months from the date of original issue shall be identified and reversed as other income of the ULB.
- (f) The Head of Accounts Department shall ensure stamping of all the bills once approved for payment to ensure the same bill is not processed again.
- (g) All the registers and books of accounts should be serially numbered and bound.
- (h) The Head of the Accounts Department shall ensure that all the bank charges accounted for based on the reconciliation statement are supported with original bank debit advises.
- (i) The errors in records can be rectified in RED INK and initialed by the authorised officer with date.
- (j) Erasers shall on no account be permitted in registers, statements, cheques, vouchers or accounts of any description.

- (k) The Head of Accounts Department shall verify the Bank reconciliation statement, the bills received for payment cash book to ascertain the payment, reconciliation of function wise expense subsidiary ledgers with respective trial balance total and also verifies sub ledgers on cash, bank, payables the details of which has been provided in Chapter 25 “Period end procedures”.

## List of forms to be maintained

Serial number	Form name	Form number	Department (Main Responsibility first)
1	Cash Book	AC05	Accounts
2	Ledger Account	AC07	Accounts
1	Cash/Bank Payment Voucher	AC09	Accounts
2	Payment Order	AC15	Accounts
3	Cheque Issue Register	AC16	Accounts
4	Function-Wise Expenditure Subsidiary-Ledger	AC21	Accounts
5	Bank Reconciliation Statement	AC34	Accounts

## Accounting for Non-Cash transactions

5.2.3. For transactions other than those involving cash and/or bank, the Accounts Department shall prepare a Journal Voucher (Form AC 11) for recording the entry in the Journal Book. The following example illustrates the recording of entry in the Journal Book.

- (a) Recording: For recording the entry of raising the demand in respect of Property and Other Taxes, the Accounts Department shall prepare a Journal Voucher (Form AC 11) and pass the entry in the Journal Book (Form AC 06). Respective Debtor (Mr.P) account will be debited and Respective Property Tax Income will be credited. It may be noted that there is no cash/bank transaction in this entry.
- (b) Posting in the Ledger: From the Journal Book, a posting shall be made to the Ledger (Form AC 07). Accordingly, respective Debtor (Mr.P) ledger and Property Tax Ledger will be updated.

- (c) To rectify any entry: Accounts Department shall prepare a Journal Voucher (Form AC 11) and pass the necessary entry. Say, in above case, Debtor (Mr.P) has been debited wrongly instead of Debtor (Mr.Q). A rectification journal will be passed by debiting Debtor (Mr.Q) and crediting Debtor (Mr.P). Respective ledgers will also be updated accordingly.

## Permanent/Official Advance

- 5.2.4. 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 AC 18. The details of the advances given shall be recorded in the Register of Advance maintained in Form AC 17. The concerned department shall prepare Payment Order (Form AC 15) for replenishment of the permanent advance.
- 5.2.5. 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.
- 5.2.6. 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.
- 5.2.7. Each officer who has obtained a permanent advance shall, on the 1st of April in each year, sign an acknowledgement that the amount is due from, and to be accounted for, by himself. In case of transfer of charge of an office a similar acknowledgement for the full amount shall be signed by the relieving officer. These acknowledgements shall be kept on a guard file at the ULB office.
- 5.2.8. When the cash in hand is low and the advance has to be recouped, a red line shall be drawn across the page of Permanent Advance Register (Form AC 18), total of the items costs, and a contingent bill prepared in Form AC 39 in which full details of the expenditure shall be given. The officer responsible for the permanent advance after comparing the bill with the register shall sign both and send the bill to the Accounts Department for payment.



5.2.9. It should be carefully noted (1) that a bill must cover all items of expenditure upto the date of its preparation, and (2) that no item should be entered in the register until the money is actually spent and receipt obtained.

5.2.10. When a temporary advance for any particular purpose or an advance of pay etc. is made it shall be entered under the direct supervision of:

- In case of Nagar Nigam- Accounts Officer
- In case of Nagar Palika Parishad and Nagar Panchayat- Executive Officer

as a demand in the Register of Advances (Form AC 17). When the demand is adjusted necessary entries will be made in column 8, 9 and 10 of the Register of Advances. A note should also be made in remarks column (column no. 10) to show whether the adjustment was by repayment in cash, by deduction from salary or by a work bill or by any other bill.

5.2.11. In emergent cases and when the permanent advance is not sufficient for the payment of the works carried out by daily labour, purchase of materials, law charges and the like, an advance not exceeding Rs. 10,000 in the case of Nagar Palika Parishad and Nagar Panchayat and Rs. 20,000 in the case of Municipal Corporation may be drawn under the sanction of Municipal Council / Executive Committee respectively in the name of Executive Officer / Commissioner or Head of any department of ULB. Such advances shall be adjusted before the close of the year in which they are made, and no fresh advance shall be made to an officer unless previous one has been adjusted.

5.2.12. Details of emergency expenditure (Natural calamity/ Disaster) incurred shall be accounted for and recorded and statement of such expenditure and the outcome of such expenditure shall be placed at end or close of the emergency situation to Board for review and ratification as it may deem appropriate. The Commissioner/ Executive Officer shall provide a brief explanatory statement to the President-in-Council 'for the emergency expenditure incurred.

5.2.13. A statement of unadjusted advances shall be prepared yearly or at such lesser interval at the discretion of the Commissioner / Executive Officer for review and orders.

## Cheques

### 5.2.14. **Authorised Signatories:**

**In Municipal Corporation:** The cheque will be signed by the Commissioner or an officer duly authorized by the Commissioner and the Accounts Officer. Provided the Officer authorised by the Commissioner can sign the cheque upto Rs. 25,000 only but if he is on leave or out of station and no officiating arrangement has been made then in that case the officer who has been specially authorized may sign the cheque.

**In other ULBs:** Cheque should be signed by Chairman and Executive officer. In the absence of Chairman, it will follow the state law regarding delegation of power.

**Custody of the cheques:** Unused cheque books shall be kept under lock and key in the personal custody of the Drawing Officer.

5.2.16. **Issuance of cheque:** No cheque shall be signed unless required for delivery without delay to the person to whom the money is to be paid. Crossed cheque is issued favouring the party. Only exception is self-cheque, which may be used in Natural Calamity/Disaster and with prior approval of the Board. If prior approval is not possible in exceptional situation, it is to be ratified as given in para 5.2.12 above.

### 5.2.17. **Cancellation of cheques:**

- (a) When a signed cheque is cancelled it shall be effaced or stamped "cancelled" by the drawing officer. The fact of cancellation shall be noted in red ink, under the initials of the drawer of the cheque, upon the counterfoil, and across the order of payment which has been effaced upon the voucher.
- (b) When a cheque is cancelled before the general cash book has been closed for the day of the issue of the cheque, the entry in the cash book and also in ledger shall be struck out in red ink under the initial of the Executive Officer / Authorised Officer. When the cheque is cancelled after the cash book has been closed, the reverse entry shall be made in the books of accounts.
- (c) If a cheque is lost an intimation of the fact shall be at once given to the Bank and its payment stopped after ascertaining from the bank passbook and inquiry from the bank that it has not

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been cashed. The loss of cheque shall be noted on the counterfoil and Cheque Issue Register.

- (d) If a fresh cheque is not issued in place of the lost one, the procedure laid down in the para (3) above shall be followed. If new cheque is issued its number and date shall be quoted against the original entry in the Cash Book with the remark that the original cheque has been lost, and the following note shall be made on the counterfoil of the cheque, "Issued, in lieu of Cheque No..... date..... lost or destroyed". Thereafter necessary entries shall be made by the Accounts Department in the books of accounts.
- (e) Cancelled cheques shall be carefully retained until the accounts for the period to which they relate have been audited when they shall be destroyed in the presence of Audit Officer, who shall certify that the Cheque No..... dated..... has been destroyed.
- (f) Payments made by ULB in cheque shall be entered in Cheque issue register. It should be updated by concerned personnel of ULB on every issue.

\_\_\_\_\_ Name of the ULB

## CHEQUE ISSUE REGISTER

Sr. No.	Date	Bank Payment Voucher No. & Date	Payee name	Nature of Payment	Cheque No.	Date of the Cheque	Amount (Rs.)	Entered By	Signature of the Authorised Signatory	Date of Issue of Cheque	Signature of the Recipient	Date of Clearance
1	2	3	4	5	6	7	8	9	10	11	12	13

Note: For each entry made; record the Name, Designation and Signature of the person making the entry in the register and the person checking the entry.

## Stale/Obsolete Cheques

- 5.2.18. The normal validity period of a cheque is three (3) 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 realized, it becomes a stale cheque.
- 5.2.19. At the period end, the Accounts Department shall review the Cheque Issue Register (Form AC 16) and the Bank
- 5.2.20. Reconciliation Statements (Form AC 34) to identify the cheques, which have become stale. It shall prepare a Bank Receipt Voucher (Form AC 08) for recording a notional receipt in respect of the stale cheques. The necessary details shall be updated in the Cheque Issue Register (Form AC 16). In respect of the stale cheques, the Accounts Department shall pass the following entry:

### 1. Recording of reversal entries

Debit / Credit	Code	Details
Debit	450-21-01	Bank
Credit	350-10-xx	To Creditors- Respective Head

**Explanation:** Cheque not realized for 3 months or more becomes a stale cheque. At the period end the Accounts Department shall review the Cheque Issue Register and Bank and thereafter passes the above entry

**Trigger Point:** At the period end

**Source Document:** Bank Receipt Voucher (Form AC 08), Cheque Issue Register (Form AC 16)

**Records Updated:** Cash Book (Form AC 05)

5.2.21. When the cheques are re-validated or a fresh cheque is issued against the stale cheques, the Accounts Department shall prepare a Bank Payment Voucher (Form AC 09). After approval and signing of the Bank Payment Voucher by the concerned authorities, the Accounts Department shall pass the following entry:

## 2. Recording of fresh cheque issued against the stale cheques

Debit / Credit	Code	Details
Debit	350-10-xx	Creditors- Respective Head
Credit	450-21-01	To Bank

**Explanation:** When the cheques are revalidated, or fresh cheques are issued against the stale cheques, the Accounts Department prepares a Bank Payment Voucher. After the approval and signing of the voucher has been done by concerned authorities, Accounts Department passes the above entry.

**Trigger Point:** After approval and signing of the Bank Payment Voucher by the concerned authorities

**Source Document:** Bank Payment Voucher (Form AC 09), Cheque Issue Register (Form AC 16)

**Records Updated:** Cash Book (Form AC 05), Journal (Form AC 06)

5.2.22. Liability in respect of Stale Cheques account shall be reviewed periodically and those Stale cheques which were not revalidated after a period of 1(One) year 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:

## 3. Recording of recognition of other income in respect of liability of stale cheques account

Debit / Credit	Code	Details
Debit	350-10-xx	Creditors- Respective Head
Credit	180-50-xx	To Unclaimed Liabilities written back
<p><b>Explanation:</b> Liability in respect of Stale Cheques account shall be reviewed periodically and those Stale cheques which were not revalidated after a period of 1 (One)Year from the date of original issue shall be reversed as 'Write back of Liability for Stale Cheques' under Other incomes of the ULB thereafter Accounts Department shall pass the above entry</p> <p><b>Trigger Point:</b> At the period end liability in respect of stale cheques account shall be reviewed by Accounts Department</p> <p><b>Source Document:</b> Cheque Issue Register (Form AC 16)</p> <p><b>Records Updated:</b> Journal Book (Form AC 06), Ledger (Form AC 07)</p>		

(a) Insert Minor Head Codes of Account as applicable

## Accounting for Contra transactions among Cash and Bank

5.2.23. 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 in the paying bank account. For recording of a Contra Entry, the Accounts Department shall prepare a Contra Voucher (Form AC 10). In respect of Contra Entries, the following entries shall be passed:

## 1. Recording for Accounting of Contra Entries

### For recording cash deposited into bank

Debit / Credit	Code	Details
Debit	450-21-01	Bank Account
Credit	450-10-01	To Cash

**Explanation:** When cash is deposited into bank, the above entry is passed by the Accounts Department. It would be reflected as 'Inflow' in Bank column on Receipt side and 'Outflow' in the Cash column of Payment side.

**Trigger Point:** At the time of depositing cash in bank

**Source Document:** Bank passbook, cash deposit challan

**Records Updated:** Cash Book (Form AC 05)

### For recording cash withdrawn from bank

Debit / Credit	Code	Details
Debit	450-10-01	Cash
Credit	450-21-01	To Bank

**Explanation:** When cash is withdrawn from bank, the above entry is passed by the Accounts Department. It would be reflected as 'Inflow' in Cash column on Receipt side and 'Outflow' in the Bank column of Payment side.

**Trigger Point:** At the time of withdrawal of cash from bank

**Source Document:** Bank passbook, Bank withdrawal challan

**Records Updated:** Cash Book (Form AC 05)

## For recording transfer of funds from one bank to another

Debit / Credit	Code	Details
Debit	450-21-xx	Main Bank Account
Credit	450-21-xx	To Designated Bank Account
<b>Explanation:</b> The above entry is passed on account of transfer of funds from one bank account to another bank account. It would be reflected as 'Inflow' in the Main bank account and 'Outflow' in the Designated Bank Account. <b>Trigger Point:</b> At the time of transfer of funds from one bank to another. <b>Source Document:</b> Bank passbook, Remittance Challan, Bank withdrawal challan, Cheque counterfoil <b>Records Updated:</b> Cash Book (Form AC 05)		

\* Specify name of the bank and account number

(a) Insert Minor Head Codes of Account as applicable

5.2.24. 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:

## 2. Recording for rectification of entries involving cash and/or bank transactions

Debit / Credit	Code	Details
Debit	450-21-xx	Designated Property Tax Bank Account
Credit	450-10-xx	To Designated Water Supply Bank Account
<b>Explanation:</b> Above contra entry is recorded for rectification of entries involving cash and/or bank transactions. For example, if the amount deposited in designated property tax bank account has been wrongly debited to designated water supply bank account the above entry is to be passed. <b>Trigger Point:</b> At the time of rectification <b>Source Document:</b> Bank passbook, Remittance Challan, Bank withdrawal challan <b>Records Updated:</b> Cash Book (Form AC 05)		

\* Specify name of the bank and account number

(a) Insert Minor Head Codes of Account as applicable



## Banking Arrangements

5.2.21. ULBs may enter arrangements with their bankers as listed below in respect of collections and payments:

- Acting as an authorized collection agency for direct collection at all authorised branches of the Bank providing easy access.
- Operation of collection counter at ULB's offices
- Arrangements for collection of Deposits from authorised collection centres at a fixed time (say end of the day)
- Issuing daily Debit / Credit Advises
- Issue Account Statements on a weekly basis or for such other periods
- Tele banking facilities
- Salary Credit for employees

5.2.22. Process for opening of new Bank Account:

- Application for opening new Bank Accounts:
  - Nagar Nigam- Finance Officer/Accounts Officer will submit application to the Municipal Commissioner
  - Nagar Palika Parishad and Nagar Panchayat-Accountant will submit application to the President
- Approval:
  - Nagar Nigam- Municipal Commissioner approves the same
  - Nagar Palika Parishad and Nagar Panchayat- President approves the same
- Signatories in the form for opening Bank Account:
  - Nagar Nigam- Municipal Commissioner and Finance Officer/Accounts Officer
  - Nagar Palika Parishad and Nagar Panchayat- President and Executive Officer
- Guidelines of the Government of India and RBI issued in respect of opening, maintenance and closing of bank account will also be followed wherever applicable.

## Chapter 6: Property Tax

*This chapter provides the role of Assessment/Tax department and Accounts department of an ULB in connection with accounting for property tax transactions. Further, this chapter provides sample accounting entries for various transactions related to property tax. Tax department will maintain Forms TA 01 to TA 12, except TA 07. Accounts department will have key responsibility for form TA 07.*

### Assessment List

- 6.1.1. The Assessment list and Register of Objection shall be kept in Forms TA 08 and TA 09 respectively.
- 6.1.2. The assessment list when completed shall be totalled, progressive totals being given and carried over from page to page and the grand total entered at the end.
- 6.1.3. Each tax inspector appointed for the purpose shall submit quarterly statements showing for his circle all cases of new buildings, and extension of existing buildings. These statements shall be compared with the assessment list in the ULB office with the intimation received from owners, and also, where available, with the GIS data before submitting the statement, the Tax Inspector shall endorse the following certificate thereon.

"No new buildings are under construction in Circle No. / Ward No..... nor are any additions and alterations being made to existing buildings except as noted in the statement."
- 6.1.4. On receipt of the quarterly statements and the information supplied by the owners, prompt action should be taken to assess or reassess the tax when necessary.
- 6.1.5. Every new demand and every change in the existing demand which may be sanctioned after the completion and authentication of the assessment list shall be entered in the Demand Register (Form TA 01) so far as it affects the demand for year.
- 6.1.6. At the end of the entries for each year a certificate by the Commissioner/ Executive Officer or authorized officer shall be given in the Demand Register (Form TA 01) that he has satisfied himself that the current demands have been correctly posted from the

assessment list, and that the arrears have been correctly brought forward from the preceding year's account.

## Demand

- 6.1.7. Demand bill will be raised annually on Financial Year basis as per respective bye laws of the ULBs. Bills shall be prepared in duplicate in Form TA 02 and one copy of the bill shall be sent to the taxpayers.
- 6.1.8. Accounts department will book the demand on accrual basis and the Tax department will update the Demand Collection register.
- 6.1.9. It is a normal practice for the ULB to include the arrears of the tax dues while issuing the fresh demand. Entries in respect of the arrears would have already been recorded in the earlier years. The entry shall therefore be passed only in respect of the current year demand.
- 6.1.10. A Summary Statement of Bills Raised shall be prepared ward-wise and tax-head-wise by Tax Department. on monthly basis at the end of the month and sent to the Account Department to record the demand raised.
- 6.1.11. For properties where the self-assessment forms have been submitted, demand assessment will be done on the basis of forms. In case owners have failed to submit the forms, their demand will be done based on the property records available in the ULB. Where system of self-assessment of property tax is adopted in any municipality, the amount of tax income can be accrued on/after a pre-determined cut-off date (prevalent 30th April of the current year). After the cut-off date, demand for all properties will be raised in the books.
- 6.1.12. Recording of Change in assessments:
  - ✓ Any demand raised earlier may undergo changes by court order / by the order of 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 TA 04 on monthly basis and a copy of it shall be sent to Accounts Department for accounting.

- ✓ 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.

## Notices and Distress Warrants

- 6.1.13. Notices of demand and distress warrants issued under section 168 and 169 of the Uttarakhand (UP) Municipalities Act 1916 and under sections 506, 507 and 512 of the Uttarakhand (UP) Municipal Corporation Act 1959 shall be kept in books with counterfoils in Form TA 11 and TA 12. Each book shall contain an equal number of forms bearing book and serial number.
- 6.1.14. When recovery has been effected by distress the amount shall be brought to account in the general cash book and in the Demand Register and Collection Register, the number of warrant with letter "D.W.", being routed in place of 'receipt'.
- 6.1.15. When full or part payment is made by the defaulter to the officer authorised to execute the warrant a receipt shall be issued to the defaulter in Form AC 12 with a clear note to the effect that the money has been realized by distress warrant and the money brought to account in accordance with the rules.

## Self-Assessment

- 6.1.16. Self-assessment is method of Property Taxations where the owner of the property voluntarily declares the properties along with details based on which the tax is determined. It has been introduced recently in Uttarakhand.
- 6.1.17. Provision of self-assessment rule will be followed. Also, any amendments in rule made from time to time or enactment of new rule will be abided by.
- 6.1.18. As per present rule, following four forms are in use for Self-Assessment of property tax for properties within Municipal Corporation area:
- a. Form A: Property Tax Self-Assessment Form is used for-self Assessment of property tax for Residential buildings and plot of land.
  - b. Form B: Providing Statement of carpet and other area of a building or the plot of the Land
  - c. Form C: Property Tax Self-Assessment Form for non-residential buildings

- d. Form D: Property Tax Assessment Form for non-residential buildings for: For Providing Statement of carpet and other area of a building or the plot of the Land

- 6.1.19. It is the responsibility of the Owner or Occupier to submit self-assessment form. For subsequent amendment in assessment, the Owner or Occupier will submit self-assessment form as per Rule 3.
- 6.1.20. Any officer authorized by the ULB will review and approve the submitted form and record in Demand-Collection- Balance Register (DCB).
- 6.1.21. The persons who hold the primary liability of determining and paying the property tax or other liable person shall deposit the tax as per rules to notified Bank/s together with a statement of self-assessment (Forms as mentioned earlier) within the timeline mentioned in the rules. On receipt of statement from Bank, the Municipal Corporation will update the DCB.
- 6.1.22. Nagar Palika Parishads and Nagar Panchayats will follow same accounting principles as mentioned above, where self-assessment has commenced but specific rule is yet to come out for NPPs and NPs.

## Collections

- 6.1.23. The regular procedure for the collection of taxes and other municipal dues is laid down in chapter VI of the Municipalities Act 1916 and in chapter – 21 of the Municipal Corporation Act 1959. Under that procedure a bill in form TA 02 has to be presented to the person liable for payment and if payment is not made within 15 days of the presentation of the bill the ULB may issue a notice of demand in form TA 11 and if the same is still not paid, or reason for non-payment not shown within 15 days of the date of service of notice, a warrant of distress in form TA 12 may be issued. It must be carefully observed that before a distress warrant can be issued both a bill and a notice of demand must have previously been served upon the person liable to pay the dues.
- 6.1.24. The collection of all dues will be made as a general rule at the ULB office or to a person empowered by a regulation to receive such payments
- 6.1.25. Sufficient arrangement shall be made at the ULB office to enable the taxpayers to deposit their money and obtain receipts with as little delay as possible.

- 6.1.26. The tax department shall provide monthly statement of collections, tax head wise and year wise collections to the accounts department.

## Outdoor Collection

- 6.1.27. If a ULB desires to maintain the system of Outdoor Collection in respect of some particular taxes or other dues a detailed regulation must be made under section 168 of the Municipalities Act 1916 and under section 506 of the Municipal Corporation Act 1959 as the case may be. It is to be noted, however, that any system of Outdoor Collection is liable to serious abuse and therefore, a very strict and vigilant supervision is necessary where such system is maintained.
- 6.1.28. Recording of tax collections: The summary of Daily Collection (Form Coll 01) shall be prepared by various Collecting Offices / Centers/Collection bank and sent to the Account Department to record the income.
- 6.1.29. The summary of Daily Collection (Form Coll 01) provides head-wise collection made in respect of all collections made during the day.

## Online Collection

- 6.1.30. Direct remittances and Online collections: In case of direct remittance and online remittances by the tax payers in the designated bank accounts, the collection bank branches shall prepare a Daily Collection Statement giving details of Assessee, Holding number, concerned tax year (preferably all the details as given in Form Coll 01) and send it to the Link Bank. The Link Bank will it turn consolidate all the Daily Collection Statements and send them to the Municipal Head Office for accounting. Receipt entries shall be passed debiting the concerned bank account and crediting the income/receivable accounts based on the consolidated statement. The taxpayer will use the Property Tax Remittance challan prepared in triplicate for direct remittance into bank. One copy will be retained by the bank, second copy is to be handed over to the concerned ULB and the third copy will be handed over to the Taxpayer.

## Surcharge and Cess

6.1.31. The ULB may levy and collect surcharge and Cess at the instruction of the State Government. Such amount is billed along with the Property Tax demand and collected at the similar way as in case of property tax. Amount of surcharge will be recorded under separate liability head. Such collected amount will be transferred to State Government account as per instruction received from the State Government. In case ULB levies cess, it is to be included in property tax bill and accounted for as their income.

## Discount Allowed

6.1.32. The ULB may provide for discount on property taxes for payment within a certain period if allowed by its rules. Discount allowed shall be reckoned under expenditure code. Accordingly, in all cases Taxes will be recognised in gross amount.

## Notice Fee, Warrant Fee, Other Fees and Penalties

6.1.33. Notices of demand and warrants shall be issued, and penalties may be charged as per the relevant bye-laws.

6.1.34. Recording of demand raised: Form TA 04 will be used to record demand raised on account of Notice Fee, Warrant Fee and Other Fees, which shall be prepared and sent to the Accounts Department to record the demand raised.

## Refunds, Remissions,

6.1.35. All refunds and remissions arising under eligible circumstances as provided in the Act and bye-laws governing the revenues shall be duly recorded in the Demand registers maintained and the details of the same shall also be communicated to the Account Department. It is to be noted that refund / remission on account of the reason referred above 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 in case the revision in demand relates to the current year and in any other case the reversal shall be accounted as prior period expenses.

- 6.1.36. Recording of refunds/remissions payable: A Summary Statement of Refunds and Remissions in Form TA 05 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 entry.
- 6.1.37. Recording of payment refunds/remissions granted: The Accounts Department shall prepare a payment order (AC 15) 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.

## Waiver

- 6.1.38. For properties, where the GoUK has waived property tax (by virtue of a Government Order), such properties will be included in Demand-Collection Register with complete details, demand entries shall be recorded in such register, and write off entries will be recorded at the same time to remove the demand from the Books. Demand bill will show the gross bill payable and waiver amount separately be raised.

## Payment to the Urban Local Body for Properties Occupied by the State Government in Lieu of General Tax and Cess

- 6.1.39. Recording of demand raised: Similar procedure is to be followed as in case of other properties and sent to the Accounts Department to record the demand raised.
- 6.1.40. The procedure for collection and accounting of sums received from the State Government in this regard shall be the same as for property and Other Taxes collected otherwise.



## Provision for Unrealized Property and Other Tax Receivables and Write-Offs

- 6.1.41. Recording of provision for unrealized tax: Amount of provision will be as per accounting policy. The calculated amount 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/year end. Provisioning does not affect the realizability of the demand
- 6.1.42. Recording of write-offs: No write-off shall be made, unless all measures for effecting recovery have been exhausted for recovery (as mentioned in relevant Acts and Rules), and such measures have been proved ineffective. Write off proposal shall be passed by the board of the ULB.
- 6.1.43. When it is finally 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 summary statement of write off in form TA 06 shall be prepared and sent to the accounts department to record the entries.
- 6.1.44. In some cases, even after writing off the ULB may be able to recover taxes and in those cases such amount is shown as income in the year it is recovered.
- 6.1.45. When write off is done by the ULB, first it is adjusted against the balance in the provision account and if there is still balance amount, such amount is charged to the income and expenditure account.

6.1.46. Example for calculation of provision required are given below:

a) Additional provision required at the year end:

Particulars	Amount (Rs.)
Balance in the provision for outstanding property tax account as on 31 <sup>st</sup> March 2019	120000
Provision required to be made as on 31 <sup>st</sup> March 2019	135000
Additional provision to be made as on 31 <sup>st</sup> March 2019	15000

The accounting entry for making the additional provision shall be:

Debit / Credit	Code	Details	Debit (Rs.)	Credit (Rs.)
Debit	270-10-01	Provision for doubtful receivables on property tax	15000	
Credit	360-30-01	Provision for bad debt		15000

b) Reversal of excess provision made at the year end:

Particulars	Amount (Rs.)
Balance in the provision for outstanding property tax account as on 31 <sup>st</sup> March 2019	120000
Provision required to be made as on 31 <sup>st</sup> March 2019	85000
Excess provision to be written back as on 31 <sup>st</sup> March 2019	35000

The accounting entry for reversing the excess provision shall be:

Debit / Credit	Code	Details	Debit (Rs.)	Credit (Rs.)
Debit	360-30-01	Provision for bad debt	35000	
Credit	180-60-01	Provision written back on property tax		35000

c) Write off of Receivables at the year end:

Particulars	Amount (Rs.)
Property Tax Receivables (Current Year)	150000
Property Tax Receivables (Arrears)	50000
Property Tax became irrecoverable:	
Current Year	20000
Arrear	30000

The irrecoverable property tax was written off after following the required procedures.

The Accounting entry for recording the write off:

Debit / Credit	Code	Details	Debit (Rs.)	Credit (Rs.)
Debit	360-30-0 1	Provision for bad debt	50000	
Credit	431-10-09	To Property Tax receivable on Sick and Closed Industries- (Current Year)		20000
Credit	431-10-10	To Property Tax receivable on Sick and Closed Industries- (Arrears)		30000

## Adjustment of Tax Received in Advance

6.1.47. The Tax Department shall intimate the Accounts Department of the advance adjusted against the subsequent demand raised through a report to record the adjustment of tax received in advance.

## Recovery of Property Taxes through Legal Proceedings

6.1.48. Cost of Recovery: Expenditure incurred in respect of attachment and sale of the properties of the defaulter shall be recorded as cost incurred on recovery.

6.1.49. Collection on sale of Attached Property

- ✓ The Tax Department shall send the details of the adjustment of the amount collected to the Accounts Department to record the adjustment of the amount collected on sale of attached property.
- ✓ The Tax Department shall prepare the Payment Orders (Form AC 15) in respect of the amounts payable subsequent to the sale of the attached property and send it to the Accounts Department for payment.
- ✓ The amount to be credited to the "Receivable Control Accounts – Property Taxes" shall include the amount receivable in respect of tax as well as the expenditure incurred in respect of the recovery from the taxpayer.

## Property Transfer Charges and Mutation of properties

6.1.50. The ULB may charge fees for mutation/transfer of property. The revenue for the Property Transfer Charges levied shall be recognized on collection.

6.1.51. Mutation of properties shall be recorded in Mutation Register (TA 10)

## Internal Controls

6.1.52. The following internal controls shall be observed by the ULB in respect of Property Tax related transactions:

- a) 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.
- b) In case of self-assessment, it is to be ensured that demand booking is made on the basis of scrutinised and approved self-assessment forms on cut-off date. Where, it is apparent from the records that received self-assessment forms fall short of what it should be, balance demand is to be raised as per available records.
- c) 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.
- d) The Tax Department shall ensure that the Receipt / Summary of daily collection prepared, provides reference to the Tax Collection Register.
- e) The Commissioner/ Head of the ULB shall specify such appropriate calendar of returns / reports for monitoring.
- f) Reconciliation:
  - i. 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.
  - ii. A yearly reconciliation shall be carried out by the Head of the Account 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

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Ledger Accounts maintained at the Accounts Department and the Demand Register maintained at the Tax Department.

iii. Reconciliation of bank receipts with sub ledgers

g) Similar process needs to be followed for other taxes, as applicable.

## List of forms and formats to be maintained

Serial number	Form name	Form number	Department (Main responsibility first)
1	Demand Register	TA 01	Tax, Rent/ Licence, Accounts
2	Bill format	TA 02	Tax, Rent/ Licence, Accounts
3	Register of Refunds, Remissions and Write – Off	TA 03	Tax, Rent/ Licence, Accounts
4	Summary Statement of Demand Adjustments Raised in respect of Property and Other Taxes	TA 04	Tax
5	Summary Statement of the Refunds/ Remissions in respect of Property and Other Taxes	TA 05	Tax, Accounts
6	Summary Statement of the Write-Off in respect of Property & Other Taxes	TA 06	Tax, Accounts
7	Reconciliation Statement of Receivables and Collection	TA 07	Accounts, Tax, Licence, Rent, etc.
8	Assessment List for Taxes on the Annual Value of Buildings and Lands	TA 08	Tax
9	Register of Objection	TA 09	Tax
10	Mutation Register	TA 10	Tax
11	Notice of Demand	TA 11	Tax
12	Warrant	TA 12	Tax

## List of Ledgers and Subledgers

List of Ledger and subledgers are given below

- Property Tax Income
- Property Tax Receivables (Also Sub-Ledger for individual Assessee),
- Property Tax – Advance Receipts,
- Discount Allowed,
- Surcharge and Cess,
- Interest, Penalty, Notice Fee and Warrant Fee,
- Refund and Remission,
- Waiver,
- Provisio
- 
- n for Unrealised Property Tax Receivables etc.

All ledger accounts are having separate code in Chart of Account, and also separate provision has been kept for creation of sub-ledger code. However, it may be noted that mentioned ledger accounts are used whenever relevant accounting transaction takes place in the ULB.

## Summary of Accounting Policies:

Serial Number	Transaction	Basis of Accounting
1	Revenue in respect of Property and Other Taxes including surcharge	<ul style="list-style-type: none"> <li>➤ To be recognised in the period in which they become due and demands are ascertainable.</li> <li>➤ To be booked on Gross basis, i.e. before adjusting Discount/Penalty, etc.</li> </ul>
2	Revenue recognition in self-assessment i.For Existing Assesses	<ul style="list-style-type: none"> <li>➤ Accrued based on records available with the local body when it becomes due as per the provisions of the respective municipal Acts on/or after a predetermined cut-off date.</li> </ul>

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Serial Number	Transaction	Basis of Accounting
	ii. For New Assesses  iii. Non-Receipt of Self-Assessment form from the Assessee within Cut-off date	➤ Accounted only when the submitted self-assessment forms is duly scrutinized and approved. ➤ Demand for such assesseees will be booked after cut-off date on the basis of past records available with ULB.
3	New Assessment or Revised assessments of Property and other taxes	It shall be accrued in the month in which the demand is served.
4	Properties where GoUK has waived property tax	Notional demand shall be accounted for on accrual basis and written off from books immediately on raising/revising demand and accordingly to be disclosed in the Financial Statements.
5	Surcharge and Cess collected at the instruction of the State Government and billed along with the Property Tax demand, and collected at the similar way as in case of property tax	Amount of surcharge and Cess will be recorded under separate liability head as payable to State Government
6	Surcharge and Cess levied by ULB	To be included in property tax bill and accounted for as ULB's income.
7	Interest element and Penalties, if any, in demand	shall be recognised on accrual basis on issue of demand notice to assessee.
8	Revenue from Notice Fee, Warrant Fee and Other Fees	Recognised when the bills for the same are raised
9	Revenue from Property Transfer Charges / Mutation	Recognised on actual receipt

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Serial Number	Transaction	Basis of Accounting
<b>10</b>	Provision for doubtful receivables i.Receivable Outstanding for more than 2 year but not exceeding 3 years ii.3 to 4 years iii.4 to 5 years iv.more than 5 years / Sick/Closed Industries	➤ 25 % ➤ 50% ➤ 75% ➤ 100%
<b>11</b>	Recording of write offs	Write-offs of incomes shall be adjusted against the provisions made
<b>12</b>	Recording of subsequent collection / recovery of income written off	Recovery of already written off receivables will be recognised as income under same revenue head at the time of recovery.
<b>13</b>	Recording of Refund / Remission	➤ arising out of errors or omissions arising from a failure to use or misuse of reliable information, etc. pertaining to previous year(s)– will be accounted for in head “Prior period” ➤ Otherwise- adjusted with respective income.

## Accounting Entries

(Scheme of Accounting entries have been provided as examples, using few heads from Chart of Account. Accounting personnel, who will pass accounting entries, shall refer to the examples provided herein, and use appropriate accounting code (from Chart of Account) relevant for the specific transaction or series of transactions.)





## 1. Recording of Demand raised in existing regular cases

Debit / Credit	Code	Details
Debit	431-10-01	Property Tax receivable on Residential Buildings (Current Year)
Debit	431-10-13	Surcharge/cess receivable on Property Tax (Current year)
Credit	110-01-01	To Property Tax from Residential buildings
Credit	350-30-00	To Government dues payable

**Explanation:** The entry shall be passed quarterly, on the basis of the quarterly demand and is to be passed only for the current demand, i.e. excluding Arrears. The above entry shows recording of demand for residential buildings, and surcharge/cess on the same. In case cess is levied by any ULB, it is to be recorded as their income along-with property tax.

**Trigger Point:** On a quarterly basis either on an entry in the Assessment Register or raising of the Bill, whichever is earlier.

**Source Document:** Assessment Register, Demand Register, Summary Statement of Bills raised.

**Records Updated:** Journal book, Ledger, Control Account for each of the source of Property Tax.

## 2. Recording of Demand raised in case of new assessments

Debit / Credit	Code	Details
Debit	431-10-01	Property Tax receivable on Residential Buildings (Current Year)
Debit	431-10-02	Property Tax receivable on Residential Buildings (arrear)
Debit	431-10-13	Surcharge/cess receivable on Property Tax (Current year)
Credit	110-01-01	To Property Tax from Residential buildings
Credit	350-30-00	To Government dues payable

**Explanation:** 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 receivable account should be split according to the period to which it relates, and income related to earlier period. The above entry shows recording of demand for new assessments in case of residential, and surcharge/cess on the same. In case cess is levied by any ULB, it is to be recorded as their income along-with property tax.

**Trigger Point:** As and when new assessments are done and recorded in the Assessment Register or Bill is raised, whichever is earlier.

**Source Document:** Assessment Register, Demand Register, Summary statement of Bills raised.

**Records Updated:** Journal book, Ledger, Control Account for each of the source.

### 3. Recording of Change in Assessments

- Revised demand being more than the earlier demand. 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 i.e. revised demand less than earlier demand, as described in entry number 1 above.

#### (i) Revised demand being less than the earlier demand

Debit / Credit	Code	Details
Debit	110-90-01	Tax remissions and refunds-Property Tax
Debit	280-50-01	Prior period expenses- Refund of Property Tax
Credit	431-10-01 /02	To Property Tax receivable on Residential Buildings (Current Year and/or previous year as applicable)

**Explanation:** If the revision of demand relates to the current year and previous year which have occurred as a natural phenomenon, then the accounting code, 110-90-01 will be debited to record remissions; if the revision of demand relates to the previous years which occurred due to ULB's error or omission, then the accounting code 280-50-01 will be debited. If the demand relates to current year as well as previous year, then the amount will be

debited as per actual figures, to both the Accounts. The remission/ refund amount shall be adjusted against Receivables only if the demand is outstanding. The above entry shows recording of change in assessments for residential buildings, and surcharge on the same. The code 110-90-01 is shown as a deduction from property tax income in the Financial Statements. Any other amount collected with property tax (such as surcharge/cess), which is calculated on property tax, will be adjusted accordingly.

**Trigger Point:** As and when revised assessments are done and recorded in the Assessment Register.

**Source Document:** Assessment Register, Demand Register, Summary statement of Bills raised.

**Records Updated:** Journal book, Control Account for each of the source of the Property Tax and Ledger Account.

## (ii) Revised demand being less than the earlier demand, and the demand has already been paid

Debit / Credit	Code	Details
Debit	110-90-01	Tax remissions and refunds-Property Tax
Debit	280-50-01	Prior period expenses- Refund of Property Tax
Credit	350-41-01	To Advance Collection of Property Tax

**Explanation:** : If the revision of demand relates to the current year and previous year which have occurred as a natural phenomenon, then the accounting code, 110-90-01 will be debited to record remissions; if the revision of demand relates to the previous years which occurred due to ULB's error or omission, then the accounting code 280-50-01 will be debited. As the demand has already being paid and no balance is appearing in receivable account, the balance amount payable will be taken as Credit to Advance collection of Property Tax and adjusted against future receivables.

**Trigger Point:** As and when new assessments are done and recorded in the Assessment Register.

**Source Document:** Assessment Register, Demand Register, Summary statement of Bills raised.

**Records Updated:** Journal book, Control Account for each of the source of the Property Tax and Ledger Account.

## 4. Adjustment of Advance collection of Property Tax

Debit / Credit	Code	Details
Debit	350-41-01	Advance Collection of Property Tax
Credit	431-10-01/02	To Property Tax receivable on Residential Buildings (Current Year and/or previous year as applicable)

**Explanation:** The Advance collection of Property Tax will be transferred to the receivable Account of the Property Tax, when Tax for the current year falls due. The above entry shows adjustment of Advance collection of Property Tax against receivables for residential buildings for current year. Any other amount collected with property tax (such as surcharge/cess), which is calculated on property tax, will be adjusted accordingly.

**Trigger Point:** After passing the entry for Accrual of income, the Advance shall be adjusted against the demand.

**Source Document:** Assessment Register, Demand Register, Summary statement of Bills raised.

**Records Updated:** Journal book, Control Account for each of the source of the receivables for the Property Tax and Ledger Account.

## 5. Collection of Property Tax

Debit / Credit	Code	Details
Debit	450-21-01	Bank A/c
Credit	431-10-01	To Property Tax receivable on Residential Buildings-Current year
Credit	431-10-02	To Property Tax receivable on Residential Buildings-Arrears
Credit	350-41-01	To Advance Collection of revenues-Property Tax
Credit	171-80-02	To Other Interest-Interest on Property Tax receivable
Credit	140-20-03	To Penalties and Fines

**Explanation:** Entry is to be passed on the basis of each receipt voucher and for all income received in a voucher. The Summary of Daily Collection (Coll 01) will be updated accordingly.

**Trigger Point:** Receipt of cash/cheques/online from the individual assessee.

**Source Document:** Demand Register, Daily Collection Challan, Cash Receipts, Tax Register.

**Records Updated:** Cash Book, Ledger.

## 6. When cheque banked by the cashier is dishonoured

Debit / Credit	Code	Details
Debit	431-10-01	Property Tax receivable on Residential Buildings-Current year
Credit	450-21-01	To Bank A/c

**Explanation:** When notice of the cheques dishonoured is received by the cashier, exact entry passed in point 5 above shall be reversed. For example, if cheque received on account of code 431-10-01, earlier, has been dishonoured. The above entry shall be passed.

**Trigger Point:** As soon as intimation is received from the Bank.

**Source Document:** Intimation letter from Bank, Bank reconciliation statement, Dishonoured cheque Register

**Records Updated:** Bank Book, Ledger, Register of Dishonoured cheques and Drafts.

## 7. Discount/Rebate for early payment

Debit / Credit	Code	Details
Debit	240-80-01	Other Finance Expenses- Discounts on early/ prompt payments
Credit	431-10-01	To Property Tax receivable on Residential Buildings- Current year

**Explanation:** The entry will be passed when the Discount/Rebate has been approved by the Mayor/ Chairman or Assessment Review Committee. The above entry shows adjustment of Discount against receivables for residential buildings.

**Trigger Point:** When the revised Bill is raised.

**Source Document:** Letter of the Mayor/ Chairman/ Review Committee approving remission or raising of the revised Bill, Register of Remission.

**Records Updated:** Journal Book, Ledger.

## 8. Recording of Notice Fees and Warrant Fees

Debit / Credit	Code	Details
Debit	431-10-01	Property Tax receivable on Residential Buildings – Current Year
Credit	140-40-08	To Other Fees-Notice Fees
Credit	140-40-09	To Other Fees-Warrant Fees

**Explanation:** The Notice fees and Warrant fees to be received shall be debited to the respective source of Property Tax (Illustration showing Notice and Warrant Fees receivable for residential buildings and a consolidated entry shall be passed.

**Trigger Point:** At the end of the month for all Notices and Warrants sent during the Month.

**Source Document:** TA 01.

**Records Updated:** Journal book, Ledger and Receivable Account of the Sources of the

Property Tax, Notice Fees and Warrant Fees.

## 9. Provisions for doubtful recovery of Property Tax

Debit / Credit	Code	Details
Debit	270-10-01	Provisions for Doubtful Receivables-Property Taxes
Credit	360-30-01	To Provision for bad debt

**Explanation:** In the above entry, Provision has been created for doubtful receivables for Property Tax, has been shown.

**Source Document:** Letter of intimation, Letter/ Minutes of meeting of Board of Councilors approving provision, Computation sheet for the amount of provisioning.

**Records Updated:** Journal book, Ledger Account.

## 10. Recording of write – offs

Debit / Credit	Code	Details
Debit	360-30-01	Provision for bad debt
Debit	270-30-01	Property Tax Written Off (if balance in provision is not sufficient)
Credit	431-10-09	To Property Tax receivable on Sick and Closed Industries- (Current Year)
Credit	431-10-10	To Property Tax receivable on Sick and Closed Industries- (Arrears)

**Explanation:** In case the receivable from Property Tax is to be written off and has been decided by the ULB and approval of the Government is received, which was earlier treated as an income and provided for, the write off shall be adjusted first against the provision made and balance will be taken to written off account, the above entry shall be passed.

**Trigger Point:** At the time of writing off the income.

**Source Document:** Letter of intimation to write-off/ Minutes of meeting of Board of Councillors, Approval letter from the Government, Statement of write offs (Form –TA 06).



**Records Updated:** Journal book, Ledger

## 11. Recording of subsequent collection / recovery of income written off

Debit / Credit	Code	Details
Debit	450-21-01	Bank A/c
Credit	110-01-05	To Property tax on the Closed and Sick industries

**Explanation:** In case of a 'Receivable of Property & Other Taxes' written off already is recovered/ collected during the year; the above entry shall be passed by the Accounts Department to account for such income under same head.

**Trigger Point:** At the time of recovery of revenue earlier written off.

**Source Document:** Demand Register, Daily Collection Challan.

**Records Updated:** Journal book, Control Account of the Property Tax receivable, Ledger Account.

## Recovery of Property and Other Taxes through Legal Proceedings

### 12. Recording the cost of recovery

Debit / Credit	Code	Details
Debit	220-51-02	Legal Expenses-Cost of recoveries of Tax revenue
Credit	450-21-01	To Bank A/c

**Explanation:** Expenditure incurred in respect of attachment and sale of properties of the defaulter, shall be recorded as cost incurred for recovery.

**Trigger Point:** At the time of Issuing Cheque.

**Source Document:** Bill of the Professionals, Other Bills.

**Records Updated:** Cash Book, Ledger Account

## 13. Sale of attached property

Debit / Credit	Code	Details
Debit	450-21-01	Bank A/c
Credit	432-10-01	To Property tax Receivable on Residential Buildings
Credit	350-30-03	To Government Dues Payables-Court Attachments
Credit	350-40-04	To Refunds Payable-Attached Properties

**Explanation:** On sale of the attached Property, the total amount shall be credited to the respective accounts. The Tax Department shall send the details of the adjustment of the amount collected to the Accounts Department. Based on the intimation received from the Tax Department, to record the adjustment of the amount collected on sale of attached Property, the Accounts Department shall pass the above entry. Expenses incurred to recover the Property shall be credited to Receivable Control Account-Property Tax A/c.

**Trigger Point:** Receipt of adjustment of sale proceeds from the Accounts Department. Ledger Account of the sale proceeds should not have balance at the year end.

**Source Document:** Intimation from the Tax Department with regard to the Tax adjustments, Demand Register, Summary of Daily Collection (Form –Coll 01).

**Records Updated:** Cash Book, Journal Book, Ledger Account

## 14. Payment of the Dues

Debit / Credit	Code	Details
Debit	350-30-03	Government Dues Payables-Court Attachments
Debit	350-40-04	Refunds Payable-Attached Properties
Credit	450-21-01	To Bank Account

**Explanation:** The Tax Department shall prepare the Payment Orders in respect of the amounts payable subsequent to the sale of the attached Property and send it to the Accounts Department for payment.

**Trigger Point:** Receipt of Payment order from the Tax Department and drawing of cheque.

**Source Document:** Intimation from the Tax Department with regard to the Payment Order.

**Records Updated:** Cash Book, Ledger Account

## 15. Recording for receipt of cost of recovery

Debit / Credit	Code	Details
Debit	450-21-01	Bank Account
Credit	220-51-02	To Legal Expenses-Cost of recoveries of Tax revenue

**Explanation:** The legal Expenses incurred earlier and booked as expenditure, shall be accounted for once recovered.

**Trigger Point:** After the payment has been made for the legal expenses.

**Source Document:** Professional's Bill, Other Bills

**Records Updated:** Journal Book, Ledger Account

## 16. Year-end transfer of current receivable to arrear receivable

Debit / Credit	Code	Details
Debit	431-10-02	Property Tax receivable on Residential Buildings (Arrear)
Credit	431-10-01	To Property Tax receivable on Residential Buildings (Current Year)

**Explanation:** The amount of current year arrear as on 31<sup>st</sup> March, will be transferred to arrear account on 1<sup>st</sup> April (next day), for all the heads of Property Tax.

**Trigger Point:** As on last date of the year.

**Source Document:** Ledgers

**Records Updated:** Ledger Account, Demand Collection Register

## Chapter 7: Water Supply

*This chapter provides the role of Water Works department and Accounts department of an ULB in connection with accounting for transactions related to Water charges. Further, this chapter provides sample accounting entries for various transactions related to Water works. Water works department will maintain forms from WS 01 to WS 07.*

### Introduction<sup>11</sup>

- 7.1.1. ULBs 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.
- 7.1.2. ULBs are entitled to charge the users for the provision of these services. The charges for the water supply are either 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.

### General Procedures of Water Supply Account

#### House Connections

- 7.1.3. All applications received for house connections shall be entered in a register in form WS 05.
- 7.1.4. Particulars of house connections, after they have been made, shall be entered in a house connection register [Form WS 06] from the applications and other reports, if any.
- 7.1.5. A meter reading book in Form WS 07 shall be kept for all metered connections. When all the meters have been read the meter reading book shall be sent to the office on or before 15th of each month to make necessary entries in the Demand Register (Form TA 01).
- 7.1.6. When a connection is temporarily cut off a note to this effect shall be made in the demand register, but no entry need be made in the house connection register.

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<sup>11</sup> Currently water supply is not done by ULBs but by UJS.

## Inspection

- 7.1.7. The Water works Inspectors shall inspect every house connection at such intervals as may be prescribed by the ULB to see that the number of taps and other fittings correspond with the details in the house connection register. If any variation or a house connection which is not recorded in the house connection register is discovered, they shall forthwith report the facts to the Executive officer or authorised officer. At the end of each period so prescribed each inspector shall submit a report that he has inspected all buildings and lands having water connections and that the particulars of the same agree with those recorded in the ULBs house connection register or otherwise.

## Charges for Water

- 7.1.8. The demand register on account of Water charges shall be kept in Form TA 01 and in Column-4 thereof shall also be quoted the serial number of entry in the house connection register and below it the page number of the meter reading book in case of metered connections.
- 7.1.9. When the ULB charges for water according to the quantity shown by a meter, the number of gallons supplied shall be entered in column-5 of the demand register (Form TA 01).
- 7.1.10. When the ULB supplies water and charges for the same by compounding with the consumer for a fixed payment, the particulars of the composition and the sanctioning orders etc. shall be noted in the Column-5 of the demand register.

## Other Receipts

- 7.1.11. Other receipts pertaining to water works shall be paid direct at the ULB office and necessary particulars shall be given in the receipt and its counterfoil to admit of the transactions being easily identified. The engineer or the Water Works superintendent shall receive no application for any kind of work for which any fees or charges are payable unless accompanied by a receipt for the sum due.

## Accounting Records and Procedures

### Raising of Demand

- 7.1.12. A Summary Statement of Bills Raised shall be prepared ward-wise and income-head-wise, in Form WS 01 on a monthly basis within 7 days from the end of the previous month and sent to Accounts Department to record the demand raised.
- 7.1.13. It is a normal practice for the ULB to enter the arrears of the Water Supply Income due while issuing the fresh demand. Entries in respect of the arrears would have already been recorded earlier. The entry shall therefore be passed only in respect of the current demand.

### Collection of Water Supply Income

- 7.1.14. The Summary of Daily Collection (Form Coll 01) shall be prepared by each collecting offices/centers and sent to the Accounts Department to record the income received.
- 7.1.15. The Summary of Daily Collection (Form Coll 01) 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 and a ‘Summary statement of year-wise head-wise collection of water and related taxes’ in Form WS 02 shall be prepared on a monthly basis and sent to the Accounts Department to record the details of collections.

### Notice Fee, Warrant Fee and Other Fees

- 7.1.16. Notices of demand and warrants shall be issued, and other fees may be charged as per bye-laws of the ULBs.
- 7.1.17. A Summary statement of Notice Fee, Warrant Fee and other fees in Form WS 01 shall be prepared on monthly basis and sent to the Accounts Department to record the demand raised.

## Refunds and Remissions

- 7.1.18. All refunds and remissions granted shall be duly recorded in the Demand Registers maintained in Form TA 01 and the details of the same shall also be communicated to the Accounts Department.
- 7.1.19. A Summary Statement of Refunds and Remissions in Form WS 03 shall be prepared by Water Supply Department on a monthly basis and sent to the Accounts Department for passing necessary entries.
- 7.1.20. The Accounts Department shall prepare a Payment Order (Form AC 15) 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.

## Provisions for Unrealised Revenue Receivables

- 7.1.21. 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.
- 7.1.22. Additional provision or reversal of excess provision for the current period shall be calculated similar to components explained in the Chapter of Property & Other Taxes.

## Write Off

- 7.1.23. 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 WS04. 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.

## **Transfer of Amount Outstanding In Respect Of Arrears From Specific Year-Wise Account To General Account**

7.1.24. The arrears of water supply income shall be carried forward year-wise, i.e., in “Receivables of Water Supply Income (Year...)” account up to three years. On completion of the third year, the amount outstanding in the specific year-wise receivable account shall be transferred to a general arrears account, i.e., “Receivables of Water Supply Income (Others)” Account. For example, the water supply income receivable in respect of the demand raised during the accounting year 2000-01 shall be carried forward in “Receivable of Water Supply Income (2001)” Account up to the year ending March 31, 2004. On March 31, 2004, the balance outstanding in this account shall be transferred to “Receivables of Water Supply Income (Others)” Account.

## **Adjustment Of Water Supply Income Received In Advance**

7.1.25. The Water Supply Department shall intimate the Accounts Department of the advance adjusted against the subsequent demand raised by the Water Supply Department.

## **Recovery of Water Supply Income Through Legal Proceedings**

7.1.26. The Transactions relating to Recovery of Water Supply Department shall be accounted in the similar manner as described in the case of Property & Other Taxes.

## **Water Deposits**

7.1.27. The Water Supply Department may receive deposits towards Water Connection, Water Meter, Water Tankers, etc. The Collection Offices and Collection Centers authorised to collect Water Deposits shall prepare a Summary of Daily collection (Form Coll 01) and send it to the Water Supply Department and the Accounts Department.

7.1.28. Recording of adjustment of deposits: The Water Supply Department shall send details of deposits adjusted to the Accounts Department on a monthly basis to record the adjustment of Water Deposit.



- 7.1.29. Recording of refund of deposit: The deposits shall be refunded as per the rules prescribed in this regard. A Payment Order (Form AC 15) shall be prepared by the Water Supply Department for the deposits to be refunded and sent to the Accounts Department.

## Expenditure on Water Works

- 7.1.30. The accounting for expenditures pertaining to Water Supply Department shall be similar to that described in the Chapter of Public Works (for expenditure incurred through awarding of contracts to outside parties for carrying out certain activities such as laying of new pipelines, construction of pump houses, repairs related to water supply, etc.), Chapter of Stores (for expenditure incurred on purchase of stores such as TCL Powder, Chlorine Gas etc.) and Chapter of Other Revenue Expenditures (in respect of all other expenditures pertaining to water supply related activities such as electricity charges, bulk water purchase charges, etc.) and Chapter of Fixed Assets (in respect of the fixed assets purchased).

## Internal Controls

- i. The following internal controls shall be observed by the ULB in respect of Water Supply related transaction:
- ii. 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.
- iii. The Water Supply Department shall ensure that the Receipt/Summary of Daily Collection prepared, provides reference to the Water Supply Income Collection Register.
- iv. The Chief Municipal Officer/Head of the ULB shall specify such appropriate calendar of returns/reports for monitoring.
- v. Reconciliation:
  - 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 Demand Register.

- A yearly reconciliation shall be carried out by the Head of 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 yearly reconciliation shall be carried out by the Head of Accounts Department and the Head of the Water Supply Department in respect of the deposit outstanding, between the balances in the ledger Accounts maintained at the Accounts Department and the Deposit Register maintained at the Water Supply Department.
- Reconciliation Statements like reconciliation of balance at the beginning of the year in respect of water supply income receivable with demand register, collections made along with outstanding with the ledgers, reconciliation of deposit outstanding between the balances in ledger accounts and deposit register, sub ledgers of collections, receivables the details of which has been provided in Chapter 25 “Period end procedures” shall be verified. Reconciliations will be carried out in similar way as given in “Property Tax” chapter.

## List of forms and formats to be maintained

Sl. No.	Form name	Form number	Department
1	Summary Statement of Demand raised on assessment	WS 01	Water Supply
2	Summary Statement of Year wise head wise collection of water taxes	WS 02	Water Supply
3	Summary Statement of Refunds and Remissions	WS 03	Water Supply
4	Summary Statement of write offs	WS 04	Water Supply
5	Register of application for 741 connections	WS 05	Water Supply
6	Register of House connections	WS 06	Water Supply
7	Meter reading book	WS 07	Water Supply

## List of Ledgers and Subledgers

List of ledgers and subledgers is given below:

- Water Charges Income,
- Water Charges Receivables,
- Water Charges – Advance Receipts,
- Refund,
- Provision for Unrealised Water Charges Receivables,
- Deposits

All ledger accounts are having separate code in chart of account, and also separate provision has been kept for creation of sub-ledger code. However, it may be noted that mentioned ledger accounts are used whenever relevant accounting transaction takes place in the ULB.

## Summary of Accounting Policies:

Serial Number	Transaction	Basis of Accounting
1	Revenue from Water Charge, Water Supply Charges, Water Meter Rent, Sewerage charge, Disposal charges	Recognised in the period in which they become due, i.e., when the bills are raised.
2	Revenue from Connection Charges for Water Supply/ Sewerage	Recognised on actual receipt
3	Revenue from Water Tanker Charges	To be accounted on receipt
4	Road Damage Recovery Charges, Penalties	To be accounted on actual receipt
5	Revenue from Notice Fee, Warrant Fee, and Other Fees	Shall be recognized when the bills for the same are raised
6	Revenue from Solid Waste Management Fee i. Door to door collection Fee collected by Municipal staffs ii. Separately levied by the ULB	<ul style="list-style-type: none"> <li>➤ shall be accounted on actual receipt</li> <li>➤ Recognised when the bills for the services are raised as per agreement</li> </ul>

## Accounting Entries

(Scheme of Accounting entries have been provided as examples, using few heads from Chart of Account. Accounting personnel, who will pass accounting entries, shall refer to the examples provided herein, and use appropriate accounting code (from Chart of Account) relevant for the specific transaction or series of transactions.)

### 1. Raising of demand

Debit / Credit	Code	Details
Debit	431-30-03	Receivables for Fees & User Charge-Water Supply (Current Year)
Credit	140-50-12	To User Charges-Water Supply
<b>Trigger Point:</b> At the start of each month on the basis of monthly demand.		
<b>Source Document:</b> Demand Register, Water Supply-Summary Statement of demand raised on assessment.		
<b>Records Updated:</b> Journal Book, Ledger Account		

### 2. Collection of water supply income

Debit / Credit	Code	Details
Debit	450-21-01	Bank Account
Credit	431-30-03	To Receivables for Fees & User Charges-Water Supply (Current year)
Credit	431-30-04	To Receivables for Fees & User Charges-Water Supply (Arrears)
Credit	350-41-06	To Advance Collection of Revenues-Water Supply
<b>Explanation:</b> Based on the Summary of Daily Collection received from various Collecting Offices/Centers, the Accounts Department shall pass the above entry.		
<b>Trigger Point:</b> At the time of collection.		

**Source Document:** Water Supply-Summary statement of year-wise head-wise collection of Water Taxes'.

**Records Updated:** Cash Book, Journal Book, Ledger Account

## Notice Fees, Warrant Fees and Other Fees

### 3. Recording of Demand Raised

Same as accounting entry number 8 of Property Tax. Accounting codes will differ.

### 4. Recording of refunds / remissions payable

Same as accounting entry number 3(iii) of Property Tax. Accounting codes will differ.

### 5. Adjustment of Advance collection of revenue-Fees and User Charges

Same as accounting entry number 4 of Property Tax. Accounting codes will differ.

### 6. Recovery of water supply income through legal proceedings

7.1.31. The transaction entries for the recovery of water supply through legal proceedings shall be similar to those passed for recovery of Property Tax through legal proceedings (Entry 14, 15 and 16 in Chapter 6: Property Tax)

## Incomes to be Accounted for on Actual Receipt Basis

7.1.32. The following income, relating to the water supply, shall be accounted for on cash basis

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

## 7. Recording of collection of income

Debit / Credit	Code	Details
Debit	450-21-01	Bank Account
Credit	140-40-06	To Other Fees - Connection Charges
Credit	140-50-15	To User Charges - Water Tanker
Credit	140-70-04	To Service/ Administrative Charges - Road Damage Recovery
Credit	140-20-03	To Penalties & Fines

**Explanation:** On the basis of the Summary of Daily Collection received from the various Collection Offices and Collection Centers, the Accounts Department shall pass the above entry.

**Trigger Point:** End of the day on Receipt of Summary of Daily Collection.

**Source Document:** Daily Collection Register, Summary of daily collection (Form –Coll 01).

**Records Updated:** Cash Book, Ledger Account

## 8. Recording of Deposits towards water related issues

Debit / Credit	Code	Details
Debit	450-21-01	Bank Account
Credit	340-20-01	To Deposit Received -Water Connection

**Explanation:** The Water Supply Department may receive Deposits towards Water Connection, Water Meter, Water Tankers, etc. The Collection Offices and Collection Centers authorized to collect Water Deposits shall prepare a Summary of Daily collection and send it to the Water Supply Department and the Accounts Department. The Accounts Department shall pass the above entry on the basis of the Summary of Daily Collection received from the various Collection Offices and Collection Centers

**Trigger Point:** End of the day on Receipt of Summary of Daily Collection

**Source Document:** Daily Collection Register, Summary of Daily Collection (Form –Coll 01)

**Records Updated:** Cash Book, Ledger Account

## 9. Recording of adjustment of Deposits

Debit / Credit	Code	Details
Debit	340-20-01	Deposit Received -Water Connection
Credit	431-30-03	To Receivables for Fees & User Charges-Water Supply (Current year)

**Explanation:** On the basis of the instruction received from Water Supply Department for adjustment of deposit against receivables, the Accounts Department shall pass the above entry

**Trigger Point:** Receipt of instruction from the Water Supply Department

**Source Document:** Instruction from Water Supply Department, Deposit register (Form –AC 19)

**Records Updated:** Journal Book, Ledger Account

## 10. Recording of refund of Deposit

Debit / Credit	Code	Details
Debit	340-20-01	Deposit Received-Water connection
Credit	450-21-01	To Bank Account

**Explanation:** The Deposits shall be refunded as per the rules prescribed in this regard. A Payment Order shall be prepared by the Water Supply Department for the Deposits to be refunded. On refund of Water Deposit, the Accounts Department shall pass the above entry.

**Trigger Point:** End of the day on Receipt of Summary of Daily Collection and drawing of cheque

**Source Document:** Bank Payment Voucher, Deposit register

**Records Updated:** Cash Book, Ledger Account

## 11. Recording of Income, in respect of Lapsed Deposits

Debit / Credit	Code	Details
Debit	340-20-01	Deposit Received - Water Connection
Credit	180-11-03	To Lapsed Deposit-Water Supply Deposits

**Explanation:** Deposits not claimed within the period as laid down by the ULB, from the date they are due for payment, shall be lapsed and shall not be repayable to the party and when the right for claiming refund of Deposit has also expired. Also, the Deposits forfeited for the unsuccessful performance of the work, when they are required to be forfeited as per the contract shall not be repayable to the party. At the end of the accounting year, the Water Supply Department shall prepare a list of such lapsed Deposits. To recognize the income, on obtaining the approval of the Authorized Officer, the Accounts Department shall pass the above entry.

**Trigger Point:** Receipt of information from the Water Supply Department, with regard to Deposits to be forfeited

**Source Document:** Letter from the Mayor/Chairperson for the forfeiture of the Deposit, statement received from the Water Supply Department, showing Deposits to be forfeited, Deposit Register

**Records Updated:** Journal Book, Ledger Account



## Chapter 8: Rentals, Fees, User charges and other sources of income

*This chapter describes the records, registers, documents, forms, accounting entries, etc., in respect of accounting for transactions related to Rental, Fees and Other Incomes. This chapter also states the respective roles of Market/Licence department and Accounts department for the purposes of accounting. Form RE 01 and 02 will be maintained by Licence department. For rental income. Form LC 01 to LC 09 will be maintained by Licence department for licence fee income.*

### Accounting Procedures

#### Receipt of any Income in Advance

- 8.1.1. Receipt of Income in Advance shall be treated as liability. It will be adjustable with respective Income in the year such revenue is due. For example, advance received against Rent will be adjusted with rental income as per rent agreement in the year it is due.
- 8.1.2. In cases, where amounts are received in advance before provision of service, like septic tank cleaning, where the amount is payable to ULB first to ensure such service, such amount received will be treated as income on receipt. In case such amount becomes refundable, it shall be recorded refunded through same income head.

#### Deposits

- 8.1.3. In respect of certain Incomes, a deposit is generally taken at the time of receiving the application for providing the services/goods, e.g., Rent Deposit, etc.
- 8.1.4. **Recording of receipt of deposits:** On receipt of deposit, the same shall be treated as a liability.
- 8.1.5. **Recording of adjustment of deposits:** The ULB may adjust the deposits received against the cost of the service rendered by it to the customer. On adjustment of deposits, the respective departments shall send the details of deposits adjusted to the Accounts Department on monthly basis.

- 8.1.6. **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 (AC 15) shall be prepared by the respective departments for the refund of the deposits and sent to the accounts department.
- 8.1.7. **Recording of income in respect of lapsed deposit:** Deposit not claimed within the period as laid down by the ULB, shall be considered as lapsed. At the end of each accounting year, the respective departments shall prepare a list of such lapsed deposits and send it to the Accounts Department to recognize it as income after obtaining the approval of the authorized officer. Before recognizing lapsed deposits, the ULB needs to provide notice to the vendors and inform them of the time frame and action to be taken by them.

## Rental Income

### I. Demand Raised

- 8.1.8. In respect of the demand raised, the Licence Department shall do the following:
- Recording of Demand Raised:** The demand raised for Incomes shall be recognized as an income for the ULB and correspondingly as a current asset. Accordingly, based on the Form RE 01 received from the respective departments, the Accounts Department shall pass the appropriate entry. The above entry shall be passed only in respect of the Current demand of Other Incomes
  - It is a normal practice for ULB to enter the arrears of the dues while issuing the fresh demand. Entries in respect of the arrears shall have already been recorded earlier.
  - The rental incomes earned out of shopping complexes, markets, office buildings, etc. shall be entered in the relevant fixed assets register for E.g. Register of Immovable properties in form FA 01 or in Register of Movable Properties in form FA 02. The registers shall be updated periodically by the Assessment / Tax department as per rules.

### II. Collection of accrued incomes

- 8.1.9. The following shall be the procedure for accounting of the collections made in respect of accrued Incomes:
- Recording of Collection:** The Accounts Department shall record the income based on the Summary of Daily Collections (Form Coll 01) received from the various Collection

Offices and Collection Centers.

- (b) Such collections will be appropriately grouped on the basis of break-up of the collections into arrears collected, collections received in advance and collection made in respect of the current year's demand.

### III. (A) Notice Fee and Warrant Fee

8.1.10. Demand for notice fee and warrant fee shall be issued by Assessment / Tax department.

**(a) Recording of demand raised:** A Summary Statement of Notice Fee, Warrant Fee and Other Fees charged shall be prepared on a monthly basis and sent to the Accounts Department.

**(b)** The accounts department shall record the demand raised in respect of Notice Fee, Warrant Fee and Other Fees charged for rent not received, on the basis of the Summary Statement of Notice Fee, Warrant Fee and Other Fees Charged received from the respective departments.

### (B) User Charges and Other Fees

8.1.11. It includes various user charges, Licence Fee, building permission fee, registration fee, development charges, advertisement fee, etc. The rates shall be charged as per the relevant bye laws.

### IV. Refunds and Remissions

8.1.12. 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.

8.1.13. **Recording of refunds / remissions payable:** A Statement of Refunds and Remissions 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 entry.

- 8.1.14. **Recording of payment of refunds / remissions granted:** The Accounts Department shall prepare a Payment Order (Form AC 15) 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.

## **V. Adjustment of Incomes received in advance**

- 8.1.15. The respective departments shall intimate the Accounts Department of the advance adjusted against the subsequent bills raised to pass the appropriate entry.

## **VI. Deposits**

- 8.1.16. The accounting in respect of deposits and its adjustments will be accounted for in cash basis.

## **VII. Provision for Unrealised Revenue Receivables**

- 8.1.17. Provision created for unrealized revenue receivables during the year shall be recognised as expenditure. Excess provision created till last year, if any, shall be written back and to be accounted for in the income side of Income & Expenditure account. The provisioning norms are as follows:

- (a) Outstanding for more than 2 year but not exceeding 3 years: 50%
- (b) Outstanding for more than 3 years: 100% (additional 50%)

## **VIII. Write-offs**

- 8.1.18. **Recording of Write-offs:** If for any reason, it is decided by the ULB to write-off any Other Income dues, the details of the write off has to be prepared by respective departments and sent to Accounts department. Accounts department shall prepare summary statement of write-off in form TA 06 for accounting.

## **IX. Recovery of other incomes through legal proceedings**

- 8.1.19. The transactions relating to Recovery of Other Incomes shall be accounted in similar manner as in respect of Recovery of Property and Other Taxes.

## **X. Register of Rents**

- 8.1.20. The rent register of immovable properties shall be maintained in Form RE 02.
- 8.1.21. The rent register is primarily based on the register of immovable property (Form LA 01). So far as entry of the rent yielding of property is concerned other particulars of the demand shall be entered with reference to the sanctioning orders, leases etc.
- Note: Rent includes lease money and the income from letting municipal shops etc.

## **License Fees**

- 8.1.22. The license fees charged for granting license to any trade, shops, markets etc.: Basis of recognizing revenue has been given in accounting policy.
- 8.1.23. Procedure for raising demand, collection, recording is similar to rental income as mentioned earlier.

### **I. Demand Raised**

- 8.1.24. **Recording of demand raised:** The demand raised for Income shall be recognized as an income for the ULB and correspondingly as a receivable. Accordingly, based on the details received from the respective departments, the Accounts Department shall pass the appropriate entry.

### **II. Collection of incomes**

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

**Recording of Income collections:** The Accounts Department shall record the income based on the Summary of Daily Collection (Form Coll 01) received from the various Collection Offices and Collection Centres.

- 8.1.26. Recording of break-up of collections: A Summary Statement of Year-wise / Head-wise Collection of various other incomes in Form Coll 02 shall be prepared on a monthly basis by the respective departments and sent to the Accounts Department to record the details of collections.

### **III. Various Aspects of Licenses**

- 8.1.27. Licenses are not transferable, nor can they be reissued after expiry of their term.
- 8.1.28. The licenses shall be issued in Form LC 01 and LC 02 except where a different form has been specifically provided under any rules, bye-laws or order of Government for any specified purposes.
- 8.1.29. Licenses shall be issued as soon as the fees or tax is paid in and the amount thus collected shall be brought into the books of accounts immediately.
- 8.1.30. The licensing officer shall see that the progressive total is entered on each counterfoil at the time of issuing of each license and also see that the last progressive total agrees with the cash in hand and that the collections are regularly credited in accordance with the rules.
- 8.1.31. The licensing officer shall maintain a Register of Licenses in Form LC 03. Separate license register shall be kept for each kind of license.
- 8.1.32. The licensing officer shall immediately on receipt of the statements submitted by the inspectors appointed for the purpose, compare them with the register of licenses prescribed as above and in each case in which a license is required to be taken out but has not been applied for, suitable action shall be taken.
- 8.1.33. At the end of each month the Licensing Officer shall examine the register of licenses and shall take such action as may be within his power with regard to every person whose license may have expired up to date and who has not taken out fresh license, or he may, if necessary, report the case to the higher authorities of the ULB for orders.

## Advertisement/ Display Fees

- 8.1.34. The advertisement fees charged towards advertisement rights: Similar to accruing of rental income and license fees, advertisement fees shall also be accrued based on raising a demand.
- 8.1.35. Recording of demand raised: The demand raised for Advertisement fees incomes shall be recognized as an income for the ULB and correspondingly as a current asset. Accordingly, based on the details received from the respective departments, the Accounts Department shall pass the appropriate entry.
- 8.1.36. Collection of accrued incomes: The following shall be the procedure for accounting of the collections made in respect of accrued Incomes:
- 8.1.37. Recording of collections: The Accounts Department shall record the collections based on the details received from the various Collection Offices and Collection Centres.
- 8.1.38. For Other Incomes to be accounted on accrual basis, the Summary of Daily Collection (Form Coll 01) 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 Advertisement Taxes" Account which shall be segregated on a monthly basis.
- 8.1.39. Recording of break-up of collections: A Summary Statement of Year-wise / Head-wise Collection of various other incomes in Form Coll 02 shall be prepared on a monthly basis by the respective departments and sent to the Account Department to record the details of collection.

## Procedure for maintaining the records of cattle pound

- 8.1.40. On admission of a cattle to a pound, the pound keeper shall fill up columns 1 to 7 of the pound register to be kept in Form LC 04 and shall issue a receipt in form LC 05 to the person impounding the cattle and take his signature or thumb impression on the back of the counterfoil of the receipt. Entries shall be made separately for each head of cattle.
- 8.1.41. On the release or sale of cattle, the pound keeper shall make the necessary entries in column 8 to 19 of the pound register.

- 8.1.42. In case of release of cattle the pound keeper shall, on receipt of the charges due, fill up a release pass, with its counterfoil in Form LC 06 and hand over the person releasing cattle, the pass as a receipt for the payment, and take his signature or thumb impression in column 20 of the pound register. The progressive total of the sums received on account of fine and other charges shall be entered at the foot of each counterfoil of the release pass, at the time the counterfoil is filled up.
- 8.1.43. When impounded cattle are sold a receipt shall be issued to the purchaser in Form LC 07.
- 8.1.44. When impounded cattle have been sold under the authority of section 16 of the Cattle Trespass Act 1871, the account shall be delivered to the owner, as required by that section, in Form LC 08, and the receipt of the owner shall be taken in the last column of the counterfoil.
- 8.1.45. The pound keeper shall, immediately on receipt, add to the last progressive total entered in the counterfoils of the release passes (Form LC 06) all sums received by him on behalf of the ULB on account of impounded cattle sold.
- 8.1.46. The pound keeper shall remit his daily collection to the ULB office with a duplicate challan in Form LC 09 and the money shall be brought to account in the general cash book. One foil of the challan shall be returned to the pound keeper, who shall paste it in his release passbook as evidence of the remittance having been made.
- 8.1.47. When a claim is preferred under section 17 of the Cattle Trespass Act 1871, to any sum credited as the net sale proceeds of the unclaimed cattle, the original credit shall be traced in the pound register. If, on investigation, the claim is established, the amount repayable shall be paid under the written orders of the Commissioner (in case of Municipal Corporation) / the Chairman or Executive Officer (in case of other ULB). The payment shall be brought to the books of accounts as well as the fact of the payment and number and date of the payment voucher shall be noted in the remarks column of the pound register against the entry of the original credit.
- 8.1.48. The pound register shall be closed, and the totals of money columns given at the end of each month and the entries relating to unreleased and unsold cattle brought forward in the red ink to pages for the next month.



- 8.1.49. The accounts of Pounds shall be examined at the pound premises at least annually by the Executive Officer / Commissioner, who shall check totals of the money column in the pound register, and see that the progressive totals of receipts have been correctly entered in the release pass book (sums on account of sales of impounded cattle sold being also included) and that the amount shown as received on behalf of the ULB agrees with the total of the amount remitted to the ULB office (as shown by the challan) and the cash in hands of the pound keeper.
- 8.1.50. The charges for feeding and watering deducted under section 16 of the Cattle Trespass Act 1871 shall be paid to the pound-keeper, who shall also retain and appropriate all sums recovered by him on account of such charges under section 13 of that Act.
- 8.1.51. The provisions of Cattle Trespass Act 1871 shall be strictly followed by all the ULBs.

## Internal Controls

- 8.1.52. The following internal controls shall be observed by the ULB in respect of transaction related to Other Incomes:
- i. The head of the respective departments shall ensure that the Receipt / Challan for Remittance of Money prepared, provided reference to the Consolidated Collection Register.
  - ii. The Commissioner/ Head of the ULB shall specify such appropriate calendar of returns / reports for monitoring the followings:
    - Levy of stallages, rents and fees in Municipal Markets, Slaughter-houses and Stock-yards;
    - Registration of Births and Deaths Fees;
    - Fee for grant of license to Surveyors, Architects, Engineers, Structural Designers, Clerk of Works, and Plumbers;
    - Professional Tax;
    - Advertisement Charges / Rights/
    - Development Charges; etc.

## iii. Reconciliation

- (a) The Head of 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.
- (b) A yearly 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.
- (c) A monthly reconciliation shall be carried out by the Head of the Accounts Department and the head of the respective departments in respect of various deposits collected, between the balances standing in the Ledger maintained at the Accounts Department and the Deposits Registers maintained at the respective departments.

## List of forms and formats to be maintained

Serial number	Form name	Form number	Department (Main Responsibility first)
1	Summary Statement of Demand Raised Assessment in respect of rental fees and other incomes	RE 01	Rent/ Licence, Accounts
2	Register of Rent	RE 02	Rent/ Licence, Accounts
3	License Form for Trades	LC 01	Licence
4	License Form for Carriages	LC 02	Licence
5	Register of Taxes and Other income collected by means of the license system	LC 03	Licence
6	Pound Register	LC 04	Licence
7	Receipt for Impounded Cattle	LC 05	Licence
8	Release Pass for Cattle	LC 06	Licence
9	Receipt for Purchasers of Impounded Cattle Sold	LC 07	Licence
10	Memorandum Showing Disposal of the Proceeds of Cattle Sold	LC 08	Licence
11	Challan for Remittance of Money to the ULB Office	LC 09	Accounts

## List of Ledgers and Subledgers

List of ledgers and sub ledgers is given below:

- Rent Income,
- Rent Income Receivables,
- Rent Deposits,
- Rent Income – Advance Receipts,
- Provision for Unrealised Rent Income Receivables,
- Refund and Remissions,
- License Fees,
- Advertisement and Display Fees,
- Notice and Warrant Fees,
- Other Fees

All ledger accounts are having separate code in chart of account, and also separate provision has been kept for creation of sub-ledger code. However, it may be noted that mentioned ledger accounts are used whenever relevant accounting transaction is happening in ULB.

## Summary of Accounting Policies:

Serial Number	Transaction	Basis of Accounting
1	Rents from municipal properties	At the time of the Accrual i.e. at the start of the month, quarter, half-year or year, on the basis of agreement
2	Revenue from renewal of Trade License Fees	Accrued in the year to which it pertains
3	Revenue from New license fee	Accounted on Cash basis
4	Other income where demand is ascertainable and can be raised in regular course of operations of the ULB	Recognised in the period to which it pertains i.e., when Bill are raised
5	Other Incomes where the amount is not ascertainable or where demand is not	Recognised on Actual Receipt

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Serial Number	Transaction	Basis of Accounting
	raised in regular course of operations of the ULB	
6	Revenues from fines	Recognised on Cash Basis
7	Revenue generated from commercial ventures undertaken by the ULB	Accounted on due basis
8	Provision created for unrealised revenue receivables	Recognised as expenditure. In case of excess provision created till last year shall be written back and accounted for in the Income side of Income and Expenditure Account

## Accounting Entries

(Scheme of Accounting entries have been provided as examples, using few heads from Chart of Account. Accounting personnel, who will pass accounting entries, shall refer to the examples provided herein, and use appropriate accounting code (from Chart of Account) relevant for the specific transaction or series of transactions.)

### 1. Accounting for income to be recorded on actual receipt basis

Debit / Credit	Code	Details
Debit	450-21-01	Bank Account
Credit	140-10-01	To Registration of Carts
Credit	140-12-01	To Transit Permit
Credit	140-13-01	To Fees for Copying
Credit	140-14-01	To Development fees
Credit	140-15-01	To Encroachment fees
Credit	140-40-02	To Tuition Fees

**Explanation:** Based on Daily Collection Challan and Summary of daily collection received from various Collecting Offices/Centers, the Accounts Department shall pass the above entry.

**Trigger Point:** End of the day on Receipt of Summary of Daily Collection

**Source Document:** Receipt Register and Summary of daily collection

**Records Updated:** Cash Book, Ledger Account

## 2. Recording of Deposits

8.1.53. 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 is being discussed below, using the example of Rent Deposit.

Debit / Credit	Code	Details
Debit	450-21-01	Bank Account
Credit	340-20-03	To Deposits Received-Rent

**Explanation:** On receipt of Deposit, the same shall be treated as a Liability.

**Trigger Point:** On the receipt of the rent deposit

**Source Document:** Summary of daily collection, Deposit register

**Records Updated:** Cash Book, Ledger Account

## 3. Recording of adjustment of Deposits

Debit / Credit	Code	Details
Debit	340-20-03	Deposits Received-Rent
Credit	130-10-01	To Rental Income from-Municipal properties Market

**Explanation:** The above entry will be passed when ULBs adjust the Deposits received against the cost of the services rendered by it, generally at the closure/ termination of contract. On adjustment of Deposits, the respective departments shall send the details of Deposits adjusted in the Summary Statement of Deposits Adjusted to the Accounts Department on a monthly basis

**Trigger Point:** At the end of the month, for all Deposits adjusted during the month

**Source Document:** Deposit register (Form –AC 19)

**Records Updated:** Journal Book, Ledger Account

## 4. Recording of refund of Deposits

Debit / Credit	Code	Details
Debit	340-20-03	Deposits Received-Rent
Credit	450-21-01	To Bank A/c

**Explanation:** The Deposits shall be refunded when an application is made for it as per the rules prescribed for the same. A Payment Order shall be prepared by the respective departments for the refund of the Deposits. The above entry will be passed at the time of refund of deposits by the Accounts Department.

**Trigger Point:** At the time of refund of the Deposit

**Source Document:** Summary statement of Deposits Adjusted, Payment Voucher, Application for the refund of the Deposit

**Records Updated:** Cash Book, Ledger Account

## 5. Recording of income in case of lapsed Deposit

Debit / Credit	Code	Details
Debit	340-20-03	Deposits Received-Rent
Credit	180-11-04	To Lapsed Deposits-Rent

**Explanation:** Deposits not claimed within the period as laid down by the ULB, from the date they are due for payment and when the right for claiming refund of Deposit has also expired, shall be lapsed and shall not be repayable to the party.

**Trigger Point:** At the end of the month, for all Deposits lapsed during the month

**Source Document:** Summary statement of Deposits Adjusted

**Records Updated:** Journal Book, Ledger Account

## 6. Accounting for demand raised for rental income

Debit / Credit	Code	Details
Debit	431-40-01	Receivables for Rental Income
Credit	130-10-01	To Rent from Markets
Credit	130-10-02	To Rent from Shopping Complexes

**Explanation:** The demand raised for rental incomes shall be recognized as an income for the ULB and correspondingly as a current Asset. Accordingly, based on the Rental fees & other-income-Summary Statement of Demand raised on assessment received from the respective departments, the Accounts Department shall pass the above entry (Illustration for Markets and Shopping Complexes). The above entry shall be passed for the current demand, excluding arrears if any.

**Trigger Point:** At the time of the Accrual i.e. at the start of the month, quarter, half-year or year, on the basis of agreement

**Source Document:** Rental fees & other-income-Summary Statement of Demand raised on assessment (Form –RE 01)

**Records Updated:** Journal Book, Ledger Account

## 7. Collection of Rental Income

Debit / Credit	Code	Details
Debit	450-21-01	Bank Account
Debit	460-60-06	Income Tax Deducted at Source
Credit	431-40-01	To Receivables for Rental Income
Credit	350-41-02	To Advance Collection of Revenues-Rent

**Explanation:** To record the income based on the Summary of Daily Collections received from the various Collection Offices and Collection Centers, the Accounts Department shall pass the above entry.

**Trigger Point:** At the end of month for all collections made during the month

**Source Document:** Summary of Daily Collection (Form –Coll 01)

**Records Updated:** Journal Book, Ledger Account

## Notice Fees, Warrant Fees and Other Fees

### 1. Recording of demand raised

8.1.54. A Summary Statement of Notice Fee, Warrant Fee and Other Fees Charged shall be prepared on a monthly basis and sent to the Accounts Department. On the basis of the Summary Statement of Notice Fee, Warrant Fee and Other Fees Charged received from the respective departments, the Accounts Department shall pass the entry as explained in Chapter-6- Property Tax. (Entry number-1 and 2)

### 2. Recording of refunds / remissions payable

8.1.55. Form TA 01 shall be used to record Refund/Remission. The entry shall be passed as described in Chapter-6- Property Tax. (Entry number 3)

### 3. Adjustment of incomes received in Advance

Debit / Credit	Code	Details
Debit	350-41-02	Advance Collection of Revenues-Rent
Credit	431-40-01	To Receivables from Other Sources-Rent

**Explanation:** The above entry shall be passed to adjust the Advance collection of Revenues against the receivables of the current year

**Trigger Point:** At the time of accrual of income, for advance collection of income

**Source Document:** Demand Register

**Records Updated:** Journal Book, Ledger Account

### 4. Provisions for doubtful receivables

8.1.56. The entry for creating of provision, writing off of the excess provision, recording of write offs, subsequent collection of write offs shall be similar to the entries as described in Chapter-6- Property Tax. (Entry number 10)



## 5. Recovery of income through legal proceedings

8.1.57. The transaction entry for recovery of income through legal proceedings will be similar to as described in Chapter-6- Property Tax. (Entry number 13 and 14)

## License Fees

8.1.58. License fees shall be accrued in the year to which it pertains

### 1. Accounting for revenue in respect of Trade license fees

Debit / Credit	Code	Details
Debit	431-30-01	Receivables for License Fees
Credit	140-11-01	To Licensing Fees for Trades
Credit	140-11-02	To Licensing Fees for Hawkers
Credit	140-11-03	To Licensing Fees for Shops
Credit	140-11-04	To Licensing Fees for Bazaars

**Explanation:** The demand raised for trade license fees shall be recognized as an income for the ULB and correspondingly as a current Asset. Accordingly, based on the Register of Taxes and Other income collected by means of the license system on assessment received from the License department, the Accounts Department shall pass the above entry

**Trigger Point:** At the time of the Accrual

**Source Document:** Register of Taxes and Other income collected by means of the license system (LC 03)

**Records Updated:** Journal Book, Ledger Account

## 2. Recording of income collections

Debit / Credit	Code	Details
Debit	450-21-01	Bank A/c
Credit	431-30-01	To Receivables for License Fees

**Explanation:** The above entry shall be passed on the actual collection of license fees.

**Trigger Point:** At the time of the actual collection of the license fees.

**Source Document:** Summary of daily collection

**Records Updated:** Journal Book, Ledger Account

## Chapter 9: Employee Related Transactions

*This chapter describes the records, registers, documents, forms, accounting entries, etc., in respect of accounting for transactions related to payroll. This chapter also states the respective roles of Establishment department and Accounts department for the purposes of accounting. Forms Est 01 to Est 07, except Est 06 will be maintained by Establishment department Est 06 will be the responsibility of Accounts department.*

### Establishment

- 9.1.1. The whole establishment of the ULB shall be recorded in a Scale Register (Establishment Check Register) in Form Est 07, in which every appointment shall be entered under the initials of the Commissioner/ Executive Officer, a separate page allotted to the establishment chargeable to each item of the budget. When any change is made the revised scale shall be noted in the columns provided for the purpose.
- 9.1.2. ULB comprises of centralised and non-centralised regular employees. Centralised employees are those employees who are appointed by the Government and deputed to the ULB. The cost of these employees is borne by the Government. Non-Centralised employees are employees appointed by the local bodies. The Non-Centralised employees can be promoted to centralised employees as per the Uttarakhand Local Urban Bodies (Centralised) Employees Service Rules, 2019. The cost of these employees is borne by the ULBs. The provisions of both of the employees related transactions has been dealt in this chapter.”
- 9.1.3. Temporary establishment shall be recorded separately at the end of the space allotted for the permanent establishment and shall not be mixed up with it. The period for which the temporary establishment is sanctioned shall be distinctly specified in the Scale Register.

### Pay Bill and Deductions

- 9.1.4. A Pay Bill shall be prepared for each department on the basis of employee muster and service book maintained. The Pay Bill shall provide computation of gross salaries payable to the employees as per the conditions of service. From the gross salary, adjustments shall be made for deductions in respect of statutory payments such as income tax,

profession tax, provident fund, Insurance premium deduction etc., voluntary deductions such as group insurance premium, investment by employees, contribution to various societies, loan recovery for external agencies, etc., as well as recoveries in respect of loans, advances, etc., to arrive at the net salary payable to the employees.

- 9.1.5. Pay bills are normally drawn by Drawing and Disbursing Officer (DDO) in every department. The pay bills drawn by all departments shall be sent to Accounts Department for payment.
- 9.1.6. The Accounts Department shall prepare a Consolidated Pay Bill summary in Form Est 01 from the Departmental Pay Bills. Preparation of Consolidated Pay Bill summary would involve consolidation and summation of the individual Departmental Pay Bills.
- 9.1.7. On the basis of the Consolidated Pay Bill, the Accounts Department shall pass the entries every month for recognising the expense and the corresponding liability.
- 9.1.8. The department-wise details of establishment expenses will be available in the Consolidated Pay Bill prepared by the Accounts Department, reference to which may be made at the time of preparation of Financial Statements.
- 9.1.9. The Accounts Department shall maintain a separate Functional Expense Subsidiary Ledger in Form AC 21 for recording Function-wise establishment expenses. On recording of establishment expenditure in the Journal Book, the Accounts Department shall immediately update the Subsidiary Ledger mentioned above.
- 9.1.10. Accounts Department shall update the Register of Employee Advances maintained in Form Est 02 for recovery of Loans / advances and Register of Interest on Loans to Employees maintained in Form Est 03 for recovery of loans and interest respectively.
- 9.1.11. Salaries may be paid to the employees either (i) by Cheque or (ii) by directly crediting the amount to employees' bank account. In case of extreme events, like natural calamities or force majeure conditions or emergency situation in the country where cheque/transfer is not possible, cash payment may be made with written approval from the UDD (Approval from Director and FC). This shall be done on an exceptional basis.

9.1.12. The following instructions shall be observed in preparing the Pay Bills:

- The pay and allowances etc. (to be specified separately) not drawn but held over for further payment shall be entered in Column 8 and the reasons for doing so briefly noted in column 14 of form Est 01
- When the salary is drawn for a broken period of the month, the reasons for doing so, the period for, and the rate at which it is drawn shall be distinctly entered under the name of the incumbent
- Officials absent on leave or deputation shall be clearly shown as such in the monthly Pay Bills
- In the bills for arrears of pay etc., a reference shall be given to the monthly bill from which the charge was withheld on which it was refunded, or to any special order granting with retrospective effect any new allowance, as the case may be
- Except in the case of advances permissible under the rules no pay shall be drawn before the 1st working day of the following month
- The pay of labour gangs and workmen, etc. shall be drawn on a muster roll (Form WO 12) even if they are employed at monthly rates, as they do not form part of the regular establishment

9.1.13. The drawing and disbursement officer shall be responsible for all the salaries drawn on bills signed by him and should ensure the same have been paid to the staff.

## Unpaid Salaries

9.1.14. If the salary remains unpaid to the employees, it shall be reflected in respective sub-ledger. Cheques remaining unpaid and cash if 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 Salary Register suitably.

## Loans and Advances to Employees

- 9.1.15. Loans and Advances given (currently there is no practice of issuing loans and advances) to the employees. However, there might be situation of pending House Building Loan / Advance allowed to employees earlier)

The Register of Employee Loans / Advances (Form Est 02) shall be maintained and updated by the Accounts Department till the time, all pending Loans and Advances granted to employees are repaid. These registers shall be maintained department-wise.

- 9.1.16. **Accrual of Interest on Loans provided to employees:** 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 Est 03).

- 9.1.17. **Recovery of Loans / Advances**

- (i) 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.
- (ii) The Accounts Department shall update the Register of Employee Loans / Advances (Form Est 02) for the amount of advances /loans recovered.

- 9.1.18. **Recovery of Interest accrued on Loans provided to employees:** As per the terms and conditions of loan agreement, interest accrued and recognised, as an asset receivable shall be recovered in instalments.

## Payments Otherwise than from Pay Bill

- 9.1.19. For various types of employee related payments such as bonus & ex-gratia, medical reimbursement, hospitalisation claim, suspension allowance, leave salary, any other reimbursement, etc., the concerned department shall send the approved Payment Order along with the supporting documents to the Accounts Department.

- 9.1.20. Upon payment, the Accounts Department shall immediately update the Function wise Expense Subsidiary Ledger maintained in Form AC 21.

## Provident Fund

### I. Employees' Provident Fund (EPF) Contribution

- 9.1.21. Whenever applicable, EPF contribution will be deducted from the salaries of the employees as per relevant PF Rules.
- 9.1.22. The Accounts Department shall transfer the amount deducted as contribution from Main Bank Account to Provident Fund Bank Account or to PF Trust or PF organisation of the government as the case may be.

### II. Payment of Provident Fund Contribution in respect of employees on deputation

- 9.1.23. Provident Fund Contribution deducted on behalf of State Government or other organisations/authorities from the salary of employees on deputation to the ULB shall be deposited with the relevant authority every month.

### III. Loans to Employees against Provident Fund

- 9.1.24. **Recording of the loans granted against Provident Fund Contribution:** As allowed by the prescribed P.F. rules, the ULB may grant loans to the employees against balance standing to the credit of their Provident Fund account.

### IV. Recovery of Provident Fund Loan

- 9.1.25. Recovery of EPF loan will be done as a deduction from employees salary.
- 9.1.26. The Accounts Department shall transfer the amount deducted towards recovery of provident fund loans from Main Bank Account to Provident Fund Bank Account.

### V. Withdrawal from Provident Fund

- 9.1.27. 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 P.F. rules.

- 9.1.28. When any employee ceases to be an employee of the ULB, application shall be submitted to the PF authority as per the PF Rules for the closure of the Provident Fund account of the employee. Amount to the credit of his Provident Fund account (contribution, interest, etc.) will be paid to the employee.

## **Retirement Benefits:**

- 9.1.29. Retirement benefits for employees of ULB usually consist of:

- (i) Pension;
- (ii) Gratuity; and
- (iii) Leave Encashment.

- 9.1.30. Payment of pension and gratuity shall be made on the basis of the approved Pension & Gratuity Payment Order. The details of PPO shall be recorded in Pension Payment Order Register in Form Est 04.

- 9.1.31. Actuarial Valuation: An actuarial valuation is a mathematical analysis performed using various inputs and assumptions in order to estimate a future liability or an asset as of a different point in time, typically at the entity's year-end date. Actuarial assumptions are an entity's best estimates of the variables that will determine the ultimate cost of providing post-employment benefits. The actuarial method selected for determining accrual of liability and the assumptions made have a significant effect on the expense to be recorded in each accounting period. Therefore, an actuary chooses a suitable valuation method in consultation with the employer, makes appropriate demographic and financial assumptions about the variable elements affecting the computations. The assumption could relate to the expected inflow from future contributions and from investments, the uncertainty in projecting future trends of salary, rates of inflation etc.

- 9.1.32. For Gratuity and Leave Encashment, it is expected that a fund will be created with the Insurers by paying premium yearly. The premium so paid will be booked as expenditure for the year. Any liability arising for Gratuity and Leave Encashment would be met by the Insurance company.



## **I. Contribution towards Pension Fund**

- 9.1.33. For all centralised and non-centralised regular employees appointed prior to 1st October 2005; the ULB shall pay the retirement benefits as per the UP Palika (Centralised) Retirement Benefit Rules 1981 and the UP (Non-Centralised) Retirement Benefit Rules 1984.
- 9.1.34. According to these rules all retirement benefits other than Leave Encashment shall be paid by the Government of Uttarakhand in case of Centralised staffs. However, Liability for retirement benefits of the non-centralised staffs lies with respective ULB from where such employee retired. No contribution from the employee is deducted.
- 9.1.35. For all centralised and non-centralised regular employees appointed after 1st October 2005; National Pension Scheme will be applicable. For Centralised staffs concerned ULB deducts employee contribution of pension, adds ULB's contribution, and transfers the total contribution to the Urban Development Directorate (UDD) who thereafter deposits such contribution to NPS account. ULB will account for pension liabilities in their books at the time of deduction. Such liability will be nullified at the time of depositing such contribution to the UDD. In case of non-centralised staffs, respective ULB deducts employee contribution for pension, adds ULB's contribution, and deposits such contribution to NPS account. ULB will account for pension liabilities in their books at the time of deduction. Such liability will be nullified at the time of depositing such contribution to the NPS account.
- 9.1.36. 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.

## **II. Employees on Deputation**

- 9.1.37. In respect of State Government employees or employees of other organisations/authorities, who have been deputed to the ULB, the leave salary contribution and the pension contribution shall be payable by the ULB to the concerned authorities as per the standard conditions of deputation.

## III. Gratuity

- 9.1.38. Gratuity is a post retirement benefit wherein payments are made by the employer as and when the employee leaves after completion of the required years of service.
- 9.1.39. To provide for and pay Gratuity and accumulated leave encashment to the Staffs in proper amount as per law and in proper time, ULB will have an arrangement with an insurer so that the annual contributions, calculated actuarially, can be made each year. In such a case, benefits to employees on entitlement would be paid by the insurer. ULB will not be having any liability other than providing and paying annual (or periodic as per terms of Insurance) premium to the Insurance Company. The premium paid to the company will be treated as expenditure every year.

## IV. Leave Encashment

- 9.1.40. The ULB shall pay Leave Encashment as per the UP Palika (Centralised) Retirement Benefit Rules 1981 and the UP (Non-Centralised) Retirement Benefit Rules 1984 (for all centralised and non-centralised regular employees), State Government orders and the rules made by the State Government from time to time in this behalf. Accumulated leave encashment is also a post-retirement benefit.
- 9.1.41. The liability for payment of Leave Encashment for both Centralised and Non-Centralised staffs lies with the ULB from where the staff retired.
- 9.1.42. The ULB shall account for the leave encashment liability in the similar manner as given above for Gratuity.

## Internal Controls

- 9.1.43. The following internal controls shall be observed by the ULB:
- I. Separate Pay Bills shall be prepared by each DDO.
  - II. Consolidation of Pay Bills of DDO shall be made Department wise and Department bills are consolidated for ascertainment of ULB level information.
  - III. Consolidated pay bill summary shall be checked with previous month for ensuring all DDO and departments bills are included. Any variance needs to be checked in detail.

- IV. 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.
  - V. Every month, the Head of the Accounts Department or other officers of the ULB designated by him shall verify that Provident Fund and other contributions deducted for the employees on deputation have been deposited with the concerned authorities.
  - VI. Pension payments to non-centralised staffs existing as on the 1<sup>st</sup> October 2005, shall be made from the Pension Fund Bank Account. For other staffs, Pension is either paid by the GoUK or through NPS Scheme.
- 9.1.44. To guard against the cases of double payment of traveling allowance a register in the following details shall be maintained by the Head of the Accounts Department and submitted to the competent authority to countersign the traveling allowance bills, along with the TA Bills:
- Name of official availing travelling allowance
  - Date/s of journey
  - Brief details of journey
  - Bill amount
  - Signature and remarks
- 9.1.45. Reconciliation:
- 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.
  - 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.

## List of forms and Formats to be maintained

Serial number	Form name	Form number	Department (Main Responsibility first)
1	Consolidated Pay Bill Summary Roll of the Permanent /Temporary Establishment	Est 01	Establishment/ Accounts
2	Register of Employee Loans/Advances	Est 02	Establishment/ Accounts
3	Register of Interest o/n Loans to Employees	Est 03	Establishment/ Accounts
4	Register of Pension Payment Order	Est 04	Establishment/ Accounts
5	Pension Register	Est 05	Establishment/ Accounts
6	Reconciliation Statement of Personal Advance	Est 06	Accounts
7	Scale Register	Est 07	Accounts

## List of Ledgers and Subledgers

List of ledgers and sub ledgers is given below:

- Basic salary,
- Dearness Allowance,
- House Rent Allowance,
- Medical Allowance,
- Profession Tax,
- TDS from Employees,
- Loans and Advances to Employees,
- Provident Fund,
- Gratuity,
- Pension,
- Leave Encashment.

# UTTARAKHAND MUNICIPAL ACCOUNTING MANUAL

All ledger accounts are having separate code in chart of account, and also separate provision has been kept for creation of sub-ledger code. However, it may be noted that mentioned ledger accounts are used whenever relevant accounting transaction takes place in the ULB.

## Summary of Accounting Policies:

Serial Number	Transaction	Basis of Accounting
1	Expenses on Salaries and other allowances on gross basis	Accrual at the date when monthly salary becomes due, generally at the month end
2	Statutory deductions and other recoveries from salaries such as Tax, PF, Insurance premium, Recovery of Loan, etc.	Statutory deductions - Recognised as liability in the same period in which the corresponding salary is recognised as expense Other recoveries – Adjusted with same ledger head <b>Account nullified when deduction is remitted</b>
3	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.
4	Monthly Pension	Creation of liability at every month-end (as per PPO) for pension payment due for the month
5	Gratuity and Leave Encashment	Provision is to be created on annual basis on the basis of actuarial calculations provided by external experts and fund may be created with the Insurers, who will ensure payment of Gratuity of each employee as per prevailing Rules and Regulations.
6	Interest receivable on loans given to employees	Recognised as revenue at the end of the period in which accrued as per terms of contract.
7	Penal interest leviable on default in repayment of principal or payment towards Loan/ Advance to employee	Recognised as revenue when it is due

## Accounting Entries

(Scheme of Accounting entries have been provided as examples, using few heads from Chart of Account. Accounting personnel, who will pass accounting entries, shall refer to the examples provided herein, and use appropriate accounting code (from Chart of Account) relevant for the specific transaction or series of transactions.)

### 1. Recording of salary, allowances and corresponding liability

Debit/Credit	Code	Details
Debit	210-10-01	Establishment Expenses- Basic Salary
Debit	210-10-02	Establishment Expenses- Dearness Allowance
Debit	210-10-03	Establishment Expenses-Additional Dearness Allowance
Debit	210-10-04	Establishment Expenses- House Rent Allowance
Debit	210-10-05	Establishment Expenses- Medical Allowance
Debit	210-20-03	Benefits and Allowances-Medical Reimbursement
Credit	350-20-05	To Recoveries Payable-TDS from Employees
Credit	350-20-03	To Recoveries Payable- Profession Tax
Credit	311-71-02	To Employees' Subscription to PF
Credit	460-10-01	To Loans and Advances to employees-House Building Advance
Credit	350-11-05	To Employee's contribution to NPS
Credit	350-11-02	To Employee Liabilities-Net Salaries Payable

**Explanation:** The above entry has been given as an example for a standard salary journal for regular employees. Above entry shall be passed for recognising the salary Expenses under various heads and the Liability to the employees in respect of gross salaries. The entries are made once the final amount is consolidated by the Accounts Department upon receipt of details from the Establishment Department and from Conservancy Department. 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 PF, loan recovery for external agencies, group insurance premium, investment by employees, etc.), recovery of instalments of loans or interest levied on loan and/or advances from employees, etc., the credit heads will be put in to arrive at net salary payable.

**Trigger Point:** When salary become due, on the last date of the month

**Source Document:** Register of Advance (Form –AC 17), Register of Interest on Loans to employees (Form –Est 03),

**Records Updated:** Journal Book, Ledger

## 2. Recording of Provident fund liability

Debit / Credit	Code	Details
Debit	210-10-13	Contribution to Provident Fund
Credit	311-71-01	To Provident Fund -Liability

**Explanation:** Accounts Department passes the above entry while creation of liability for provident fund. Accounting for Pension fund, NPS, Leave encashment, Gratuity has been given subsequently.

**Trigger Point:** At the time of monthly salary journal

**Source Document:** Consolidated pay bill and acquittance roll

**Records Updated:** Ledger

### 3. Payment of Salaries by Cash

(i) On withdrawal of cash from Bank

Debit / Credit	Code	Details
Debit	450-10-01	Cash Account
Credit	450-21-01	To Bank Account

**Explanation:** For payment of salaries, if paid in cash. The above entry will be passed for withdrawal of cash from Bank.

**Trigger Point:** When cash is withdrawn from Bank

**Source Document:** Cheque, Cheque issue Register (Form –AC 16)

**Records Updated:** Cash Book, Ledger

(ii) On payment of net salary by Cash

Debit / Credit	Code	Details
Debit	350-11-02	Employee Liabilities-Net Salaries Payable
Credit	450-10-01	To Cash Account

**Explanation:** When cash is paid to the staff, the above entry shall be passed

**Trigger Point:** At the time of payment of cash

**Source Document:** Cash payment voucher, Cash Book

**Records Updated:** Cash Book, Ledger



## 4. Payment of Salaries through Bank

Debit / Credit	Code	Details
Debit	350-11-02	Employee Liabilities-Net Salaries Payable
Credit	450-21-01	To Bank Account

**Explanation:** For accounting of payment of salary by cheque or direct Credit of the salary to employee Bank account, the Accounts Department shall pass the above entry

**Trigger Point:** At the time of Payment/Crediting of Salary to Employee account

**Source Document:** Consolidated pay bill and acquittance roll (Form –Est 01)

**Records Updated:** Cash Book, Ledger

## 5. Deposit of Statutory Liabilities recovered from salaries

Debit / Credit	Code	Details
Debit	350-20-05	Recoveries Payable-TDS from Employees
Debit	350-20-03	Recoveries Payable- Profession Tax
Credit	450-21-01	To Bank Account

**Explanation:** For discharging liabilities towards statutory deductions (e.g., Income Tax, Profession Tax, etc.), on payment, the Accounts Department shall pass the above entry

**Trigger Point:** At the time of making payment

**Source Document:** Consolidated Pay Bills and acquittance roll (Form –Est 01), deposit challan

**Records Updated:** Cash Book, Ledger

## 6. Recording of Liabilities for Unpaid Salary (Cheques not encashed, now reversed)

Debit/Credit	Code	Details
Debit	450-21-01	Bank A/c
Credit	350-11-02	To Employee Liabilities-Net Salaries Payable

**Explanation:** In case cheques issued to the employees have not been encashed for three months, such cheques shall be cancelled. On cancellation of cheques, the Accounts Department shall pass the above entry.

**Trigger Point:** At the end of three months from issue of cheques

**Source Document:** Bank Reconciliation Statements, Unpaid Salary Register

**Records Updated:** Cash Book, Ledger

## 7. Recording of Loans and Advantages given to Employees

Debit / Credit	Code	Details
Debit	460-10-01	Loans and Advances to Employees-House Building Advance
Credit	450-21-01	To Bank A/c

**Explanation:** ULB may give loans (interest bearing or interest free) and advances to the employees. On payment of loans and advances by the ULB, the Register of Employee Loans / Advances shall be updated by the Accounts Department. These Registers shall be maintained Department-wise. For recording the payment of loans and advances to employees, the Accounts Department shall pass the entries as above.

**Trigger Point:** At the time of giving Advance to employees

**Source Document:** Register of Employee Loans / Advances, Application for Advances, Approval from Mayor/Chairperson

**Records Updated:** Cash Book, Ledger

## 8. Recognising interest on loans and advances granted to the employees at the period - end

Debit / Credit	Code	Details
Debit	460-10-01	Loans and Advances to Employees-House Building Advance
Credit	171-20-01	To Interest on Loans and advances to Employees - House Building Advance

**Explanation:** As per the terms and conditions of the loan agreement, interest may be levied on the outstanding balance of loans. In such cases, the amount of interest accrued shall be added to the outstanding loan amount through passing the above entry, for example. Register of Interest on Loans to Employees (From –Est03) shall be updated.

**Trigger Point:** At the time of the Accrual of the interest

**Source Document:** Calculation sheet of amount of interest, Register of Interest on Loans to Employees (Form –Est 03)

**Documents Updated:** Journal Book, Ledger

## 9. Recording of deposit of Provident Fund contribution with statutory fund outside organisation

Debit / Credit	Code	Details
Debit	311-71-01	Provident Fund Liability
Debit	311-71-02	Employees' Subscription to PF
Credit	450-21-01	To Bank A/c

**Explanation:** The Accounts Department shall make the above entry for direct deposit of PF liabilities to concerned authorities.

**Trigger Point:** At the time of transfer of the amount

**Source Document:** Consolidated pay bill and acquittance roll of the permanent/temporary establishment

**Records Updated:** Cash book, Ledger

## Retirement Benefits

9.1.46. Retirement benefits for the employees of the ULB usually consist of Pension and Gratuity. Given below various situations as per prevalent law and accounting impact.

Situation 1: Before 1 <sup>st</sup> October 2005	
<b>Scheme name: Pension Scheme as per the UP Palika (Centralised) Retirement Benefit Rules 1981 and the UP (Non-Centralised) Retirement Benefit Rules 1984 (for all centralised and non-centralised regular employees appointed prior to 1<sup>st</sup> October 2005)</b>	
<b>Contribution: No contribution from Employee</b>	
Centralised Staffs	Non-Centralised Staffs
<b>Retirement benefit:</b> Pension, Gratuity and Commutation is paid by the Government of Uttarakhand.  ULBs will neither account for such liabilities, nor payment in their books.	<b>Retirement benefit:</b> Payment of all retirement benefit is the responsibility of such ULB, from where such employee retired.  ULB will account for liability and payment in their books.
Retirement benefit: Leave Encashment: Paid by respective ULB from where the centralised service employee retired. ULB will account for liability and payment in their books.	

Situation 2: After 1 <sup>st</sup> October 2005	
<b>Scheme name: National Pension Scheme (for all centralised and non-centralised regular employees appointed after 1<sup>st</sup> October 2005)</b>	
<b>Contribution: Employer and Employee contributes</b>	
Centralised	Non-Centralised
<b>Retirement benefit:</b> Concerned ULB deducts employee contribution of pension, adds ULB's contribution, and transfers the total contribution to the Urban Development Directorate (UDD)	<b>Retirement benefit:</b> Concerned ULB deducts employee contribution for pension, adds ULB's contribution, and deposits such contribution to NPS account.

<p>who thereafter deposits such contribution to NPS account.</p> <p>ULB will account for pension liabilities in their books at the time of deduction. Such liability will be nullified at the time of depositing such contribution to the UDD.</p>	<p>ULB will account for pension liabilities in their books at the time of deduction. Such liability will be nullified at the time of depositing such contribution to the NPS account.</p>
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## ***Pension***

9.1.47. 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

9.1.48. Payment of pension shall be made on the basis of the approved Pension Payment Order (PPO). The details of PPO shall be recorded in Pension Payment Order Register in Form ES-5.

## **Accounting Entries for Retirement Benefits**

9.1.49. Where Pension, Gratuity and Commutation is paid by the Government of Uttarakhand.

### **No accounting entry will be passed in the books of ULB**

9.1.50. Where payment of all Pension is the responsibility of an ULB (For employees existing as on 1st October 2005)

## 1. Recording for creation of liability for pension

Debit / Credit	Code	Details
Debit	210-30-02	Pension-Pension/Family Pension Expenses
Credit	350-11-05	To Employees Liabilities-Pension Payable

**Explanation:** Creation of liability for pension is made on the basis of Pension payment order (PPO)

**Trigger Point:** Pension liability is created when it becomes due (generally at the month end)

**Source Document:** PPO, Pension Register (EST 05)

**Records Updated:** Ledger (Form AC 07), Journal Book (Form AC 06)

## 2. Recording for payment of Pension amount

Debit / Credit	Code	Details
Debit	350-11-05	Employees Liabilities-Pension Payable
Credit	450-21-01	To Bank Account

**Explanation:** Pension payment is made after the creation of liability based on the PPO and if the amounts were directly paid without creation of a separate fund

**Trigger Point:** At the time of transfer of the amount from general bank account to designated Pension fund bank account

**Source Document:** Pension Register (EST 05)

**Records Updated:** Cash Book (Form AC 05), Ledger (Form AC 07), Journal Book (Form AC 06)

9.1.51. Where payment of all Pension is through National Pension Scheme (For employees joined after 1<sup>st</sup> October 2005)

9.1.52. Concerned ULB deducts employee contribution of pension, adds ULB's contribution, and transfers the total contribution to the Urban Development Directorate (UDD) who thereafter deposits such contribution to NPS account or, in some cases ULB deposits directly to designated account in Bank.

9.1.53. Creation of pension liability at the time of monthly salary journal

### 3. Creation of liability for NPS – ULB's contribution

Debit / Credit	Code	Details
Debit	210-30-05	NPS Contribution
Credit	350-11-15	To NPS-Payable
<b>Explanation:</b> The above entry is to be passed at the time of creation of ULB's liability to NPS. Employees' contribution has been given in monthly salary journal <b>Trigger Point:</b> NPS liability is created when it becomes due. <b>Records Updated:</b> Cash Book (Form AC 05), Ledger (Form AC 07), Journal Book (Form AC 06)		

### 4. Deposit of pension liability (either to UDD or NPS account)

Debit / Credit	Code	Details
Debit	350-11-05	Employee's contribution to NPS
Debit	350-11-15	NPS-Payable
Credit	450-41-01	To Bank Account
<b>Explanation:</b> Payment of pension contribution liability is made. <b>Trigger Point:</b> At the time of transfer of the amount (employee + ULB contribution) to UDD or direct deposit to NPS. <b>Records Updated:</b> Cash Book (Form AC 05), Ledger (Form AC 07)		

9.1.54. As mentioned earlier, liability for Gratuity and accumulated Leave encashment will be funded through a scheme administered by an insurer (as per State Law). The insurer will make the

entire payment towards the Gratuity Payable to staffs at the time of their respective retirement, and also for payment of accumulated leave balance as per law. The ULB shall make periodic contribution to the Insurer (as per terms of Insurance and permitted by State Law) based on their actuarial calculation or confirmation obtained from the insurer. ULB's contribution to the Insurance company will ensure disbursement of defined Gratuity and Leave encashment to the staffs.

## 5. Creation of provision for Gratuity and Leave Encashment on annual basis

Debit / Credit	Code	Details
Debit	210-40-04	Post-Employment Benefit Plan – Contribution for Gratuity
Debit	210-40-01	Post-Employment Benefit Plan – Contribution for Leave Encashment
Credit	350-11-16	To Liability for contribution to Post Employment Benefit Plan

**Explanation:** Liability is created for annual (or periodic) contribution payable to the Insurer for funding the retirement benefits.

**Trigger Point:** Generally, at the end of the Financial Year when the Insurer provides the actuarial calculation or the confirmation stating that the contribution payable to the insurer is the proper accrual of the liability for the year.

**Source Document:** Actuarial calculation or Confirmation from Insurer obtained.

**Records Updated:** Ledger (Form AC 07), Journal Book (Form AC 06)

## 6. Payment of liability for contribution paid to Insurer

Debit / Credit	Code	Details
Debit	350-11-16	Liability for contribution to Post Employment Benefit Plan
Credit	450-41-01	To Bank A/c

**Explanation:** Liability is created for annual contribution payable to the Insurer for funding the retirement benefits.

**Trigger Point:** At the time of Payment of contribution.

**Source Document:** Premium demand from Insurance company, Payment Advice

**Records Updated:** Cash Book, Journal Book (Form AC 06)



## Chapter 10: Health and Education

*This chapter describes the records, registers, documents, forms, accounting entries, etc., in respect of accounting for transactions related to health and sanitation. This chapter also states the respective roles of Health department and Accounts department for the purposes of accounting. Form Coll 01 will be maintained.*

### 10.1 Health

#### INTRODUCTION

10.1.1. 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.

10.1.2. Accounting for income and other receipts

#### I. Medical Fees

The procedure to be followed for the collection and accounting of medical fees shall be as follows:

- (a) The collection in respect of the medical fees shall be made at the respective units (i.e. Hospitals, Dispensaries, Maternity Homes, etc.). A Receipt (Form AC 12) or pre-denominated tokens shall be issued to the person making the payment at the respective units.
- (b) The amount collected by the units shall be deposited in a Designated Bank Account or forwarded to the Ward Office or to the Accounts Department.
- (c) The procedures for cash/cheque collection, remittance and/or deposit have been described in the Chapter of "General Accounting Procedures". These procedures should be followed for Health and Sanitation related transactions.
- (d) Recording of collection of medical fees. The Accounts Department shall record the income on the basis of the Summary of Daily Collection (Form Coll 01) received from the various entities, i.e., Units, Ward Offices, Health Department, etc.

## II. License Fees

- (a) The income in respect of 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 respective bye laws.
- (b) The procedure and accounting entries in respect of demand raised for license fees, collections made, provisioning for unrealised fees, etc. shall be similar to the Chapter relating to Rentals, Fees, and Other Incomes.

## III. Other Incomes

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 the Chapter relating to Rentals, Fees, and Other Incomes.

### 10.1.3. Expenditures pertaining to health and sanitation

- (a) The accounting for expenditures pertaining to hospitals, dispensaries, sanitation, scavenging, etc., shall be similar to that described in the Chapter of "Public Works" (for expenditure incurred through awarding of contracts to outside parties for carrying out certain activities), Chapter of "Stores" (for expenditure incurred on purchase of stores such as medicines, insecticides, pesticides, etc.) and Chapter of "Other Revenue Expenditures" in respect of all other expenditures pertaining to health and sanitation related activities.
- (b) 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 15<sup>th</sup> April of the next Financial Year.

## Internal Controls

10.1.4. The following internal controls shall be observed by the ULB in respect of health and sanitation related transactions:

- (i) Reconciliation: A yearly 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 AC 20) in respect of Fees & User Charges and Sale & Hire Charges relating to Health Function maintained at the Accounts Department and the Collection record maintained at the Health Department.
- (ii) The Head of the Accounts Department shall ensure budget availability with respect to the expenditure incurred at the time of accruing of the expenditure.
- (iii) The Head of the Accounts Department shall ensure that all the bills/invoices were journalised before release of the payments.
- (iv) The Chief Municipal Officer/Head of the ULB shall specify such appropriate calendar of returns /reports for monitoring.

## List of forms and formats to be maintained

Serial number	Form name	Form number	Department (Main Responsibility first)
1	Summary of Daily Collection at Collection Office/Collection Centre	Coll 01	Tax, Licence, Rent, Accounts

## List of Ledgers and Sub Ledgers

List of ledgers and subledgers is given below:

- Medical Fees,
- License Fees,
- Medical fees – Receivables,
- License Fees – Receivables,
- Provision for Unrealised Fees,
- Ambulance Rent,
- Suction unit Rent,
- Dumping ground charges

All ledger accounts are having separate code in chart of account, and also separate provision has been kept for creation of sub-ledger code. However, it may be noted that mentioned ledger accounts are used whenever relevant accounting transaction takes place in the ULB.

## Summary of Accounting Policies:

Serial Number	Transaction	Basis of Accounting
1	Revenue from Hospital fees, maternity homes fees, diagnostic centre fees and dispensaries fees	Recognised on actual receipt
2	Rent and/or hire charges in respect of ambulance, hearse, suction unit, meat van, slaughterhouse and road roller etc.	Recognised on actual receipt

## Accounting Entries

(Scheme of Accounting entries have been provided as examples, using few heads from Chart of Account. Accounting personnel, who will pass accounting entries, shall refer to the examples provided herein, and use appropriate accounting code (from Chart of Account) relevant for the specific transaction or series of transactions.)

### 1. Recording of Income from Hospital and Dispensaries

Debit / Credit	Code	Details
Debit	450-21-01	Bank A/c
Credit	140-10-03	To Fees and User Charges - Registration of patients
Credit	140-50-01	To User Charges-Sale of Medicines
Credit	140-50-02	To User Charges-Examination Charges in Hospitals
Credit	140-50-03	To User Charges-Ambulance Charges

**Explanation:** On the basis of the Summary of Daily Collection received from the various entities i.e. Units, Ward Offices, Health Department, etc., the Accounts Department shall pass the above entry

**Trigger Point:** At the time of receipt of the Daily collection statement

**Source Document:** Summary of Daily Collection

**Records Updated:** Cash Book, Ledger Account

## 2. Recording of income from Sanitation activities

Debit / Credit	Code	Details
Debit	450-21-01	Bank A/c
Credit	140-50-05	To User Charges-Garbage Collection Fees
Credit	140-50-07	To User Charges-Septic Tank Clearance Charges
Credit	140-50-08	To User Charges-Sewerage Clearance Charges

**Explanation:** On the basis of the Summary of Daily Collection received from the various entities, i.e., Units, Ward Offices, Health Department, etc., the Accounts Department shall pass the above entry

**Trigger Point:** At the time of receipt of the Daily collection statement

**Source Document:** Summary of Daily Collection

**Records Updated:** Cash Book, Ledger Account

## 3. Recording of expenditure

Debit / Credit	Code	Details
Debit	230-51-10	Repairs and Maintenance-Hospitals
Debit	230-52-06	Repairs and Maintenance-Hospital building
Debit	230-59-06	Repairs and Maintenance-Hospital Machinery and equipment
Credit	450-21-01	To Bank A/c

**Explanation:** On the basis of expenditure bills, the Accounts Department shall pass the above entry

**Trigger Point:** At the time when expenses are incurred

**Source Document:** Expenditure bills

**Records Updated:** Cash Book, Ledger Account

10.1.5. If the bills are of value less than Rs.20000 then direct payment entries will be done in the system. If the bill is of a larger value, then the entries will be passed through vendor accounts. Also, deductions if any should be applied and deducted from the bill. (Refer chapter 12, entry 16.)

10.1.6. 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 15<sup>th</sup> April of the next Financial Year or before the finalisation of accounts, whichever is earlier.

## 10.2 Education (Municipal School)

### INTRODUCTION

10.2.1. Education is one of the services of the ULB and is carried out by ULBs directly or through separate boards set up specifically for the purpose. This section contains the recommended accounting system for transactions relating to Municipal Schools. Municipal Schools shall maintain independent books of accounts for recording transactions relating to the schools.

## Accounting Entries

### 1. Receipt of fees and fines

Debit / Credit	Code	Details
Debit	450-21-01	Bank A/c
Credit	140-40-02	To Tuition fees
<b>Explanation:</b> On receipt of fees and fines and depositing them in the Bank Account  <b>Trigger Point:</b> Receipt of fees <b>Source Document:</b> Receipt records, Summary of daily collection <b>Records updated:</b> Cash Book, Ledger		

### 2. Other transaction related to Municipal Schools

10.2.2. Expenditure, which are directly attributable to School, will be recorded in similar manner as given in Entry 3 under Para 10.1.2.

## Chapter 11: Other Revenue Expenditure

*This chapter describes the records, registers, documents, forms, accounting entries, etc., in respect of accounting for transactions related to any other expenditure incurred on revenue nature. This chapter also states the respective roles of the departments incurring such expenditure and Accounts department for the purposes of accounting. Form AC 15, AC 17, AC 18 and AC 21 will be maintained by the Accounts department.*

### Accounting Records and Procedures

- 11.1.1. Other revenue expenditure” will cover all revenue expenses other than those covered in specific chapters like “Public works” and “Employee related transactions”. Other revenue expenditure includes Travelling, Conveyance, Printing & Stationary, Advertisement, Office expenses, Insurance, Fuel, Professional fee, Operating expenses of infrastructure, etc.
- 11.1.2. All “Other Revenue expenses” supported by Work order, Bills, Indent will be accrued as and when bills are admitted. Further, expenses not supported by Work order, Bills, Indent will also be accrued on the basis of cash memo/hand bill/voucher, if each such expenses cross a certain monetary limit, which is given in next paragraph.
- 11.1.3. Any other revenue expenses having monetary limit given below, will be accounted for in cash basis:
- Rs.2,000 per bill for Nagar Nigam (subject to Rs. 20,000 per month under one expenditure head) and
  - Rs.1,000 per bill for Nagar Palika Parishad and Nagar Panchayat (subject to Rs. 10,000 per month under one expenditure head)
- 11.1.4. The concerned department, on receipt of bill or invoice for goods purchased or services received, shall check the Bill along with all required details, and prepare a payment order, in form AC 15. Thereafter the bill along with the relevant file shall be forwarded to Accounts department for verification and payment.
- 11.1.5. On receipt of the Payment Order, Bills and File, the Accounts Department shall maintain the particulars thereof for updating subsidiary ledger.



11.1.6. The procedure to be followed for approval and accounting of payment of expenditures is the same as provided in the chapter General Accounting Procedures.

11.1.7. The Accounts Department shall maintain a Functional Expenses Subsidiary Ledger in form AC 21 for each function in which various administrative expenditures incurred by a function shall be recorded on a daily basis. On payment of administrative expenditure, the Accounts Department shall immediately update the Functional Expense Subsidiary Ledger.

## **Treatment of Expenses Involving an Element of Pre-Payment**

11.1.8. In case of expenses for which payment is made in one accounting period and the benefits is likely to be received in the period within which the payment is made as well as the next period, the accounting shall be done as explained below:

- Suppose the rent is payable in advance for a calendar year, e.g.; January 2006 to December 2006. The Bill for this is received in the month of November 2005. The portion in respect of January 2006 to March 2006 will pertain to the Financial Year 2005-2006. The portion in respect of April 2006 to December 2006 will pertain to the Financial Year 2006-2007.
- Prepaid rent shall be carried forward in the Balance Sheet as at 31st March 2006 and shown as an asset.
- Recording of Adjustment of prepaid rent: Immediately on expenditures being incurred, the amount of rent paid in advance shall be determined for recording the prepaid rent and the Account Department shall adjust the rent paid for April 2006 to December 2006 i.e., for the next Financial Year.

11.1.9. All other expenses shall be treated in a similar manner.

## **Accrued Expenditures and Provision**

11.1.10. There may be instances of expenditures, which pertain to a particular accounting period in respect of which the bills have been received but may not have been admitted for payment by the ULB. These shall be provided at the end of an accounting period to fully reflect the revenue expenditures incurred in that period.

- 11.1.11. For this, at the end of the accounting period, each of the department shall collate the details of the accrued expenditures from the bills received during or after the accounting period but pertaining to the accounting period and remaining unpaid at the end of the accounting period. The said information shall be forwarded to Accounts department by 15th April of the next Financial Year.
- 11.1.12. Provision is to be created for expenses, for which bills are yet to be received, but ULB has reasonable estimate on such expenditure.

## **Payment Against Permanent Advance**

- 11.1.13. Recording of grant of Permanent Advance: Permanent Advance may be provided to the heads of the departments for incurring specific expenditures, as per the bylaws of the ULB. The Accounts Department shall record the grant of permanent Advance in register of permanent advance in form AC 18.
- 11.1.14. 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 AC 15) and forward it to the Accounts Department.
- 11.1.15. For recovery of Permanent Advance: The permanent advance granted to the Departments shall be recovered at the end of the Financial Year.

## **Payment Against Miscellaneous Advance**

- 11.1.16. Recording of grant of miscellaneous advance: Miscellaneous advance may be given to the employee of the ULB for incurring specific expenditures for ULB. The Accounts Department at the time of granting of miscellaneous advance shall make an entry in the Register of Advance (form AC 17) and pass the appropriate entry:
- 11.1.17. Expenses incurred are less than advance given: Recording of expense incurred: The concerned employee shall prepare a Payment Order (Form AC 15) for the expenditure incurred against the miscellaneous advance provided (for e.g. expenses incurred are Rs. 1,000 against advance provided Rs. 1,500) and forward it to the accounts department. The excess cash shall be re-deposited with the Accounts Department. The Accounts

Department shall update the Register of Advances (Form AC 17) for expenditure incurred and the excess cash tendered.

11.1.18. Expenses incurred are more than the advance given: Recording of expense incurred: The concerned employee shall prepare a payment order (form AC 15) for the expenditure incurred against the miscellaneous advance provided (for e.g. expenses incurred are Rs.2,500 against advance provided Rs.1,500) and forward it to the Accounts Department. The Accounts Department shall update the Register of Advance (form AC 17) for Payment Order received and if the expenditure incurred is more than the advance provided to the employee, the extra expenditure incurred will be paid either to the employee or to the supplier.

## Internal Controls

11.1.19. The following internal controls shall be observed by the ULB:

- i. The Head of the Accounts Department shall ensure budget availability with respect to the expenditure incurred at the time of accruing of the expenditure.
- ii. The Head of Accounts Department shall ensure that all the bills/invoices were journalized before release of the payments, except for those which have been paid on cash basis.
- iii. The Head of the Accounts Department shall ensure proper authorisation of payment order as per the authorities delegated by the ULB.
- iv. The Head of the Accounts Department shall ensure that the relevant supporting documents are annexed to the Payment order submitted by the Department.
- v. 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.
- vi. 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.

vii. Reconciliation:

- The Head of the Accounts Department shall conduct reconciliation between Register of Advances (form AC 17) and actual bills provided against these advance – Monthly basis.
- The Head of the Accounts Department shall ensure reconciliation of total Department-wise expenditure with the sub-ledger-wise total expenditure – Monthly basis.

## List of forms and formats

Serial number	Form name	Form number	Department
1	Payment Order	AC 15	Accounts
2	Register of Advances	AC 17	Accounts
3	Register of Permanent Advance	AC 18	Accounts
4	Function-Wise Expenditure Subsidiary-Ledger	AC 21	Accounts

## List of Ledgers and Subledgers

List of ledgers and subledgers is given below:

- Other Revenue Expenditure (sub ledger for each individual revenue expense),
- Prepaid Expense,
- Accrued Expenditure,
- Provision for Expenses

All ledger accounts are having separate code in chart of account, and also separate provision has been kept for creation of sub-ledger code. However, it may be noted that mentioned ledger accounts are used whenever relevant accounting transaction takes place in the ULB.

## Summary of Accounting Policies:

Serial Number	Transaction	Basis of Accounting
1	Recording of other revenue expenditure	<p><b>Accounted for in cash basis</b>-Amount of a single expenditure less than</p> <ul style="list-style-type: none"> <li>Rs.2,000 per bill for Nagar Nigam (subject to Rs. 20,000 per month under one expenditure head) and</li> <li>Rs.1,000 per bill for Nagar Palika Parishad and Nagar Panchayat (subject to Rs. 10,000 per month under one expenditure head)</li> </ul> <p><b>Accounted for in accrual basis</b> – All revenue expenditures other than the above, are accrued as expenditure in the period in which they are incurred on receipt of approved bill/ invoice from the concerned department/ official.</p>
2	Provisioning for Expenditure	<ul style="list-style-type: none"> <li>Bills received up to a cut-off date (15th April of next Financial Year) – Year end provisioning as per actual amount for all such bills pertaining to the current Financial Year</li> <li>Provision is to be created for such expenses, for which bills are yet to be received, but ULB has reasonable estimate on such expenditure.</li> </ul>
3	Recording of pre-payment of Expenditure	<p>Recorded as prepaid expense at the time of making payment. Subsequent adjustment is made when the expenditure becomes due. Carried forward prepaid expenses shall be treated as current asset in the year of incurring the expenditure to the extent related to future period and will be treated as revenue expenditure in the period/s in which its benefit arises and/or services are received in future.</p>

## Accounting Entries

(Scheme of Accounting entries have been provided as examples, using few heads from Chart of Account. Accounting personnel, who will pass accounting entries, shall refer to the examples provided herein, and use appropriate accounting code (from Chart of Account) relevant for the specific transaction or series of transactions.)

### Direct Cash payment without Booking of Liability

#### 1. Accounting for expenditure below Rs. 20000/- for ABC Nagar Panchayat

Debit / Credit	Code	Details
Debit	220-21-03	Stationary
Credit	350-10-03	To Bank Account

**Explanation:** The above entry will be passed when payment is made against a cash memo received by ULB on purchase of some registers. This example assumes that the value of cash memo is Rs.20000.

**Trigger Point:** At the time of purchase

**Source Document:** Cash memo received from the vendor

**Records Updated:** Ledger, Cash Book

### Booking actual Bill on accrual basis

#### 2. Booking of expenditure

Debit / Credit	Code	Details
Debit	220-12-01	Communication Expenses-Telephone Expenses
Debit	220-21-02	Printing
Debit	220-21-03	Stationary
Debit	230-10-01	Power and Fuel-Electricity Expenses
Debit	230-50-01	Repair and Maintenance-Roads and Pavements
Debit	230-50-03	Repair and Maintenance-Cars
Credit	350-10-03	To Expenses Payable

**Explanation:** As soon as the instant expenditure is approved, it has to be accrued as a liability

and expenses payable booked.

**Trigger Point:** On receipt of approved bill/ invoice from the concerned department/ official

**Source Document:** Bills of the Expenses, Approval for the Expenses

**Records Updated:** Journal Book, Ledger Account,

### 3. Payment of expenditure

Debit / Credit	Code	Details
Debit	350-10-03	Expenses Payable
Credit	450-21-01	To Bank A/c

**Explanation:** The accrued bill, once it is paid will be recognised as above.

**Trigger Point:** At the time of making payment

**Source Document:** Bills of the Expenses, Approval for the Expenses, Register of bills for payment

**Records Updated:** Bank Book, Ledger Account

### 4. Booking of Expenditures involving an element of pre - payment

Debit / Credit	Code	Details
Debit	440-20-04	Pre-paid Expenses-Insurance
Debit	220-40-06	Insurance - Municipal buildings and Assets
Credit	350-10-03	To Expenses Payable

**Explanation:** The above entry shall be passed in case pre-payment is being booked. The amount of current year's expenses shall be debited to "Expenses" head and additional payments for subsequent year/s are to be recognised as current Asset. The example shown above relates to Insurance premium

**Trigger Point:** At the time of making Payment of the expenses already booked on accrual basis

**Source Document:** Premium receipt/Policy,

**Records Updated:** Cash Book, Ledger Account

## 5. Payment of Insurance premium

Debit / Credit	Code	Details
Debit	350-10-03	To Expenses Payable
Credit	450-21-01	To Bank A/c
<b>Explanation:</b> The above entry shall be at the time of payment  <b>Trigger Point:</b> At the time of making Payment of the expenses already booked on accrual basis <b>Source Document:</b> Premium receipt/Policy, <b>Records Updated:</b> Cash Book, Ledger Account		

## 6. Adjustment of Insurance premium for subsequent year/s

Debit / Credit	Code	Details
Debit	220-40-06	Insurance - Municipal buildings and Assets
Credit	440-20-04	Pre-paid Expenses-Insurance
<b>Explanation:</b> The above entry shall be at the beginning of subsequent year for recording Insurance expenses for that year  <b>Trigger Point:</b> At the time of passing entry for booking expenditure in the subsequent year of the expenses already booked on accrual basis. <b>Source Document:</b> Premium receipt/Policy, <b>Records Updated:</b> Cash Book, Ledger Account		



(b) Provisioning for expenses where no Bills are received within cut-off date

## 7. Provision for expenditure

Debit / Credit	Code	Details
Debit	220-10-01	Rent, Rates and Taxes-Office Building rent
Debit	220-12-01	Communication Expenses-Telephone Expenses
Debit	230-10-01	Power and Fuel-Electricity Expenses
Credit	360-10-01	To Provision for Expenses-Rent, Rates and Taxes
Credit	360-10-03	To Provision for Expenses-Communication Expenses
Credit	360-10-13	To Provision for Expenses-Power and Fuel

**Explanation:** The above entry shall be passed for those Expenses incurred, but for which no bills have been received till 15<sup>th</sup> April of subsequent year, thus on the basis of the estimated amount.

**Trigger Point:** At the Year end/Cut-off Date

**Source Document:** Register of bills for payment

**Records Updated:** Journal Book, Ledger

## 8. Reversal of provision as on 1st April of subsequent year

Debit / Credit	Code	Details
Debit	360-10-01	Provision for Expenses-Rent, Rates and Taxes
Debit	360-10-03	Provision for Expenses-Communication Expenses
Debit	360-10-13	Provision for Expenses Power and Fuel
Credit	220-10-01	To Rent, Rates and Taxes-Office Building rent
Credit	220-12-01	To Communication Expenses-Telephone Expenses
Credit	230-10-01	To Power and Fuel-Electricity Expenses

**Explanation:** Reversal entry to be passed on 1<sup>st</sup> April subsequent year.

**Trigger Point:** At the start of the next Financial Year.

**Source Document:** Register of bills for payment.

**Records Updated:** Journal Book, Ledger Account

## 9. Recording of expenditure when actual bill is received

Debit / Credit	Code	Details
Debit	220-10-01	Rent, Rates and Taxes-Office Building rent
Debit	220-12-01	Communication Expenses-Telephone Expenses
Debit	230-10-01	Power and Fuel-Electricity Expenses
Credit	350-10-03	To Expenses Payable

**Explanation:** The above entry shall be passed during the subsequent year, when actual bills are received after 15<sup>th</sup> April of subsequent year. Difference between provision made and actual bill booked are automatically adjusted in respective ledgers, and net amount automatically recognises under/excess provision through Income & Expenditure account.

**Trigger Point:** Receipt of actual bill after 15<sup>th</sup> April of subsequent year

**Source Document:** Register of bills for payment

**Records Updated:** Journal Book, Ledger

(c) Permanent advance and adjustments

## 10. Payment against Permanent Advance

(a) Recording of Grant of Permanent Advance

Debit / Credit	Code	Details
Debit	460-50-01	Advance to Others-Permanent Advance
Credit	450-21-01	To Bank A/c

**Explanation:** The permanent Advance is made to executive officer or other person for making certain specified payments.

**Trigger Point:** At the Time of making Payment for the Permanent Advance

**Source Document:** Register of permanent advance, Approval from Mayor/Chairperson

**Records Updated:** Cash Book, Ledger Account

(b) Recording of revenue expenditure incurred out of permanent Advance

Debit / Credit	Code	Details
Debit	220-20-01	Books and Periodicals-Magazines
Debit	220-30-05	Travelling and Conveyance- Petrol and Diesel
Credit	460-50-01	To Advance to Others-Permanent Advance
<p><b>Explanation:</b> Expenditure in respect of which Permanent Advance has been provided shall be initially incurred against it. The concerned Person/ Department shall prepare a Payment order. The Accounts Department shall make entry on the basis of the payment order.</p> <p><b>Trigger Point:</b> Submission of Payment order</p> <p><b>Source Document:</b> Payment order</p> <p><b>Records Updated:</b> Journal Book, Ledger Account</p>		

## Chapter 12: Public Works

*Public Works transactions generally include construction/ expansion/major modification/ repair of buildings, development of land, construction of roads, construction of water works, construction of drainage systems or other public utilities as applicable for the ULBs of Uttarakhand.*

*The Engineering / Public Works Department of ULB is involved in these activities and engages private contractors, wherever it is necessary. Thus, ULBs have some typical transactions with contractors which may require a special accounting treatment. Appropriated co-ordination is required among Engineering / Public Works Department, Accounts department and Stores department so far accounting activities are concerned.*

*Form WO 01 to WO 12, except WO 08 will be maintained by Works department. WO 08 will be maintained by respective department and compiled by Accounts department.*

### The Procedure for Accounting of Works

#### Introduction

- 12.1.1. This chapter contains the accounting system for Public Works transactions/ procurements undertaken by the Urban Local Body. This chapter also covers the accounting treatment for 'Deposit Works' on behalf of the Government or Government Departments and recognition on revenue from these Deposit works. This chapter addresses procurement accounting for such assets which are being procured/constructed from third party vendor/contractor. However, this chapter does not address procurement through Public-Private-Partnership, which has been given in a separate chapter. Public Works in nature of capital works leads to Fixed assets which is covered in another chapter.

#### Capital Works

- 12.1.2. Capital works are meant for creation and/or overhauling of Fixed assets through appropriate procurement process. Generally, Fixed assets for public use are created/ overhauled through public works, which includes Road, Park, Market etc.

- 12.1.3. Fixed Asset is a tangible asset held for long term use in producing or providing goods and services, and which is not held for sale in the normal course of operation of the ULB.
- 12.1.4. Includes all new construction 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 'Capital Works'.
- 12.1.5. Accordingly, all Fixed Assets related accounting procedures will be applicable here, in addition to other accounting aspects specific to works. Capital works will also include unfinished works, i.e. Capital Work in Progress.
- 12.1.6. If an expenditure adds value or increases the life of the asset, it is treated as capital works and such amounts are capitalized. Otherwise such expenditure is charged to revenue.
- 12.1.7. Normally the cost incurred is an indicator of whether the expenditure is capital or revenue in nature. However, if the demarcation is difficult between Capital and Revenue Expenditure, one-time expenses which exceeds 10% of the cost of specific fixed asset, subject to a minimum of Rs. 25000/- will be treated as Capital Expenditure and thus capitalised.

## Repairs and Maintenance

- 12.1.8. 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.

## Fees & User Charges

- 12.1.9. Where the Public Works Department issued 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.

12.1.10. The Public Works may be carried out in a municipal area either from 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.

## Deposit Works

12.1.11. The Government or any of its departments may use the services of ULB, for execution of certain works/schemes/approved infrastructure schemes. Money received from the Governments for the above shall be treated as 'Deposit works' and are accounted as a liability of an ULB.

## Project executed under Delegated Loan mechanism

12.1.12. There may be projects that are executed out of loans/grants received from the Government by entrusting the work to other agencies like P.W.D., Highways. In such cases, orders are issued to the effect that the loans/grants sanctioned are directly placed at the disposal of the executing agency, without first the loans/grants being given to the ULB. The expenditure is incurred by the executing agency in such cases. However, the repayment obligation in the case of loans is on the ULB.

12.1.13. Once the agency raises the loan, it shall send an advice to ULB indicating the loan raised, date of loan, period of repayment, rate of interest and terms and conditions of the loan. On receipt of such advice, the ULB shall make necessary entries in the books of account. It shall also record it in the Register of Loans and Register of Advances.

12.1.14. The agency shall send a monthly statement of outlay incurred during each month showing the progress on the works concerned.

12.1.15. When the project or the assets created are formally transferred to the ULB by the executing agency and on receipt of completion report, Asset will be recognized in ULB's books of accounts by crediting the Assets account.

## Execution of Projects by other implementing agencies

- 12.1.16. There is another category of projects that are executed out of loans/grants received from the Government by entrusting the work to other agencies like P.W.D. Highways, on Deposit work basis. In these cases, funds are transferred to the PIU by the ULB at periodic intervals and will be treated as advance
- 12.1.17. The concerned department utilizes these funds for incurring project expenditure and submit a utilization certificate to the ULB. UC shows details of sources of project funds (which includes amounts transferred by the local body) and application of funds to various project components. On completion of project, PIU shall submit audited Project Financial Statements to ULB. ULB shall account based on the UC received on a periodical basis recognizing CWIP to the extent of work done and adjusting the advance.

## Earnest Money Deposit

- 12.1.18. An amount taken from the bidders as a refundable deposit to safeguard against a bidder's withdrawing or altering its bid during the bid validity period as advertised by the ULB's. Amount of bid security will be obtained from the supplier / contractor will be as follows\*:

Nature of Procurement	Value of the Procurement	EMD Amount
Materials	<ul style="list-style-type: none"> <li>Upto Rs. 25 lakhs</li> <li>Above Rs 25 lakh</li> </ul>	3% 2% (Minimum Rs 75,000)
Works	<ul style="list-style-type: none"> <li>estimated to cost up to Rs. 25 crores</li> <li>estimated to cost up to Rs. 25 crores</li> </ul>	2% of the estimated cost.  Rs. 50 lakhs plus 1% of the excess of estimated Cost over Rs. 25 crores

\* Criteria and rates are as per present Rules which is subject to change from time to time.

### ➤ By Drafts/Cheques/Cash:

- 12.1.19. A contractor intending to participate in the tender process shall deposit an earnest money. Any tender without deposit of the earnest money shall be summarily rejected as invalid. In respect of successful tenderers, the earnest money on acceptance of the tenders shall be converted as a part of security deposit.
- 12.1.20. The earnest money should be pledged in the name of Government/authority in the form of demand draft or fixed deposit receipt, or Bankers cheque or Bank guarantee or deposited in given heads of account through e-banking (if any) to the satisfaction of the competent

authority safeguarding the interest of the purchaser in all respects. The earnest money is normally to remain valid for a period of 45 days beyond the final bid validity period and the period may also be extended

12.1.21. Earnest money deposit of unsuccessful bidders shall be refunded after expiry of the final bid validity but not later than 30 days after the award of the contract.

➤ **By Bank Guarantee:**

12.1.22. A bank guarantee is generally a promise made by the bank to any third person to undertake the payment risk on behalf of its customers. Bank guarantee is given as a contractual obligation between the bank and its customers. Such guarantees are widely used in business and personal transactions to protect the third party from financial losses. If provided in the tender clause and relevant State Law, ULB might accept Bank Guarantee as Earnest Money Deposit, after checking the authenticity and validity period.

12.1.23. Bank Guarantee is returned back to Vendor after successful completion of contract and as per terms of tender.

12.1.24. In case of unsuccessful execution of contract, ULB may apply to the Bank for revoking bank guarantee.

## Retention Money

12.1.25. Retention money is an amount of money withheld by an employer in a contract from an amount payable to the contractor as security for the performance of the contractor's obligation to the employer under the contract. Generally, retention money is deducted from each bill at a % of bill value. Normally, such amount is refunded in parts 50% at the time of completion of contract and the balance after the completion of Defect Liability Period. The ULB should make payments as per the contract.

## Security Deposits

12.1.26. Once it is decided by the ULB that a tender is awarded to a contractor / supplier, he must deposit a Security Deposit / performance security with the ULB. Such deposit may be furnished in the form of account payee demand draft, fixed deposit receipt from



commercial bank, Bank Guarantee in an acceptable form safeguarding the ULB's interest in all respects.

12.1.27. The security deposit / performance security is normally charged at the rate given in the following table:

Works	Material
Security Deposit - 5 % of the contract value.	Performance security - 5 to 10% of the value of the contract.

12.1.28. Security deposit generally should remain valid for a period of 60 days beyond the date of completion of all contractual obligations of the suppliers/bidders including warranty obligations. After the completion of the above period the security deposit is refunded to the contractor / supplier. If the work is not done as per the work order, the ULB can recover the loss by forfeiting his Security Deposit.

## Liquidated Damages (LD)

12.1.29. In case of delay in completion of the contract, LD should be levied at a specified rate of the contract value. The LD proposed for identified lapses or omission or commission must be disclosed in the tender documents in clear monetary terms.

12.1.30. For repair works costing up to Rs. 10 Lakh- 1% of the contract value per week and for all other works 0.5% of the contract value per week of delay subject to a maximum of 10% of contract value. LD is calculated and deducted from every bill. It is finalized and adjusted in the final bill. In case extension of time is provided to the contractor, then LD may be waived off as per decision of the employer.

## Statutory Deductions

12.1.31. Statutory deductions are deductions mandated by statute, or law. The law requires levy of and timely deposit of the deductions. Statutory deductions in the context of the ULBs mainly comprises of the following:

- GST TDS
- Labour Cess

- Income Tax TDS
- Royalties

These Statutory deductions are carried out from each bill. Then these amounts are aggregated for the month and then remitted to the authorities. Also filing of returns are to be done within the prescribed timelines.

Nature of deduction	Percentage / Calculation*	Due date of Payment to authorities	Due date of Filing of returns
<b>GST TDS</b>	2% of the Bill Value	✓ Within 10 days from the end of the month	• 10 <sup>th</sup> of the following month
<b>Income Tax TDS</b>	<ul style="list-style-type: none"> <li>▪ Where Contractor is Individual or HUF – 1%</li> <li>▪ Contractor Other than above – 2%</li> <li>▪ Failure to furnish PAN or furnishes incorrect PAN – 20%</li> </ul>	<ul style="list-style-type: none"> <li>✓ 7<sup>th</sup> of the following month for TDS deducted during April to February</li> <li>✓ 30th April for the TDS deducted during the month of March</li> </ul>	<ul style="list-style-type: none"> <li>• Quarter ending June – 31<sup>st</sup> July</li> <li>• Quarter ending September – 31<sup>st</sup> October</li> <li>• Quarter ending December – 31<sup>st</sup> January</li> <li>• Quarter ending March – 31<sup>st</sup> May</li> </ul>
<b>Labour Cess</b>	1% of Bill value excluding GST	N/A	N/A
<b>Royalty</b>	Rs. 154 per cubic meter of material component (Stone Blast, Sand)	N/A	N/A

\* The rates are as per the prevalent laws which is subject to change from time to time.

## Advance to Contractors

12.1.32. Mobilisation advance is an advance paid to the contractor in order to mobilise his resources for starting its work. It enables the contractor to meet up the initial expenditure in respect of site mobilization, and a fair proportion of job overheads or preliminaries. Mobilisation advance can be paid only when it is allowed in the agreement. Mobilisation advance is generally paid against bank guarantee provided by

the contractor and such advances are subject to payment of interest till the amount is deducted or adjusted.

- 12.1.33. Another form of advance is Equipment advance, which is an advance paid to the contractor for bringing in equipment, if provided in contract. Such advances are given only for the new plant and machineries required for the work and brought to the site by the contractor. Equipment advance is generally paid against bank guarantee provided by the contractor and such advances are subject to payment of interest till the amount is deducted or adjusted.
- 12.1.34. If any material is supplied (stores item) to contractor as per terms of contract, it is to be recorded in material issue note prepared by Stores department and copy of which is to be forwarded to Accounts department. Cost of material supplied will be treated as the amount of advance and will be treated similar to any other advance paid to contractor.

## Register of Works

- 12.1.35. For every work undertaken by the ULB the estimated cost of which does not exceed Rs. 25000.00 an account shall be kept in the register of Petty Works [Form WO 05]
- 12.1.36. The accounts of all works other than those mentioned in the preceding Para shall be kept in the "Register of Works (other than Petty Works)" [Form WO 06] in which columns shall be allotted according to the heads and items of the sanctioned estimate, the kind of work such as earth work, brickwork, concrete, etc. The quantities and amount of the sanctioned estimate or tender for each kind of work shall be entered in the appropriate columns as soon as the estimate is sanctioned, or the tender is accepted. The entries for the work done and the expenditure incurred shall be made from the bills as they are passed for payment.
- 12.1.37. The page number of the Form WO 05 and WO 06 as the case may be, should always be noted on the bills concerned.
- 12.1.38. For all projects and contracts undertaken and entered into by the ULB registers shall be maintained in Forms WO 07 and WO 08.

## Responsibilities of the Municipal Engineer

- 12.1.39. When the work is to be undertaken, the engineer should draw up estimate (Form WO 10) and send it to the Executive Officer/Chief Municipal Officer, who should report whether there is a budget allotment covering the charge. The estimate can then be sanctioned by the ULB Council/Executive Committee of Municipal Corporation and the work carried out by the engineer.
- 12.1.40. When a contractor's work is finished he should submit a bill in Form WO 11 to the engineer, who will certify on the bill that the work has been duly completed according to the terms of the contract and that the measurements entered in the bill are correct. The Contractor will obtain payment from the Accounts Department on the orders of the Executive officer/Chief Municipal Officer, who will bring it to account and take a receipt from the payee. If the work is done otherwise than by contract the engineer must prepare bills in detail for payment and vouch for their accuracy in the same manner as if he was dealing with a contractor.

## Measurement Book (M Book)

- 12.1.41. All the works done (whether by contractor by piece or by daily labour and materials received which have to be counted or measured) shall be measured and the measurements entered in a measurement book (Form WO 09).
- 12.1.42. The detailed instructions for writing up the measurements are printed in the measurement book itself and these instructions must be carefully observed.
- 12.1.43. The measurement book shall be serially numbered and when completed shall be filed in the ULB office for proper record.
- 12.1.44. From the measurement book all quantities should be distinctly traceable in the document on which payment is made, and when a bill is passed the connected entries in the measurement book shall be crossed over and cross reference given in the bill and in the measurement book.
- 12.1.45. The measurements recorded in the measurement book shall be under control by the engineer of works department of ULB, who will sign the measurement book after each

measurement conducted and bill passed. The Calculations in the measurement book shall be checked by the Public Works office and Accountant.

- 12.1.46. At the end of every Financial Year (or at such shorter periods for preparation of Accounts), Works Department will prepare summary of the value executed for each unfinished works. Head of Works Department will sign such summary and forward to Accounts Department for making accounting entry for Capital-Work-In-Progress.
- 12.1.47. The engineer is responsible for the correctness of all measurements recorded in the measurement book.

## Contractor's Bill

- 12.1.48. The Contractor's bill shall be in Form WO 11 and shall furnish full particulars of the work done so as to admit of the items being identified and checked by comparison with the plan and estimate.
- 12.1.49. In those ULBs where there is an engineer, he / she will check the bill with the measurement book and if found in order shall pass it for payment to the account's office. In other cases, this check shall be exercised by the Executive officer.
- 12.1.50. For work done by daily labour, the muster roll shall be prepared in Form WO.
- 12.1.51. The contractor's payments shall be made on running bills for portions work actually done or material actually supplied.

## Completion Report

- 12.1.52. When a work is completed, a completion report shall be given by the engineer (after due approval by Head of the department and Commissioner/EO) mentioning that the work has been satisfactorily done in accordance with the sanctioned plan and estimate. If there is any variation, it should be explained. In case of contract works the final bill shall not be paid before the completion report is given. Copy of completion report will be forwarded to Accounts department for making Fixed Asset creation entry by nullifying Capital-Work-In-Progress.

## Period End Procedure

- 12.1.53. 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 accounting period, are processed and forwarded to the Accounts Department for accounting and payment within 15 days from the end of the Financial Year.
- 12.1.54. At period-end, the Works department shall submit a Summary Statement of status on Capital Works Expenditure maintained category wise as Civil, Electrical and Others in Form WO 02 (for Capital work in progress and Deposit works) detailing total amount of works incurred till date on each of the Capital/Deposit Works. The details of total expenditure incurred on each of the Capital/Deposit Works shall be collated from the Work Sheet (similar to Capital work in progress) in Form WO 03.

## Income

- 12.1.55. Tender Form Fees: For tender forms sold to the intended bidders, a receipt shall be issued for the amount received in Form AC 12.
- 12.1.56. The Public Works Department shall recover in advance, the charges estimated for repairing of roads or any other structure damaged, from the person to whom permission is issued for laying of telephone or electrical cables or for any other purpose, which results in damage of road, or any other public structure.
- 12.1.57. The procedure to be followed with reference to these incomes for remittance and/or deposit of collections made to the Accounts Department or in the Bank shall be the same as provided in the Chapter 5.1 "General Accounting Procedures".

## Internal Controls

- 12.1.58. The following internal controls shall be observed by the ULB:
- 12.1.59. The Public Works Department and the Chief of Accounts Department or any other authorised officer, 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.

- 12.1.60. On receipt of Summary Statement of status on Capital Work-in-Progress (Form WO 02), 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.
- 12.1.61. The Accounts Department shall ensure that the tax deducted at source and GST deducted from the contractor's bill, etc., is deposited with the Government in accordance with the provisions of the relevant Acts.
- 12.1.62. The Public Works Department and Accounts Department shall jointly exercise the following internal controls:
- (i) Ensure budget availability at the time of approval of the bill.
  - (ii) Ensure that all the dues, including liquidated damages/penalties, are recovered from the contractor before making the final payment in respect of any contract.
  - (iii) Ensure that no amount is due from suppliers/contractors, which may be otherwise adjusted before payment.
  - (iv) Ensure that all the bills/invoices of contractors were journalized before release of the payments.
- 12.1.63. 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 capitalization.
- 12.1.64. **Reconciliation:**
- i. 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 AC 21) with the total expenditure recorded in the several Repairs and Maintenance Ledger Accounts. Special thrust is to be given on categorisation of expenditure among Fixed Assets, Capital Work in Progress, and Revenue expenditure.
  - ii. 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

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Works Department and the capital work-in-progress control ledger account maintained by the Accounts Department.

- iii. The Head of the Accounts Department and Head of Works department shall jointly conduct periodic reconciliation of the balance as per the Deposit Register maintained at the Public Works Department shall be carried out with the Deposit Ledger accounts.

## List of forms and formats to be maintained

Serial number	Form name	Form number	Department (Main Responsibility first)
1	Ward Wise Works Liability Summary	WO 01	Works, Accounts
2	Summary Statement of Status of Capital Work-in Progress/Deposit Works	WO 02	Works, Accounts
3	Work Sheet	WO 03	Works
4	Deposit Works Register	WO 04	Works
5	Register of Petty Works	WO 05	Works
6	Register of Works (Other than Petty Works)	WO 06	Works
7	Register of Projects	WO 07	Works
8	Register of Contracts	WO 08	User departments, compiled by Accounts
9	Measurement Book	WO 09	Works
10	Estimate Form (Public Works)	WO 10	Works
11	Contractor's Bill	WO 11	Works
12	Muster Roll of men employed on work	WO 12	Works



## List of Ledgers and Subledgers

List of ledgers and sub ledgers is given below:

- Tender Form Fees,
- Earnest Money Deposit,
- Security Deposit,
- Bank Guarantee,
- Capital Work in Progress (Sub ledger for each capital work),
- Repair and Maintenance,
- Advance to Contractors (Sub ledger for every Contractor),
- Statutory Deductions (Sub ledger for each type of statutory deduction like GST TDS, Income Tax TDS, Labour Cess)

All ledger accounts are having separate code in chart of account, and also separate provision has been kept for creation of sub-ledger code. However, it may be noted that mentioned ledger accounts are used whenever relevant accounting transaction takes place in the ULB.

## Summary of Accounting Policies:

Serial Number	Transaction	Basis of Accounting
1	Recording of Earnest Money Deposit (EMD), Security deposit received from the Contractor	<p>Shall be recognized as a liability on actual receipt.</p> <p>On finalisation of bid, EMD of successful bidder is generally converted into Security Deposit and EMD of unsuccessful bidders is refunded.</p> <p>Security deposit and retention money received or recovered from contractor's bills shall be recognised as a liability on actual receipt / deduction.</p> <p>If deposits are forfeited or lapsed, they shall be recognized as income in the year when they are forfeited or lapsed.</p>

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Serial Number	Transaction	Basis of Accounting
2	Recording of Earnest Money Deposit received in form of Bank Guarantee	Neither recognised nor disclosed in financial statements. However, if there is a probability that there might be inflow of economic benefits or service potential, but not virtually certain, Bank Guarantee will be disclosed in financial statements. In case of encashment of Bank Guarantee, amount received will be recognised as "Deposits forfeited" under "Other Income" head.
3	Assets under construction/installation on existing projects	Shown as Capital work in progress (CWIP)
4	Expenditure on repair/maintenance	Recognised as an expense when bills are admitted
5	Provisioning of Expenditure	Made at the year end for all the bills received upto a cut-off date
6	Deposit received under deposit works from other agencies	Treated as liability till the related projects are completed. Upon completion of the projects, the cost incurred against it shall be reduced from the liability and balance shall be adjusted with the depositor. Any supervision charges earned on the Deposit works will be treated as income in the year to the proportion of work done. Such projects would be adjusted against deposit received.
7	Project executed under Delegated Loan mechanism	ULB shall recognise Capital-Work-In-Progress in the books on receipt of monthly statement on fund spent by the executing agency.  On receipt and acceptance of completion report from the executing agency, Fixed Asset will be

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Serial Number	Transaction	Basis of Accounting
		recognized in ULB's books of accounts by transferring from the Capital-Work-In-Progress account. Also, when the loan is transferred to an agency, the ULB will account both for loan and advance given.
<b>8</b>	Execution of Projects by other implementing agencies	<p>Fund transferred by ULB to (PIU) shall be treated as an advance.</p> <p>On the basis of Utilisation Certificate submitted by PIU to ULB, the ULB shall book project expenditure/ asset in their accounts.</p> <p>Fixed Asset will be recognized in ULB's books of accounts on receipt and acceptance of completion report from the executing agency.</p>

## Accounting Entries

(Scheme of Accounting entries have been provided as examples, using few heads from Chart of Account. Accounting personnel, who will pass accounting entries, shall refer to the examples provided herein, and use appropriate accounting code (from Chart of Account) relevant for the specific transaction or series of transactions.)

## Earnest Money and Security Deposit

### 1. Sale of Tender Forms and receipt of Earnest Money

Debit / Credit	Code	Details
Debit	450-21-01	Bank A/C
Credit	150-11-01	To Sale of tender forms
Credit	340-10-01	To Earnest Money Deposit

**Explanation:** The first step in the contracting process is issue of tender forms to the contractor. On purchase of tender the contractors pay a prescribed fee and Earnest Money Deposit which is accounted as above. In case earnest money is received in respect of any contract to be executed under any specific Grant, the respective Bank Account should be used. In case, the Earnest Money Deposit is in the form of collateral Deposits such as NSC, then no entry shall be passed for the same.

**Trigger Point:** Receipt of Fees from sale of documents, earnest money

**Source Document:** Receipt of money, Summary of Daily Collection

**Records updated:** Cash Book, Ledger

## 2. Refund of Earnest Money to unsuccessful bidders

Debit / Credit	Code	Details
Debit	340-10-01	Earnest Money Deposit
Credit	450-21-01	To Bank A/c

**Explanation:** Once the tender is opened and evaluated a list of unsuccessful bidders are prepared. They are refunded their earnest money and this entry is passed to account for the same. In case earnest money is received in respect of any contract to be executed under any specific Grant, the respective Bank Account should be used.

**Trigger Point:** Refund of Earnest money

**Source Document:** Deposit Register (AC 19)

**Records updated:** Cash Book, Ledger

## 3. Conversion of Earnest Money Deposit into Security Deposit

Debit / Credit	Code	Details
Debit	340-10-01	Earnest Money Deposit
Credit	340-10-02	To Security Deposit

**Explanation:** Once the tender is opened and evaluated, a particular bidder will be selected, and his earnest money may be converted as Security Deposit as per terms of tender

**Trigger Point:** Selection of a contractor and award of contract

**Source Document:** Summary Sheet of Contractors and Tender Register

**Records updated:** Journal Book, Ledger

## 4. Receipt of Security Deposit

Debit / Credit	Code	Details
Debit	450-21-01	Bank A/c
Credit	340-10-02	To Security Deposit

**Explanation:** The selected contractor may be required to deposit some more money as Security Deposit once the contract is awarded. In case Security Deposit is received in respect of any contract to be executed under any specific Grant, the respective Bank Account should be used.

**Trigger Point:** Selection of a contractor and award of contract

**Source Document:** Deposit Register

**Records updated:** Cash Book, Ledger

## Advances to Contractors

## 5. For recording advance payment to contractor

Debit/Credit	Code	Details
Debit	350-10-02	Sundry Creditor-Contractor
Credit	450-21-01	To Bank A/c
Credit	350-20-06	To TDS Payable

**Explanation:** In some cases, Mobilisation Advance is given to the contractor. In such case, once the Advance is sanctioned, it has to be routed through the “Contractor” Account, which will be the single head for all contractor related transactions. Liability to pay TDS is to be credited as per law

**Trigger Point:** Approval and payment of Advance to contractor

**Source Document:** Approval by competent authority, Contract agreement, Register of Advance

**Records updated:** Cash Book, Journal Book, Ledger

## 6. When Material is issued to the contractor

Debit / Credit	Code	Details
Debit	350-10-02	Sundry Creditor-Contractor
Credit	430-10-01	To Central Stores

**Explanation:** When ULBs issue materials to the contractor, the above entry will be passed e.g. from central stores. Material issued is to be treated as advance to contractor. This material may be cement, steel etc. and would be used during the course of construction under the contract.

**Trigger Point:** Issue of materials

**Source Document:** Contract Agreement, Material Requisition cum Issue Note (Form –ST 02)

**Records updated:** Journal Book, Ledger

## Contractor's Payment

## 7. Passing of Contractor's Bill

Debit / Credit	Code	Details
Debit	412-10-01	Capital Work-In-Progress- Buildings
Credit	340-10-02	To Security Deposit
Credit	340-10-05	To Retention Money
Credit	350-20-05	To TDS Payable
Credit	350-20-14	To GST from Contractors
Credit	350-20-04	To Royalty payable
Credit	350-10-02	To Sundry Creditor-Contractor

**Explanation:** The Bill is prepared by the Engineering Department and sent to Accounts for payment after approval by the Executive / Municipal Engineer. The above entry is passed to recognise the Liability e.g. for buildings created out of specific Grants. The "Sundry Creditor-Contractor" account will be credited as net amount

**Trigger Point:** Measurement of the work done by the contractor and approval of the Bill by the Executive / Municipal Engineer

**Source Document:** Measurement Book and Running Bill received from the Engineering Department, Contract agreement

**Records updated:** Journal Book, Ledger

## 8. Payment to Contractors

Debit / Credit	Code	Details
Debit	350-10-02	Sundry Creditor-Contractor
Credit	450-21-01	To Bank A/c

**Explanation:** The above entry will be passed at time of release of payment to the contractor.

**Trigger Point:** Approval of Running Bill of the contractor by Chairman/Mayor and preparation of the cheque

**Source Document:** Approved running Bill of the contractor, cheque and Register of bills for payment

**Records updated:** Cash Book, Ledger

## 9. Deduction from bills of Contractors

Debit / Credit	Code	Details
Debit	350-10-02	Sundry Creditor-Contractor
Credit	180-80-11	To Penalties/ damages from contractors

**Explanation:** For deductions made from contractor's bills, which is in the nature of penalty or liquidated damages levied on the contractor for delay in completion of construction or sub-standard construction or for any other reason.

**Trigger Point:** Approval of Running Bill of the contractor with indication for deduction of penalties or damages by Chairman/Mayor

**Source Document:** Approved running Bill of the contractor, Contract Agreement

**Records updated:** Journal Book, Ledger



## 10. Adjustment of recoveries against Security Deposit

Debit / Credit	Code	Details
Debit	340-10-02	Security Deposit
Credit	180-80-13	To Other Income - Recoveries from contractors

**Explanation:** After the contract is completed to the satisfaction of the Municipal Engineers, Security Deposit is returned to the contractor as per the terms of the contract. It may so happen that the contractor does not perform as per the contract terms and so part of the Deposit is forfeited or there are certain recoveries that need to be done. In such cases the part of the Deposit which is not refunded to the contractor as per decision of the competent authority will be treated as income under the Account head Other Income.

**Trigger Point:** When the security Deposited is forfeited as per the decision of the competent authority.

**Source Document:** Approval of the appropriate authority, Deposit Register (Form –AC 19)

**Records updated:** Journal Book, Ledger

## 11. Refund of Deposit to Contractors

Debit / Credit	Code	Details
Debit	340-10-02	Security Deposit
Credit	450-21-01	To Bank A/c

**Explanation:** After the contract is completed to the satisfaction of the Municipal Engineers, Security Deposit is returned to the contractor as per the terms of the contract. The same would be accounted for in the manner shown above. In case earnest money/security Deposit is received in respect of any contract to be executed under any specific Grant, the respective Bank Account should be used.

**Trigger Point:** Payment of Security Deposit to Contractor

**Source Document:** Approval by the appropriate authority, Deposit ledger, Summary statement of deposits adjusted

**Records updated:** Cash Book, Ledger

## 12. Recognition of Lapsed Deposit of Contractors as income

Debit / Credit	Code	Details
Debit	340-10-02	Security Deposit
Debit	340-10-01	Earnest Money Deposit
Credit	180-11-01	To Lapsed Deposits - Contractors

**Explanation:** Security Deposit or Earnest Money Deposit is considered as revenue at the time when intimation is made by the Engineering Department, with the approval of the Mayor/ Chairperson, about the unsuccessful performance of the work and as per the contract, the money is forfeited and when the right for claiming refund of Deposit has also expired.

**Trigger Point:** Unsuccessful performance of the work, right for claiming refund of Deposit has also expired

**Source Document:** Approval of the appropriate authority, Deposit ledger, Summary statement of deposits adjusted

**Records updated:** Journal Book, Ledger

## 13. Payment of Statutory Dues

Debit / Credit	Code	Details
Debit	350-20-05	TDS Payable
Debit	350-20-04	Royalty payable
Debit	350-20-14	GST from Contractors
Credit	450-21-01	To Bank A/c

**Explanation:** The amount of TDS and Royalty deducted from contractors will be remitted on the due dates to the Government. On such payment the above entry is passed.

**Trigger Point:** Remittance of deduction to the Government Account on due date

**Source Document:** Cheque, Ledger Account of TDS Payable and Royalty payable, running bills of the contractors, Register of bills for payment

**Records updated:** Cash Book, Ledger

## Capitalisation

### 14. Capitalisation of Fixed Asset

Debit / Credit	Code	Details
Debit	410-20-01	Fixed Assets- Office Buildings
Credit	412-10-01	To Capital Work-In-Progress Buildings

**Explanation:** The amount of Capital WIP e.g. buildings built out of specific Grants, is capitalized under the respective heads e.g. office building. At the time of capitalisation, quantitative details will be entered in the fixed asset system. The above entry will be passed by the Accounts Department. In case, the Asset has been created out of a specific Grant, the specific Grant's CWIP Account shall be credited.

**Trigger Point:** Completion of project/ Asset are ready and put to use/ Issue of completion certificate

**Source Document:** Work sheet, Measurement Book and Running Bill, Completion certificate

**Records updated:** Journal book, Ledger, Register of Immovable Property

### 15. Capitalisation of interest on borrowings

Debit / Credit	Code	Details
Debit	412-10-01	Capital Work-In-Progress- Buildings
Credit	240-30-03	To Interest and Finance Charges

**Explanation:** Interest on loan borrowed, is capitalised under the respective heads e.g. buildings.

**Trigger Point:** When the work is in progress, the capitalisation shall be done, as and when the interest is accrued.

**Source Document:** Details of borrowings, Register of Loan, Work sheet

**Records updated:** Journal Book, Ledger

## Repairs and Maintenance

### 16. Passing of Contractor's Bill for repairs and maintenance

Debit / Credit	Code	Details
Debit	230-50-01	Operation and Maintenance- Roads and pavements
Credit	340-10-02	To Security Deposit
Credit	460-40-01	To Advance for Public Works
Credit	350-20-05	To TDS Payable
Credit	350-20-04	To Royalty payable
Credit	350-10-02	Sundry Creditor-Contractor

**Explanation:** The Bill is prepared by the Engineering Department and sent to Accounts for payment after approval by the Chief Engineer. The above entry is passed to recognise the Liability e.g. repairs and maintenance on roads and pavements. The amount due to the contractor for all expenditure related to repairs and maintenance for the particular asset will be credited to him by the above entry.

**Trigger Point:** Measurement of the work done by the contractor and approval of the Bill by the Municipal Engineer

**Source Document:** Measurement Book and Running Bill received from the Engineering Department

**Records updated:** Journal Book, Ledger

All other entries will be similar to entries shown above.

## Deposit Works

### 17. Receipt of money for “Deposit works”

Debit / Credit	Code	Details
Debit	450-21-01	Bank A/c
Credit	341-10-01	To Deposit works- Civil works – MP- MLA

**Explanation:** ULBs receive money to execute works which is done on behalf of other agencies e.g. received from MP-MLA for civil work. The specific Bank Account for MP-MLA Fund shall be used.

**Trigger Point:** Receipt of money

**Source Document:** Receipt voucher/Government order,

**Records updated:** Cash Book, Ledger

### 18. Passing of Contractor’s Bill with respect to Deposit works

Debit / Credit	Code	Details
Debit	470-10-01	Deposit works asset Civil works
Credit	340-10-02	To Security Deposit
Credit	460-40-01	To Advance for Public Works
Credit	350-20-05	To TDS Payable
Credit	350-20-04	To Royalty payable
Credit	350-10-02	To Contractor Payable A/c

**Explanation:** The Bill is prepared by the Engineering Department and sent to Accounts for payment after approval by the Municipal Engineer. The above entry is passed to recognise the Liability. The amount due to the contractor for all expenditure related to Deposit works e.g. on civil works will be credited to him by the above entry. Details of Bills as well as Contract No/ reference will also be recorded to exercise proper control over contractor's balances.

**Trigger Point:** Measurement of the work done by the contractor and approval of the Bill by the Municipal Engineer

**Source Document:** Measurement Book and Running Bill received from the Engineering Department, Work sheet, Deposit Works Register (Form WO 04)

**Records updated:** Journal Book, Ledger

## 19. Recording of deductions in the nature of penalties from contractor's bills

Debit / Credit	Code	Details
Debit	350-10-02	Contractor Payable A/c
Credit	341-10-01	To Deposit works Civil works – MP - MLA

**Explanation:** For deductions made from contractor's bills, which is in the nature of penalty or liquidated damages levied on the contractor for delay in completion of construction or sub-standard construction or for any other reason

**Trigger Point:** Receipt of intimation from the Executing Department

**Source Document:** Intimation from the Department

**Records updated:** Journal Book, Ledger

## 20. Closure of Deposit works expenditure statement

Debit / Credit	Code	Details
Debit	341-10-01	Deposit works- Civil works – MP -MLA
Credit	470-10-01	To Deposit works Assets-Civil works

**Explanation:** On completion of Deposit works e.g. on civil works from MP-MLA Funds, the assets under Deposit works becomes ready for use and the balance if any shall be refunded. Thus, it becomes necessary to adjust the cost incurred for Deposit works against the money received. The Account Department shall pass the above entry for transfer of Deposit Expenses to Deposit Works Account.

**Trigger Point:** Receipt of intimation from the Executing Department

**Source Document:** Intimation from the Department

**Records updated:** Journal Book, Ledger

## 21. Refund of balance of Deposit works money, if any

Debit / Credit	Code	Details
Debit	341-10-01	Deposit works-Civil works – MP-MLA
Credit	450-21-01	Bank A/c

**Explanation:** 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.

**Trigger Point:** Receipt of intimation for refund from the Executing Department

**Source Document:** Intimation from the Department, Government order, Work Sheet, Deposit work register

**Records updated:** Journal Book, Ledger

## Chapter 13: Stores and Stocks

*This chapter describes the records, registers, documents, forms, accounting entries, etc., in respect of accounting for transactions related to Stores. This chapter also states the respective roles of the Stores department and Accounts department for the purposes of accounting. Forms ST 01 to ST 06 will be maintained by Stores department.*

### Introduction

- 13.1.1. The functions of the 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.
- 13.1.2. Stores items (Inventories) are assets (a) In the form of materials or supplies to be consumed in the production process; (b) In the form of materials or supplies to be consumed or distributed in the rendering of services; (c) Held for sale or distribution in the ordinary course of operations; or (d) In the process of production for sale or distribution.
- 13.1.3. Inventories in the local bodies may include (a) Consumable stores; (b) Maintenance materials; (c) Spare parts for plant and equipment, other than those dealt with in standards on Property, Plant and Equipment; (d) Work-in-progress, including educational/training course materials; and (e) Property held for sale. The cost of inventories should comprise all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition. Accordingly, it will include various expenses like carriage cost, material testing charge, etc.
- 13.1.4. The functions of the 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, Workshop for Vehicles and Machinery repairs and Public Lighting Departments to maintain their own stores.

- 13.1.5. The cut-off date shall be 15th April of the next Financial Year or till finalisation of accounts, whichever is earlier.

## Accounting Records and Procedures

### Earnest Money Deposit (EMD)

- 13.1.6. Same procedure as given in Para 12.1.17 to 12.1.19 of “Public Works” chapter.

### Receipt of Materials

- 13.1.7. As per the terms of the agreement with the Supplier, the materials shall be delivered to the ULB. The Stores shall prepare a Material Receipt Note in Form ST 01.
- 13.1.8. From the Material Receipt Note, after inspection and quality check, the Stores shall record the receipt of materials in the Stores Ledger maintained in Form ST 03.
- 13.1.9. On receipt of bill from the supplier, the Stores shall verify the bill received with the Material Receipt Note.
- 13.1.10. Recording of liability due in respect of materials purchased: On acceptance and approval of the material supplied the bill will be processed by the Stores Department and sent to the Accounts for recording the entry.
- 13.1.11. Recording of payment made to supplier: The procedure to be followed for approval of a supplier's bill for payment and making payment shall be the same as provided in the Chapter of “General Accounting Procedures”. On receipt of Payment Order (Form AC 15) together with the supporting documents, the Accounts Department shall make payments and pass appropriate entry.
- 13.1.12. The Accounts Department shall intimate the Stores of the payment made.

## Issue of Materials

13.1.13. Material shall be issued from Stores to other departments, or to contractors, on the basis of indents received. Storekeeper shall prepare a Material Issue Note in ST 02 (Material Requisition cum Issue note), in duplicate, and get the signature of the authorised employee/contractor. Separate series of issue note shall be maintained for material issued to Contractors, and for material issued to other departments of the ULB. He shall enter the details of issue in the Register of Stores, before issuing the material.

## Return of Materials

13.1.14. 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 03). The details of the materials returned shall be communicated to the Accounts Department.

13.1.15. Recording of adjustment for material returned to Supplier: In case the payment for materials received has not been made to the supplier, for reducing the amount of liability in respect of material returned, the Accounts Department shall pass the appropriate entry.

## Valuation of Closing Stock at Period-End

13.1.16. At the end of every accounting period, the Stores shall send a Statement of Closing Stock in Form ST 04. Such a statement shall consist of two parts; 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. 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.

13.1.17. At the end of the Financial Year, a 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.

13.1.18. The period end stock will be valued based on the weighted average cost method. Under the weighted average cost method, the rate is calculated after dividing the cost of store items available for consumption by the number of units available for consumption. It can be observed in the example below that on Mar-1, 200 units of opening stock was valued at Rs.101 per unit totalling to Rs. 20200, the per unit cost changed to Rs.105.5 on purchase of another 200 units on Mar-2. The rate is calculated by dividing the cost of goods available for consumption with the total number of units available for consumption  $[(Rs. 20200 + 22000) / 400 = 105.5]$ . Similarly, the purchase of 600 units on Mar-4 brought the weighted average rate to Rs. 105.2. Accordingly, the issue of 500 units to department X on Mar-6 is charged at Rs. 105.2 which is the weighted average rate calculated considering the latest purchase made by the ULB. Thus it can be seen that the weighted average rate used for valuing closing stock and charging consumption changes after each purchase made by the ULB.

13.1.19. The balances in various accounts of the item-wise Stores Ledger shall be extracted and valued as per weighted average cost method as explained below:

<u>Date</u>	Transactions	Units	Rate
	Opening Stock	200 nos	Rs. 101 per unit
Mar 2	Purchase from ABC	200 nos.	Rs.110/- per unit
Mar 4	Purchase from B	600 nos.	Rs.105/- per unit
Mar 6	Issued to Department X	500 nos.	
Mar 10	Purchase from B	700 nos.	Rs.95/- per unit
Mar 18	Issued to Department Y	800 nos.	
Mar 20	Purchase from C	300 nos.	Rs.115/- per unit
Mar 23	Issued to Department Z	100 nos.	
Mar 31	Issued to Department Q	500 nos.	
Mar 31	Purchase from ASD	200 nos.	Rs.120/- per unit

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Date	Transaction	Receipts			Issues			Balance		
		Unit	Rate	Amount	Unit	Rate	Amount	Unit	Rate	Amount
1-Mar-20	Opening Balance	200	101	20200				200	101	20200
2-Mar	Purchase from ABC	200	110	22000				400	105.5	42200
4-Mar	Purchase from B	600	105	63000				1000	105.2	105200
6-Mar	Issued to Department X				500	105.2	52600	500	105.2	52600
10-Mar	Purchase from B	700	95	66500				1200	99.25	119100
18-Mar	Issued to Department Y				800	99.25	79400	400	99.25	39700
20-Mar	Purchase from C	300	115	34500				700	106	74200
23-Mar	Issued to Department Z				100	106	10600	600	106	63600
31-Mar	Issued to Department Q				500	106	53000	100	106	10600
31-Mar	Purchase from ASD	200	120	24000				300	115.3333	34600

13.1.20. Accordingly, the closing stock of 300 units of LED bulbs as on 31<sup>st</sup> March shall be valued at Rs. 115.333 amounting to Rs. 34,600 assuming that all the stores issued to the respective departments are fully consumed.

13.1.21. On the basis of Statement of Closing Stock received for a particular date, the Accounts Department shall compute the Stores consumed in the following manner:

- Compute the total purchases made by the Stores during the accounting period. For instance, the value of the purchases made in the above illustration upto Mar-6 is Rs. 85000;
- Add the Opening Stock at the Stores valued at Rs. 20,200 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. 1,05,200 computed as Rs. 85000 (purchases) + Rs. 20,200 (opening stock);
- The value of units issued and consumed is calculated by taking the weighted average rate as on the date of issue and multiplied with the total no. of units issued for consumption. In this case total units issued for consumption on Mar-6 is 500 and the weighted average rate as on that date was Rs. 105.20 per unit. Therefore, the value of stores issued for consumption will be Rs. 52600 (500 x 105.2).
- The Closing Stock as on Mar-6 shall be valued at Rs. 52600, calculated by multiplying the total number of units left with the weighted average rate as on that date.
- The Closing stock at the month end shall be valued at Rs.34600 as shown in the table

13.1.22. Recording of Closing Stock: The Accounts Department shall record the closing stock on the basis of Statement of Closing Stock (Form ST 04) received from Stores.

13.1.23. Similar entries shall also be passed in respect of consumption/CWIP and closing stock at each of the other stores.

13.1.24. The closing stock at the end of an accounting period shall be the opening stock of the subsequent accounting period.

## Materials Purchased from a Grant or Special Funds

13.1.25. The accounting procedure to be followed for purchase of material, the cost of which is met from any Grant or from funds set aside under any Special Fund, and its issue shall be the same as provided earlier in this chapter.

- 13.1.26. The materials purchased in terms of any grant or special fund shall be recorded in separate folios in the Stores Ledger and the procedure to be followed for valuation of closing stock shall be the same as provided earlier in this chapter.

## Estimate of Purchases

- 13.1.27. The ULB shall cause to be prepared for each department, e.g., Public Works, Health and Sanitation, Workshop for Vehicles and Machinery repairs and Public Lighting Departments and estimate for the stores required during the ensuing Financial Year.
- 13.1.28. This estimate shall be accompanied by a clear statement showing how the estimated requirements have been arrived at.
- 13.1.29. The estimate shall be considered by the ULB council along with the budget and orders shall be passed thereon to purchase the stores.
- 13.1.30. When the annual estimate has been passed by the ULB council the Commissioner/ Executive Officer or any other officer authorised by the ULB council in this behalf may obtain the supplies upto the amount in the sanctioned estimate, as required from time to time at the rates in the accepted tender or the rates approved by the ULB council as the case may be.
- 13.1.31. If any store are required which are not included in the sanctioned estimate, or in excess of the amount or quantity entered therein or which cannot be obtained at the rates approved by the ULB council, a supplementary estimate shall be submitted for the special sanction of the ULB council. In cases of emergency the Chairman/ Mayor may sanction such estimate and lay it before ULB Council / Executive Committee / Municipal Corporation for approval at the next meeting.

## Stock Accounts

- 13.1.32. For expendable / consumable stores such as disinfectants, spare parts of machinery etc., and Forms, stock books shall be kept by the officials in charge of the departments, stores or Forms in Form ST 03 / ST 06, in which a separate page or pages, according to requirements, shall be allotted to each kind of stores or form.

- 13.1.33. The stock books shall be closed monthly, and the balances verified by the officer who keeps the book. A certificate is to be issued in Form ST 05, and a copy will be forwarded to Accounts department for accounting purpose.
- 13.1.34. The stock account of articles of stationary shall be maintained by the official in charge of stationary in Provincial Form which will be obtainable from the Director, Printing and Stationery, Uttarakhand, Roorkee.
- 13.1.35. The account of counterfoil receipts, tickets, licences and other book of forms shall be preserved with appropriate control. The books shall be issued in serial order.
- 13.1.36. This register shall serve also as the ULB's dispatch register. The balances of stamps in hand shall be verified once a month by the responsible officer in charge of the department, who shall make a note of the verification in the remark's column under his signature.

## Period End Procedure

- 13.1.37. 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 by 15th April of the next Financial Year

## Disposal of Material

- 13.1.38. The unutilized /unusable material in the Stores of the ULB may be disposed of as per the principles in this manual.
- 13.1.39. Recording of disposal of material: An entry for the material disposed shall be made in the records maintained at the Stores.
- 13.1.40. Recording of receipt of sale proceeds: The Stores shall prepare a Summary of Daily Collection (Form Coll 01) for sale proceeds and forward it along with the collection to the Accounts Department for recording the entry.

## Write-Off of Material

- 13.1.41. The pilfered/damaged material in the Stores of the ULB may be written-off as per the principles in this manual.
- 13.1.42. Recording of write-off of material: An entry for the material written-off shall be made in the records maintained at the Stores. On the basis of intimation received from the Stores, the Accounts Department shall also pass the appropriate entry.

## Internal Controls

- 13.1.43. The following internal controls shall be observed by the ULB in respect of Stores related transactions:
- 13.1.44. The Stores-in-charge shall ensure availability of adequate budget allocation before procuring any material, after considering all commitments made against the budget allocation. 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.
- 13.1.45. The Head of the Accounts Department shall ensure that all the purchase bills/invoices were journalised before release of the payments.
- 13.1.46. 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.
- 13.1.47. 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.



- 13.1.48. 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 04).
- 13.1.49. 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.
- 13.1.50. Reconciliation:
- At the end of the Financial Year, the Stores-in-charge, the Head of the Accounts Department 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 Head of the Accounts Department shall ensure that the 'Purchase of Materials' account has been reconciled at the period end 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 04) and consumption of stores.

## List of forms and formats to be maintained

Serial number	Form name	Form number	Department (Main Responsibility first)
1	Material Receipt Note	ST 01	Stores (as applicable)
2	Material Requisition cum Issue Note	ST 02	Stores (as applicable)
3	Stores Ledger	ST 03	Stores (as applicable)
4	Statement of Closing Stock	ST 04	Stores (as applicable), Accounts
5	Certificate of Certification of Stores and Other Movable Property	ST 05	Stores (as applicable)
6	Departmental Stock Book: Description of Articles	ST 06	Stores (as applicable)

## List of Ledgers and Subledgers

List of ledgers and subledgers is given below:

- Material Account (Sub ledger for every item),
- Sundry Creditors (Sub ledger for each supplier),
- Material Consumption,
- Return outward

All ledger accounts are having separate code in chart of account, and also separate provision has been kept for creation of sub-ledger code. However, it may be noted that mentioned ledger accounts are used whenever relevant accounting transaction is happening in ULB.

## Summary of Accounting Policies

Serial Number	Transaction / Event	Recognition & Measurement
1	Recording of Expenditure on Procurement	Recognised on accrual basis i.e., on admission of bill by the ULB
2	Goods received & accepted but no bills received' as at the cut-off date	Accounted based on purchase orders.
3	Measurement of Inventories	<ul style="list-style-type: none"> <li>▪ Acquired through an exchange transaction- Lower of cost or net realisable value</li> <li>▪ Acquired through a non-exchange transaction- Cost should be measured at fair value as at the date of acquisition</li> <li>▪ Distribution at no charge or for a nominal charge; consumption in the production process of goods to be distributed at no charge or for a nominal charge- Lower of cost and current replacement cost</li> <li>▪ Agricultural products- Net realisable value</li> </ul>
4	Determination of value of period-end inventory	The value of period end inventory will be determined using the Weighted average cost method for all types / classes of inventory.

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Serial Number	Transaction / Event	Recognition & Measurement
5	Recording of Cost of stationery purchased	Treated as expenses at the time of purchase.
6	Recording of Obsolete store items	Obsolete store items are identified and accounted for at the time of their disposal. The difference between the book value and the amount realised is to be recorded as "Gain / Loss on disposal of store items".
7	Revenue in respect of disposal of material	Recognised on actual receipt

## Accounting Entries

(Scheme of Accounting entries have been provided as examples, using few heads from Chart of Account. Accounting personnel, who will pass accounting entries, shall refer to the examples provided herein, and use appropriate accounting code (from Chart of Account) relevant for the specific transaction or series of transactions.)

### 1. Receipt of Earnest Money

Accounting entry is to be followed as given in the "Public Works" chapter No.12(Entry number- 1)

### 2. Payment of Advance to Suppliers

Debit / Credit	Code	Details
Debit	350-10-01	Sundry Creditor-Suppliers
Credit	450-21-01	To Bank A/c

**Explanation:** In some cases, Advance is given to the supplier. In such case, once the Advance is sanctioned, it has to be routed through the Supplier Ledger Account.

**Trigger Point:** Payment of Advance to supplier

**Source Document:** Sanction by competent authority

**Records updated:** Cash Book, Ledger

### 3. When the materials are purchased from the suppliers

Debit / Credit	Code	Details
Debit	430-10-01	Central Stores
Credit	350-10-01	Sundry Creditor-Suppliers

**Explanation:** When the materials supplied are received by the Stores e.g. central stores and the Bill is approved then the entry shall be passed. In case goods once received, but returned to the supplier, for whatever reason, a reverse entry would be passed

**Trigger Point:** Approval of the Bill by the Mayor/ Chairperson and Storekeeper

**Source Document:** Bill of the Supplier and Stores Ledger

**Records updated:** Journal book, Ledger

### 4. Payment to the Supplier

Debit / Credit	Code	Details
Debit	350-10-01	Sundry Creditor-Suppliers
Credit	450-21-01	To Bank A/c

**Explanation:** The entry will be made at the time of payment to the supplier. The "Supplier" Ledger account reflects amount payable net of advance.

**Trigger Point:** Approval of the Bill by the Mayor/ Chairperson and storekeeper

**Source Document:** Bill of the Supplier, Advance register

**Records updated:** Cash Book, Ledger

## 5. Sale of obsolete store items with loss

Debit / Credit	Code	Details
Debit	450-21-01	Bank A/c
Debit	230-30-17	Loss on sale of obsolete stores
Credit	430-10-01	To Central Stores

**Explanation:** There may be sale of store items which have become obsolete or otherwise. The above entry shall be made to remove respective stores item, and to recognise Loss on sale of obsolete stores. The above entry recognises loss on sale of obsolete stores, i.e. the difference in the amount received and the book value of the store.

**Trigger Point:** Sale of stores and receipt of money

**Source Document:** Stores Ledger

**Records updated:** Journal Book, Ledger

## Chapter 14: Investments

*This chapter describes the records, registers, documents, forms, accounting entries, etc., in respect of accounting for Investments. Various departments who have made investments have some specific responsibilities for accounting purpose. Co-ordination with Accounts department has been described. Form AC 05, AC 07 and AC 31 will be maintained by the Accounts department.*

### Introduction

- 14.1.1. The local bodies invest surplus funds available with it as per the laws applicable. Investments means 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.). Investment shall be classified based on the maturity profile/nature into short-term and Long-term.
- 14.1.2. Short term investments are those which are readily realisable and are intended to be held for not more than one year from the date on which such investment is made. A long-term investment is an investment other than a short-term investment.
- 14.1.3. The Local bodies make Investments out of the Funds available in the Municipal Fund, Special Fund and Grant.
- 14.1.4. Designated Bank Accounts of Special Funds and Grants shall be credited for investment made from respective funds and grants.

Accounting for Investment made out of each fund is described in the later part of the chapter.

### Accounting Records and Procedures

#### Purchase of Investments

- 14.1.5. For Investment out of Municipal Fund- ULBs will be able to invest after prior approval of the Board.

- 14.1.6. For Investment out of Grants provided by Central/ State Government — prior Approval of State Government is necessary for making such investment.
- 14.1.7. The cost of an investment includes acquisition charges such as brokerage, fees and duties. Investment can be purchased by Commissioner in case of Nagar Nigam and Executive officer in case of Nagar Palika Parishad and Nagar Panchayat after approval by the Board.
- 14.1.8. Details of such investment made shall be updated in Investment register maintained in Form AC 31.

## Income from Investments

- 14.1.9. Recording of receipt of interest/dividend on investments from the Municipal funds, Special Funds and Grants: Interest/dividend earned on investments made from Municipal funds, Special Funds and Grants shall be deposited in the respective Fund bank account.
- 14.1.10. Interest/dividend received on investments of Special Fund or Grants 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.
- 14.1.11. Interest earned on investments made from Special Funds and Grants shall be updated in the Investment Register (Form AC31) along with Grants Register maintained in Form AC 24 and Special Fund Register maintained in similar format. On the other hand, Interest earned on investments made out of Municipal Fund shall be updated in Investment Register (Form AC31).

## Period End Procedures

- 14.1.12. 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. This can be explained with the help of an illustration. For instance, assume interest on Municipal Fund Investment of Rs. 1 lakh is payable half yearly on 30th June and 31st December at 10% per annum, which implies that interest of Rs.5000 is receivable on 31st December 2018 of the current accounting year and Rs 5000 is receivable on 30th June 2019 of the next accounting year. However, interest for the period from the date of last receipt, i.e., 30th December 2018 to

the end of the accounting year needs to be accounted for in the books of account as interest is computed on the basis of time elapsed. Thus, Rs. 2500 (10% on Rs. 1 lakh for 3 months), i.e., interest for the intervening period shall be recorded in the books of accounts. In the case interest due for half-year ended 31st December of Rs. 5,000 which is not received as of March i.e. year end it shall be accounted as 'Interests accrued and due' and the interest accrued for the three months period upto 31 March 2019 of Rs 2,500 shall be accounted as 'Interest accrued but not due'.

## Maturity/Disposal of Investment

14.1.13. 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.

14.1.14. In case of Special Funds Investments or Grants Investments, the profit realised, or loss incurred shall be adjusted in the Special Fund or Grant.

14.1.15. Profit or Loss arising on disposal of Special Funds Investments and Grants Investments shall be updated in the Special Funds Register and Grants Register maintained in Form AC 24. Profit or Loss on disposal of Investments made out of Municipal Fund will be recorded in the Investment Register (Form AC31).

## Internal Controls

14.1.16. The following internal controls shall be observed by the ULBs:

14.1.17. The Head of the Accounts Department shall ensure that investments are made as per the laws applicable.

14.1.18. The Head of the Accounts Department shall ensure that interest/dividend on investments is actually received as per the terms of the investments.



14.1.19. The Head of the Accounts Department shall ensure that the 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.

14.1.20. The Commissioner or the Head of ULB may prescribe appropriate MIS reports of their level for monitoring.

14.1.21. Reconciliation:

- i. 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 and review the Investment Register to identify the investments maturing within next two weeks
- ii. 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.

## List of forms to be maintained

Serial number	Form name	Form number	Department (Main Responsibility first)
1	Cash Book	AC 05	Accounts
2	Ledger Account	AC 07	Accounts
4	Investment Ledger/Register	AC 31	Accounts

## List of Ledgers and Subledgers

List of ledgers and subledgers is given below:

- Long Term Investment (Sub ledger for each Investment),
- Short Term Investment (Sub ledger for each Investment),
- Interest Account,
- Dividend Account

All ledger accounts are having separate code in chart of account, and also separate provision has been kept for creation of sub-ledger code. However, it may be noted that mentioned ledger accounts are used whenever relevant accounting transaction takes place in the ULB.

## Summary of Accounting Policies:

Serial Number	Transaction	Recognition & Measurement
<b>Accounting for Investments made out of General and Specific Fund</b>		
1	Recording of acquisition of Investment	Shall be recognised at cost. Cost includes other incidental expenses incurred for its acquisition.
2	Carrying value	<p><b><u>Long Term Investments</u></b></p> <ul style="list-style-type: none"> <li>➤ Shall be carried / stated in the books of accounts at their cost.</li> <li>➤ In the event of any permanent diminution in their value on Balance Sheet date, provision shall be made for the decline in value.</li> </ul> <p><b><u>Short Term Investments</u></b></p> <p>Short-term investments shall be carried at their cost or market value (if quoted) whichever is lower</p>
3	Accounting for ULB's joint control, or significant influence over, an investee	Accounted for its investment in associate or a joint venture using the equity method as discussed in Chapter 22.
<b>Accounting for Investments made out of General Fund</b>		
1	Recording of Interest on investments: ➤ Long Term Investment & Short-Term Investment	Recognised when the right to receive payment is established. For fixed income bearing investments, interest shall be accrued proportionately at the year end.
2	Recording of Dividends or equivalents	When the ULB's right to receive payment is established.

Serial Number	Transaction	Recognition & Measurement
3	Recording of disposal of investment made out of the Municipal	Profit / loss (net of selling expense such as commission, brokerage, etc.) arising on disposal shall be recognised in the year when such disposal takes place.

## Accounting Entries

(Scheme of Accounting entries have been provided as examples, using few heads from Chart of Account. Accounting personnel, who will pass accounting entries, shall refer to the examples provided herein, and use appropriate accounting code (from Chart of Account) relevant for the specific transaction or series of transactions.)

### General Fund-

#### 1. Purchase of Investment

Debit / Credit	Code	Details
Debit	420-10-01	Investments-General Fund-Central Government Securities
Credit	450-21-01	To Bank A/c

**Explanation:** The above entry is passed on purchase of investment e.g. of Central Government Securities from Municipal General Fund. The cost of an investment not only includes the purchase price of the investment but also incidental charges like brokerage, fees, stamp duties etc. ULBs may invest a part of the General Fund available to minimise idle Funds and utilise the amount available to earn interest. The investments are in the form as prescribed by Board of Councilors such as fixed deposits/ short term deposits banks, NSCs, shares in approved institutions, debentures, bonds etc. Investment Register is maintained to record details of each investment. In case investments are made from Special Funds or Grants, the specific Fund/ Grant Account will be used.

**Trigger Point:** Purchase of Investment

**Source Document:** FDR/ Broker Note/ Debenture certificate/ Bond certificate

**Records updated:** Cash Book, Ledger, Investment Register, Specific Fund/ Grant Ledger

## 2. Accrual of Income on Investment made from General Fund

Debit / Credit	Code	Details
Debit	431-40-02	Interest Accrued and due
Debit	431-40-03	Interest Accrued but not due
Credit	170-10-02	To Income from investments-Government Deposits

**Explanation:** At year-end ULB will account for that part of income which has accrued but not received e.g. from Government Deposits. This will include both interest accrued and due to be received and interest accrued and not due to be received. This will be in line with accrual basis of accounting. E.g. if interest on FDR has been received till December and the Income & Expenditure A/c is prepared in March then interest for three months will be known as interest due and accrued. However, in case the interest will be received in say, June, then the interest for the period Jan-Mar will be known as interest accrued but not due. In case interest has accrued from investments made out of specific Funds/ Grants, the concerned Fund/ Grant will be credited instead of income from investments.

**Trigger Point:** End of period/ Financial Year

**Source Document:** Calculation sheet/other details like fixed period in case of time investments, FDR, Bond Certificate

**Records updated:** Cash Book, Ledger, Investment Register

## 3. Receipt of Income on Investment made from General Fund

Debit / Credit	Code	Details
Debit	450-21-01	Bank A/c
Credit	431-40-02	To Interest Accrued and due
Credit	431-40-03	To Interest Accrued but not due

**Explanation:** Above entry is passed as & when previous year income is received during the current year. The same may be in nature of interest on debentures/ bonds/ FD or dividend on shares

**Trigger Point:** Receipt of investment income

**Source Document:** Cheque/ Bank advice

**Records updated:** Cash Book, Ledger, Investment Register

## 4. Reinvestment of income on investment made from General Fund

Debit / Credit	Code	Details
Debit	420-10-01	Investments-General Fund-Central Government Securities
Credit	170-10-02	To Income from investments-Government Deposits

**Explanation:** Above entry is passed as and when income on investments is not received and reinvested e.g. on Central Government Deposits.

**Trigger Point:** Receipt of statement/ intimation from the Bank/ authority

**Source Document:** Statement/ intimation from Bank

**Records updated:** Journal book, Ledger, Investment Register

## 5. Sale of Investment made out of General Fund

Debit / Credit	Code	Details
Debit	450-21-01	Bank A/c
Debit	271-20-01	Loss on disposal of investments (in case of loss)
Credit	420-10-01	To Investments- General Fund-Central Government Securities
Credit	170-40-01	To Profit on disposal of Investment (in case of profit)

**Explanation:** In case investments are sold e.g. Central Government securities, the above entry will be passed. Profit/Loss on sale of investments is recognised through the above entry. Loss is calculated by comparing the sale proceeds, net of expenses with the value of investment as appearing in books. In case of "profit", the profit amount is credited to code 170-40-01 "Profit on disposal of Investment"

**Trigger Point:** Sale of investment

**Source Document:** Broker Note/ Investment Register / Cheque

**Records undated:** Cash Book, Ledger, Investment Register

## Specific Fund-

### 1. Purchase of Investment

Debit / Credit	Code	Details
Debit	421-10-01	Investments-Central Government Securities-Earmarked Funds
Credit	450-41-01	Bank A/c- Special Funds
<b>Explanation:</b> The above entry is passed on purchase of investment e.g. of Central Government Securities-Earmarked funds. The cost of an investment not only includes the purchase price of the investment but also incidental charges like brokerage, fees, stamp duties etc. ULBs may invest a part of the special fund available to minimise idle Funds and utilise the amount available to earn interest. <b>Trigger Point:</b> Purchase of Investment <b>Source Document:</b> FDR/ Broker Note/ Debenture certificate/ Bond certificate <b>Records updated:</b> Cash Book, Ledger, Investment Register, Specific Fund/ Grant Ledger		

### 2. Interest Accrued on Investment made from Specific Fund

Debit / Credit	Code	Details
Debit	431-40-02	Interest Accrued and due
Debit	431-40-03	Interest Accrued but not due
Credit	311-50-01	To Other Earmarked Funds
<b>Explanation:</b> At year-end ULB will account for that part of income which has accrued but not received e.g. from Government Deposits. This will include both interest accrued and due to be received and interest accrued and not due to be received. <b>Trigger Point:</b> End of period/ Financial Year <b>Source Document:</b> Calculation sheet/other details like fixed period in case of time investments, FDR, Bond Certificate <b>Records updated:</b> Cash Book, Ledger, Investment Register		

### 3. When Accrued interest of previous year is received in the current year

Debit / Credit	Code	Details
Debit	450-41-01	Bank A/c- Special Funds
Credit	431-40-02	To Interest Accrued and due
Credit	431-40-03	To Interest Accrued but not due

**Explanation:** Above entry is passed as & when previous year income is received during the current year. The same may be in nature of interest on debentures/ bonds/ FD or dividend on shares

**Trigger Point:** Receipt of investment income

**Source Document:** Cheque/ Bank advice

**Records updated:** Cash Book, Ledger, Investment Register

### 4. Reinvestment of income on investments from specific Fund / Grants

Debit / Credit	Code	Details
Debit	421-10-01	Investments-Other Fund-Central Government securities
Credit	311-50-01	To Other Earmarked Funds

**Explanation:** Above entry is passed as and when income on investments e.g. on Central Government securities is not received and reinvested. Since Investment in this case has been done out of specific Grants/ Funds, the income portion shall be credited to the specific Grant or Fund

**Trigger Point:** Receipt of statement/ intimation from the Bank/ authority

**Source Document:** Statement/ intimation from Bank

**Records updated:** Journal book, Ledger, Investment Register, Special Fund Register

## 5. Sale of Investment made out of specific Fund / Grant

Debit / Credit	Code	Details
Debit	450-41-01	Bank A/c- Special Funds
Debit	311-50-01	To Other Earmarked Funds (in case of Loss)
Credit	421-10-01	To Investments-Other Fund-Central Government securities
Credit	311-50-01	To Other Earmarked Funds (in case of Profit)

**Explanation:** In case investments are sold e.g. Central Government securities, the above entry will be passed. Profit/Loss on sale of investments is recognised through the above entry and credited/ debited to the Specific Fund/ Grant Account e.g. Sinking Fund. Profit/Loss will be calculated by comparing the sale proceeds, net of expenses with the value of investment as appearing in books.

**Trigger Point:** At the time of receipt of the sale proceeds

**Source Document:** Broker Note/Investment Register/Cheque

**Records undated:** Cash Book, Ledger, Investment Register



## Chapter 15: Fixed Assets

*This chapter describes the records, registers, documents, forms, accounting entries, etc., in respect of accounting for Fixed Assets. As Public Works department and all other departments are involved in creating/procuring and maintaining Fixed Assets, their roles need are described for the purpose of Accounting, in addition to roles of Accounts department. This chapter also covers accounting for Intangible assets. Form FA-01 to FA-03 will be maintained by Land, Engineering / Works and compiled by the Accounts. Form EN-01 will be maintained by the Engineering department.*

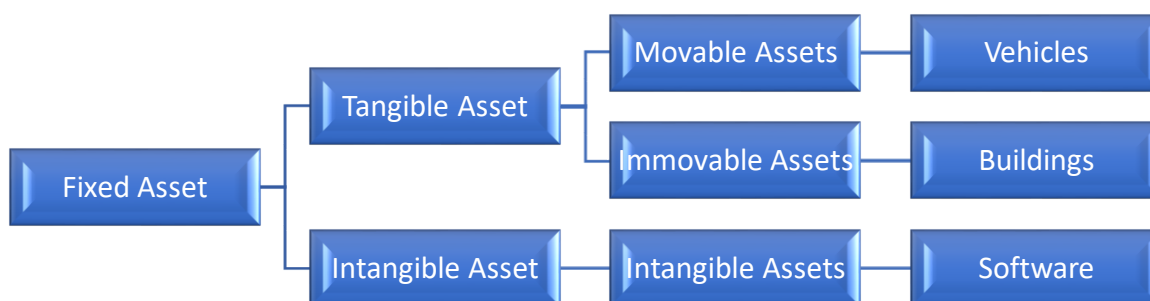
### Introduction

### Tangible Asset

- 15.1.1. Fixed Assets represent those assets of the ULBs, which are meant for use over useful life of assets or further in 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 ULBs. A tangible asset held for long term use in producing or providing goods and services, and which is not held for sale in the normal course of operation of the ULB is called fixed asset.
- 15.1.2. Fixed Assets may be constructed or acquired by or may be gifted or donated to the ULBs either for its own use or for public benefit.
- 15.1.3. The Fixed Assets described in this chapter could be broadly classified as Infrastructure assets and other assets and the list of these assets illustratively include:
  - (A) Infrastructure Assets includes Roads and Bridges, Water Works, Bore Wells, Ropeway, Sewerage and drainage network, Public Lighting, etc.
  - (B) Other Assets includes Land, Buildings, Park, Municipal Market building, etc., Furniture, fixtures, fittings and Electrical appliances, Computer & other office equipment, Air Conditioners, Vehicles; Health related assets, School building, etc.
- 15.1.4. All the fixed assets belonging to a class of assets shall be accounted under that asset class. For instance, the acquisition of a building for any purpose shall be accounted under the asset head of Buildings

- 15.1.5. 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.
- 15.1.6. Any addition or improvement to the Fixed Asset that results in increasing the utility or useful life of the asset shall be capitalised and included in the cost of Fixed Asset.

All accounting entries for procurement of Fixed Assets such as EMD, Security Deposit, Retention money, etc. are given in the chapter 12 on “Public Works” from para 12.1.17 to 12.1.24



## Intangible Asset

- 15.1.7. Expenditure may be incurred on the acquisition, development, maintenance, or enhancement of intangible resources such as scientific or technical knowledge, design and implementation of new processes, or systems, licences, intellectual property, and trademarks (including brand names and publishing titles). Common examples of items encompassed by these broad headings are computer software, patents, copyrights, right to use water resource etc. Most commonly found intangible asset for Urban Local Bodies is Computer software.

## Initial Recognition:

15.1.8. ULB will recognise and capitalise intangible asset if:

- a. It is probable that the expected future economic benefits or service potential (as per best estimate by ULB) that are attributable to the asset will flow to the ULB; and
- b. The cost of the asset can be measured reliably.

15.1.9. However, any expenditure on acquisition/ development of intangible asset below Rs. 25,000/- should be charged to revenue and will not be capitalized.

15.1.10. The process of valuation of intangible asset would be as follows:

- a. **If Purchased:** The cost of an intangible asset comprises its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates. It will also include any directly attributable cost of preparing the asset (such as professional fees for software installation, cost of software testing, etc.) for its intended use.
- b. **If Internally Generated:** The cost of internally generated assets will be derived in the following manner:
  - i. **Research phase** - Intangible asset arising from research (or from the research phase of an internal project) shall not be recognised. Any expenditure on research (or on the research phase of an internal project) should be charged to revenue when it is incurred.
  - ii. **Development phase** – Intangible asset generated in development stage will be recognised if the ULB demonstrates (1) It is technically feasible and ULB has intention to use it (2) availability of adequate technical, financial and other resources to complete the development and to use the intangible asset, and (3) Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

15.1.11. Where the asset meets the criteria for recognition, its cost will comprise all expenditure that can be directly attributed or allocated on a reasonable and consistent basis to create the asset / software for its intended use. Costs include:

- i. expenditure on materials and services used in developing the asset,
- ii. salaries, wages and other employment related costs of personnel directly engaged in developing the asset,
- iii. any expenditure that is directly attributable to generating the asset; However, it excludes:
  - a. selling, administrative and other general overhead expenditure unless this expenditure can be directly attributed to making the asset ready for use;
  - b. clearly identified inefficiencies and initial operating losses; and
  - c. expenditure on training the staff to operate the asset;
- c. **If Gifted/Donated:** If the asset was acquired without paying any price and gifted to ULB (or if it is donated): then it shall be valued at Re.1/-.
- d. **If Acquired through exchange:** An intangible asset may be acquired in exchange or part exchange for old intangible asset.
  - i. Where the assets exchanged are similar, the net book value of the asset, which is exchanged, should be taken, and to it the extra amount that is paid, if any, is added. If instead of an extra payment, a refund is involved, the necessary adjustment will have to be made.
  - ii. In case of dissimilar assets, the assets acquired should be recognized at its fair market value.

**15.1.12. Amortization:** In the case of an intangible asset, the term 'amortization' is generally used instead of depreciation. Both terms have similar meaning. The depreciable amount of an intangible asset should be allocated on a systematic basis over the best estimate of its useful life. Amortisation should begin when the asset is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Straight-line method should be used for amortisation over the period (useful life). However, in case where the useful life of an intangible asset arises from binding arrangements should not exceed the period of the binding arrangement.

**15.1.13.** The residual value of an intangible asset in ULBs should be assumed to be zero. Hence, the full cost should be 'amortized' over the estimated useful life of the asset. Subsequent

expenditure on intangible assets should be generally recognized as an expense unless it increases the capacity or the life of asset.

15.1.14. **Subsequent measurement:** After initial recognition, an intangible asset should be carried at its cost less any accumulated amortisation and any accumulated impairment losses.

## Revaluation and Impairment

### Revaluation of Fixed Assets

15.1.15. Fixed Assets should be revalued under the following circumstances:

- Commercial development of the fixed assets is taken up after the land use and architectural control have been approved by the competent authority.
- At the time of lease;
- At the time of issue of municipal bonds; or
- As and when ULB decides to revalue

15.1.16. ULB shall use the following indicators as a minimum, to assess whether there is any material change in value of the Fixed Assets:

- External sources of information (a) Significant changes affecting the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which the asset is dedicated; (b) Where market exists for the assets of the entity, market values are different from their carrying amounts; (c) During the period, a price index relevant to the asset has undergone a material change;
- Internal sources of information (d) Evidence is available of obsolescence or physical damage of an asset; (e) Significant changes affecting the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. Adverse changes include the asset becoming idle or plans to dispose of an asset before the previously expected date and reassessing the useful life of an asset as finite rather than indefinite. Favorable changes include capital expenditure incurred during the

period to improve or enhance an asset in excess of its standard of performance assessed immediately before the expenditure is made; and (f) Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse or better than expected.

15.1.17. Fixed assets may be revalued as and when it is required or decided. When revaluation is done it is done for the entire class of assets and not for one specific asset.

## **First Time Revaluation**

15.1.18. An increase in net book value arising on first time revaluation of the Fixed Asset shall be credited to 'Revaluation Reserve Account'.

15.1.19. A decrease in net book value arising on first time revaluation of fixed assets is charged to the Income and Expenditure Account.

## **Subsequent Revaluation**

15.1.20. Increase in value of asset on subsequent revaluation will be credited to revaluation reserve if the asset was revalued upward initially.

15.1.21. The increase in value will be charged to Income and Expenditure Account if the earlier revaluation of same class of Asset resulted in decrease in value to the extent of amount recognised in the Income and Expenditure Account.

15.1.22. Any subsequent decrease in value will reduce the credit balance of Revaluation reserve, if the same class of asset resulted in increase in value on earlier revaluation.

15.1.23. If the asset was revalued downward initially and the subsequent revaluation resulted in decrease in value of the asset, the amount will be transferred to Income and Expenditure account.

15.1.24. Example: The Assets given below were revalued for the first time in July 2017. The details of revaluation are given in the table below:

# UTTARAKHAND MUNICIPAL ACCOUNTING MANUAL

Particulars	Gross Block	Est. Useful Life	Dep. Rate	Year of Purchase	Acc. Dep	Net Block	Value on Revaluation	Inc./ Dec. in value
Office Building	100000	30	3.17%	2010	22190	77810	92000	14190
Plant & Machinery – Road Roller	800000	10	9.5%	2015	152000	648000	595000	53000

In the example given above, there is increase in value on revaluation in case of Building and decrease in value on revaluation in case of Plant & Machinery. The accounting entry for revaluation shall be:

Debit / Credit	Code	Details	Amount (Dr.)	Amount (Cr.)
Debit	410-20-01	Office Building (Amount of increase due to revaluation)	14190	
Credit	312-60-01	Revaluation Reserve (Increase in value transferred to revaluation reserve)		14190

Debit / Credit	Code	Details	Amount (Dr.)	Amount (Cr.)
Debit	270-40-06	Assets Written Off – Plant & Machinery (Amount charged off to I&E as decrease in value on revaluation)	53000	
Credit	410-40-06	Plant & Machinery – Road Roller (Asset value reduced)		53000

**Note:** Entries shall be made in the relevant fixed Assets registers, against each asset that was revalued.

# UTTARAKHAND MUNICIPAL ACCOUNTING MANUAL

The above Assets were again revalued on 1<sup>st</sup> April 2019. The Details of revaluation is given below:

Particulars	Gross block after revaluation in July 2017	Remaining Useful Life	Dep Rate	Dep for FY 2018-19	Net Block as on 1 <sup>st</sup> April 2019	Value on Subsequent Revaluation	Inc / Dec in value
Office Building	92000	22	4.32%	3974	88026	72500	-15526
Plant & Machinery – Road Roller	595000	8	11.87%	70627	524373	618475	+94102

The rate of depreciation changed in the above table in order to depreciate the revalued assets over their remaining useful life.

The entry for accounting the change in value on subsequent revaluation of the above fixed Assets shall be:

Debit / Credit	Code	Details	Amount (Dr.)	Amount (Cr.)
Debit	312-60-01	Revaluation Reserve	13577	
Debit	270-40-01	Assets Written off – Building	1949	
Credit	410-20-01	Office Building		15526

Debit / Credit	Code	Details	Amount (Dr.)	Amount (Cr.)
Debit	410-04-07	Plant & Machinery – Road Roller	94102	
Credit	180-80-16	Increase in value of Assets devalued earlier		53000
Credit	312-60-01	Revaluation Reserve		41102

## **Note: Calculation of Amount available in Revaluation Reserve**

Amount Credited to Revaluation Reserve on Revaluation of Office Building	– 14190
Less: Depreciation on Revaluation Margin (14190x4.32%)	- (613)
Balance Standing at the credit of Revaluation Reserve as on Sep 2019	- 13577



Thus, the decrease in value on subsequent revaluation of Building will be transferred to Revaluation reserve to the extent of Rs. 13577/-. The remaining amount will be transferred to Income and Expenditure account.

15.1.25. Depreciation on the increased value of fixed assets will be charged to the revaluation reserve.

15.1.26. When an asset that is revalued is disposed off, the balance in the revaluation reserve shall be transferred to Loss on Disposal of Asset (Code-2711000) or Profit on Disposal of Fixed Asset (Code- 1803000) as the case may be.

The Road Roller given above was sold on 1<sup>st</sup> April 2020 for Rs.503269. The Accounting for the same is given below:

**Calculation of gain or loss on disposal of Road Roller:**

Particulars	Amount (Rs)
Gross block as on 1 <sup>st</sup> April 2019 (after revaluation)	618475
Depreciation for FY 2019-20 $[(618475 \times 95\%)/7]$	83936
Net block as on 1 <sup>st</sup> April 2020	534539
Sale proceeds	503269
Loss on sale	31270

Calculation of amount available in the Revaluation reserve:

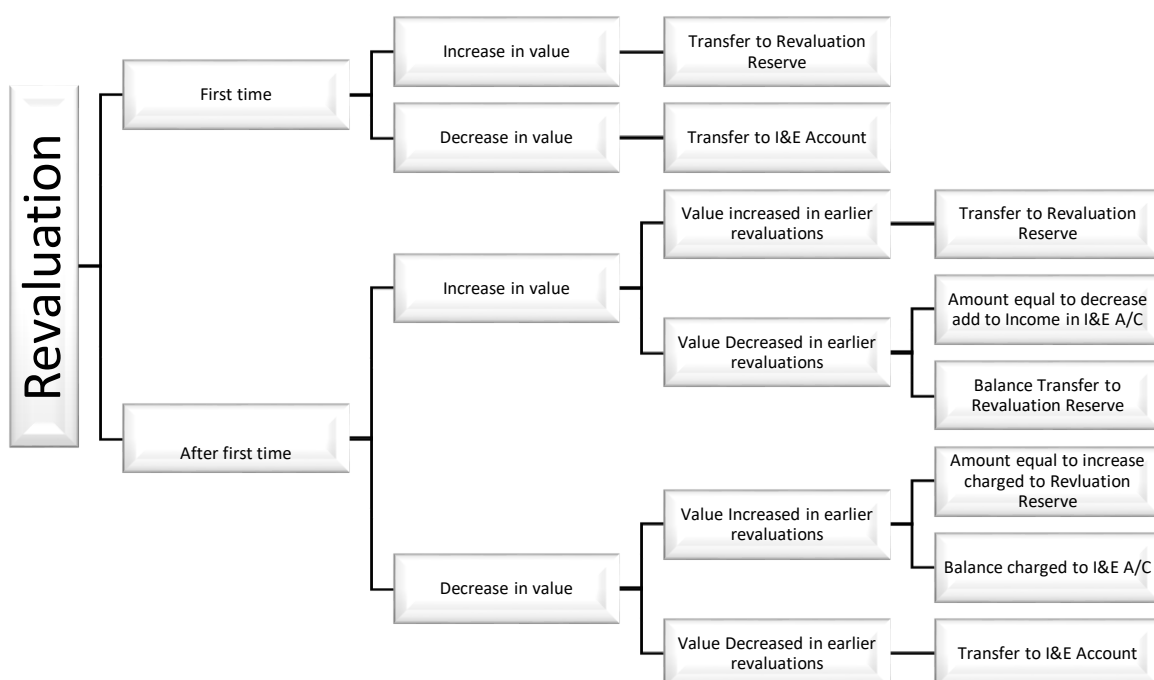
Particulars	Amount (Rs)
Balance in revaluation reserve as on 1.4.2019	41102
Depreciation on revaluation margin for FY 2019-20 $[(94102 \times 95\%)/7]$	12770
Balance available in Revaluation reserve as on 1.4.2020	28332

a) The disposal of revalued asset will be accounted by passing the following accounting entry:  
Recording of sale of revalued asset

Debit / Credit	Code	Details	Amount (Dr.)	Amount (Cr.)
Debit	450-21-01	Bank A/c	503269	
Debit	271-10-07	Loss on Disposal – Plant & Machinery	31270	
Debit	411-40-06	Accumulated Depreciation – Road Roller	83936	
Credit	410-04-07	Plant & Machinery – Road Roller		618475

## b) Transfer of balance in Revaluation reserve

Debit / Credit	Code	Details	Amount (Dr.)	Amount (Cr.)
Debit	312-60-01	Revaluation Reserve	28332	
Credit	271-10-07	Loss on Disposal – Plant & Machinery		28332



## Impairment of Assets

15.1.27. ULBs are required to identify impaired assets as and when ULB decides but at least once in every five years and disclose the same in Financial Statements. ULBs are also required to identify impaired assets after occurrence of any disaster including natural calamity.

15.1.28. The impairment loss is to be adjusted against revaluation reserve, if any, for that asset and any excess should be charged to the income and expenditure account.

15.1.29. Once an Asset is impaired, it is to be monitored every year, and if at any point of time it is found that that the recoverable amount is exceeding carrying amount, the impairment loss booked earlier, shall be reversed.

15.1.30. In assessing whether there is any indication that an asset may be impaired, an entity should consider, as a minimum, the following indications (Non- exhaustive. An ULB may

identify other indications that an asset may be impaired}:

External sources of information

- (a) During the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use;
- (b) Significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic, or legal environment in which the entity operates, or in the market to which an asset is dedicated;
- (c) Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially; Internal sources of information
- (d) Evidence is available of obsolescence or physical damage of an asset;
- (e) Significant changes with an adverse effect on the entity have taken place during the period or are expected to take place in the near future, in the extent to which, or the manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, and plans to dispose of an asset before the previously expected date;
- (f) A decision to halt the construction of the asset before it is complete or in a usable condition; and
- (g) Evidence is available from internal reporting that indicates that the economic performance of an asset is or will be, worse than expected.

## Accounting Records and Procedures

15.1.31. A record shall be maintained for the immovable fixed assets in the relevant Register of Immovable Property in Form FA 01, Register of Land in Form FA 03 and for the moveable fixed assets in the Register of Moveable Property in Form FA 02.

- Parks and Playgrounds should be capitalized under two categories, viz, Land pertaining to Parks and Playgrounds including the cost of development of land that should be booked under 'Land'.
- Other amenities to Parks and Playgrounds that should be capitalized under the sub-head 'Parks and Playgrounds' under the head 'Infrastructure assets'.

15.1.32. However, any building /structures/ plant and machinery etc. constructed/ installed in the Parks and Playgrounds and used for other purposes should not be booked under the sub-head 'Parks and Playgrounds'. The same should be booked under the appropriate heads/ sub-heads of assets.

15.1.33. All movable property of a permanent or durable nature, such as engines, pumping plant, road roller, conservancy and road watering vehicles, lamps, lamp posts, lawn movers, tractors, vehicles, furniture etc., shall be recorded in the “Register of Movable Property” in form FA 02 under the initials of the Authorised Officer. When the property is disposed off finally by sale or otherwise, the particulars of disposed shall be entered in Column 18 to 22 under the initials of the aforementioned officer. This officer shall be responsible that the register is a complete record of movable properties belonging to the ULB.

15.1.34. The register of movable property is intended to be a permanent or quasi-permanent record and shall be kept under the supervision of the Executive Officer or Authorised Officer as the case may be. Articles of different descriptions shall not be promiscuously shown together at one place, but a separate page or portion thereof according to the requirements should be allotted to each kind of property, sufficient space being left between each set of entries to admit of subsequent transactions being recorded. No entries shall be made in Columns 18-22 in this register until the property is finally disposed off by sale or destroyed.

15.1.35. Infrastructure Fixed Assets are created through Works Department Accordingly all procurement related accounting process and transactions for such assets are given in the chapter “Public Works”.

15.1.36. The details of the fixed assets of ULB shall be maintained in a Fixed Asset Register, the format of which has been provided in Form FA 01 and FA 02 of the Appendix.

## Depreciation on Fixed Assets

- 15.1.37. At the end of the accounting year, depreciation shall be provided on each class of Fixed Asset. The amount of depreciation to be provided each year shall be computed by applying the depreciation rate mentioned in this manual.
- 15.1.38. Register of Immovable Property maintained in Form FA 01, Register of Moveable Property maintained in Form FA 02, and Register of Public Lighting System in Form EN 01 shall be updated in respect of the depreciation provision made during an accounting year annually.
- 15.1.39. Provision for depreciation on fixed assets shall be calculated at full rates for assets if is purchased or constructed before October 1 of an Accounting year. Depreciation shall be provided at half the rates for assets which are purchased/constructed on or after October 1 of an accounting year.

## Maintenance of Sinking Fund (Optional)

- 15.1.40. ULBs may maintain sinking funds to ensure the replacement of assets on time. In such cases the following procedures shall be adopted. Those ULBs which generate surplus on a regular basis can make provision for such sinking fund.
- 15.1.41. The ULB shall transfer an amount equivalent to depreciation provision for the year from the Main Bank Account to Asset Replacement Bank Account. This account will be kept like a sinking fund bank account and invested as required.
- 15.1.42. The amount so set aside shall be utilised only for the purpose of purchase or acquisition of the fixed assets in respect of which the above depreciation has been provided. Any assets replaced or purchased newly will be paid from this bank account.

## Sale/Disposal of Fixed Asset

- 15.1.43. The Fixed Assets may be transferred by way of sale either through auction or otherwise. The procedure for accounting of receipt of EMD from the bidders, refund of EMD to the unsuccessful bidders, conversion of EMD of successful bidder into Security Deposit and its adjustment shall be the same as provided in the Sub-Chapter of "Public Works".

15.1.44. Recording of Depreciation on disposal of Fixed Asset. The amount of depreciation to be provided shall be computed by applying the depreciation rate to the cost of fixed asset as on the cut-off date i.e. October 1. Depreciation will be charged for full year if the asset is sold after October 1 and half the rates if it sold before October 1.

15.1.45. Recording of disposal of Fixed Asset at a Loss or Profit. In respect of the Fixed Asset to be sold, the Accounts Department shall compute the depreciated Value for that Fixed Asset. Depreciated Value of an asset is calculated as Net Depreciated value = (Cost of the Fixed Asset – Accumulated Depreciation provided till the previous year - Provision for Depreciation made during the year). The cost of Fixed Assets sold shall be obtained from Register of Immovable Property.

For example, A computer has been purchased by ULB 2 years ago, at a total cost of Rs.50000/-. Depreciation has been provided of Rs. 5000/- in each of the two years. The Computer got damaged in third year, and ULB decided to sell it as scrap on 31<sup>st</sup> March 2020. ULB sold it at Rs.2000/-.

In this case, balance in accumulated depreciation account is Rs.10000/-. Accordingly, loss on disposal will be Rs.38000/- (Gross Block Rs.50000/- minus Accumulated depreciation of Rs.10000/- plus Sale price Rs.2000/-). The entry for the transaction shall be:

Debit / Credit	Code	Details	Amount (Dr.)	Amount (Cr.)
Debit	450-21-01	Bank A/c	2000	
Debit	411-40-01	Accumulated Depreciation	10000	
Debit	271-10-07	Loss on Disposal of Assets	38000	
Credit	410-60-01	To Fixed assets- Computers		50000

Keeping the above example intact, except that the asset is sold after October 2019, the accounting treatment will be as follows:

Debit / Credit	Code	Details	Amount (Dr.)	Amount (Cr.)
Debit	450-21-01	Bank A/c	2000	
Debit	411-40-01	Accumulated Depreciation (Y-1: 5000 & Y-2: 5000 Y3 5000)	15000	
Debit	271-10-07	Loss on Disposal of Assets	38000	
Credit	410-60-01	To Fixed assets- Computers		50000

## Internal Controls

- 15.1.46. The following internal controls shall be observed by the ULBs:
- 15.1.47. The concerned department shall ensure the availability of adequate budget allocation after considering all commitments made against that budget allocation before purchasing any new fixed asset.
- 15.1.48. The Head of the Accounts Department shall ensure that the amount set aside in the Asset Replacement Bank Account consequent to depreciation provision made, is utilised only for the purpose of purchase or acquisition of fixed asset for which depreciation has been provided.
- 15.1.49. Before releasing payment to the supplier, the Head of the Accounts Department 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.
- 15.1.50. 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.
- 15.1.51. Commissioner/ Head of the Departments of ULBs may specify appropriate MIS reports for monitoring.

## 15.1.52. Reconciliation:

- i. The Head of the Accounts Department shall have 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. Such physical verification is to be conducted under direct monitoring by HoDs of respective departments and Head of Accounts department. Any discrepancies between Fixed Asset Register with Physical verification should be reconciled and summary of such discrepancies shall be placed to Commissioner/EO, with asset-wise details. On signature of all respective HoDs and Commissioner/EO, the Head of Accounts department will pass necessary entries and update Fixed Assets Register.
- ii. Head of Accounts department along with the Head of Works department will reconcile the Capital Work in Progress with summary of Measurement Book.
- iii. Head of Accounts department will ensure appropriate calculation reconciliation of Revaluation of Assets, Impairment of Assets, Disposal of Asset with Fixed Assets register.

15.1.53. For Internal Controls on Works refer Chapter 12.

## List of forms to be maintained

Serial number	Form name	Form number	Department (Main Responsibility first)
1	Register of Public Lighting System	EN 01	Engineering
2	Register of Immovable Property	FA 01	Land, Engineering/Works, compiled by Accounts
3	Register of Movable Property	FA 02	All user departments compiled by Accounts
4	Register of Land	FA 03	Land, Engineering/Works, compiled by Accounts



## List of Ledgers and Subledgers

List of ledgers and subledgers is given below:

- Tangible Assets (Sub Ledger for every Tangible Asset),
- Intangible Asset (Sub Ledger for every intangible asset),
- depreciation,
- revaluation,
- impairment,
- amortization,
- Loss on Sale or Disposal of Fixed Asset,
- Profit on Sale or disposal of Fixed Asset

All ledger accounts are having separate code in chart of account, and also separate provision has been kept for creation of sub-ledger code. However, it may be noted that mentioned ledger accounts are used whenever relevant accounting transaction takes place in the ULB.

## Summary of Accounting Policies:

Serial Number	Transaction	Recognition & Measurement
1	Recording of Purchase of Fixed Asset	Fixed Assets purchased shall be recorded at cost on receipt of the Asset and acknowledgement of the same. The Cost of the Fixed Asset includes all costs incurred to make the asset ready for its intended use.
2	Carrying amount of Fixed Assets	Cost less accumulated depreciation
3	Recording of addition to or improvement to the fixed asset.	Capitalised and included in the cost of fixed asset if it results in increasing the utility or useful life of the asset
4	Recording of Repairs and maintenance expenditure	charged off as Revenue Expenditure in the year in which it is incurred.
5	Determination of Capital or Revenue Expenditure If the	one-time expenses which exceeds 10% of the cost of specific fixed asset subject to minimum of Rs. 25000 to be capitalised.

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Serial Number	Transaction	Recognition & Measurement
	demarcation is difficult.	
6	Fixed Asset acquired at Nil, Non-monetary or Nominal consideration	Such Asset shall be recorded at Re.1/-
7	Non-Monetary Asset received	<ul style="list-style-type: none"> <li>➤ Received at Concessional Rate - Recorded at the cost of acquisition</li> <li>➤ Received at free of cost – Recorded at Nominal value</li> </ul>
8	Statues and Heritage Assets	Value taken at Re.1
9	Assets identified and evaluated technically as obsolete	A separate note shall be given in the Fixed Asset Register
10	All assets which have fully depreciated but still active	Stated at book value of Re.1
11	All individual assets, whose cost is below Rs. 25,000/-	Charged to Income and Expenditure Account
12	Recording on Revaluation of Fixed Asset	<ul style="list-style-type: none"> <li>➤ The increase in values arising on account of first-time revaluation of the fixed assets shall be credited to a Revaluation Reserve account</li> <li>➤ Decrease in value on first time revaluation is charged to I&amp;E account.</li> <li>➤ Subsequent increase in value of asset will be credited to revaluation reserve if the asset was revalued upward initially. The increase in value will be charged to Income and Expenditure Account if the earlier revaluation of same class of Asset resulted in decrease in value to the extent of amount recognised in the Income and Expenditure</li> </ul>

Serial Number	Transaction	Recognition & Measurement
		<p>Account.</p> <ul style="list-style-type: none"> <li>➤ Subsequent decrease in value will reduce the credit balance of Revaluation reserve, if the same class of asset resulted in increase in value on earlier revaluation. However, such decrease will be transferred to Income and Expenditure account if the asset was earlier revalued downward.</li> <li>➤ When revaluation is necessary for any asset, the entire class of asset is to be revalued</li> </ul>
13	Impairment of Fixed Asset	<ul style="list-style-type: none"> <li>➤ An Asset is impaired when its carrying amount exceeds its recoverable amount.</li> <li>➤ ULBs are required to identify impaired assets as and when ULB decides but at least once in every five years and disclose the same in Financial statements. ULBs are also required to identify impaired assets after occurrence of any disaster including natural calamity.</li> <li>➤ ULB shall book impairment loss in accounts. The impairment loss is to be adjusted against revaluation reserve, if any, for that asset and any excess should be charged to the income and expenditure account.</li> </ul>

## Intangible Assets

Serial Number	Transaction	Recognition & Measurement
1	Intangible assets in the nature of computer software acquired through purchase or generated internally	Measured at cost. The cost of the Intangible Asset generated internally shall be derived in the manner given at para 15.1.7.
2	Intangible assets acquired through a non-exchange transaction i.e. gifts, donations etc.	Measured and accounted at nominal value of Re.1 as at that date
3	Intangible Asset acquired through exchange	<p><b><u>Exchange of Similar Asset</u></b> - the net book value of the asset exchanged should be taken as the cost of the new asset.</p> <p><b>Exchange of dissimilar Asset</b> – The Fair value of the Asset acquired will be taken as cost.</p>
4	After initial recognition	Carried at cost less accumulated amortization and any accumulated impairment loss
5	Expenditure below Rs.25000	Charged to Revenue and not capitalized
6	Research Expenditure	Recognised as an expense when it is incurred
7	Depreciable amount of intangible asset	Allocated on a Straight-Line basis over the best estimate of its useful life.

## Accounting Entries

(Scheme of Accounting entries have been provided as examples, using few heads from Chart of Account. Accounting personnel, who will pass accounting entries, shall refer to the examples provided herein, and use appropriate accounting code (from Chart of Account) relevant for the specific transaction or series of transactions.)

### 1. Purchase of Fixed Assets

Debit / Credit	Code	Details
Debit	410-60-01	Fixed assets- Computers
Credit	350-10-01	To Suppliers

**Explanation:** Entry will be recorded on purchase of fixed assets. In this example, it is assumed that the purchase of Computers is on credit basis. The cost of an item of Fixed Assets will comprise its purchase price, duties, other levies, carriage inwards, installation charges incurred, any other Expenses specifically attributable to acquisition of Fixed Assets. Trade discounts and rebates are to be deducted in arriving at the purchase price. Details regarding Fixed Assets purchased will be recorded in the Fixed Assets Register include supplier's name, invoice reference number, break-up of cost, date of purchase, date of installation, location of Asset, basis and rate of Depreciation.

**Trigger Point:** Receipt of the Asset and acknowledgement of the same

**Source Document:** Invoice with relevant supporting documents

**Records updated:** Journal book, Ledger, Register of Movable Property and the relevant registers.

### 2. Payment for Fixed Asset Purchased

Debit / Credit	Code	Details
Debit	350-10-01	Suppliers
Credit	450-21-01	To Bank A/c

**Explanation:** The creditors of the respective Fixed Assets are paid through Bank. Above entry will be passed when such payment is made. In case the Asset is purchased out of specific Grant,

the same Bank Account shall be used.

**Trigger Point:** Issue of Cheque

**Source Document:** Invoice with relevant support documents, Register of bills for payment

**Records updated:** Cash Book, Ledger

### 3. Receipt of non-monetary asset (e.g. Land) at concessional rate in the form of grant

Debit / Credit	Code	Details
Debit	410-10-05	Vacant Land [Cost of acquisition]
Credit	450-20-01	To Nationalized Bank – Municipal Fund [Cost of acquisition]

**Explanation:** Government grants received in the form of non-monetary asset at concessional rate shall be recorded at their cost of acquisition in the books of the ULB.

**Trigger Point:** At the time of receipt of non-monetary grant.

**Source Document:** Grant sanction order, Payment Voucher

**Records updated:** Cash Book, Ledger, Fixed Asset Register, Grant Register

### 4. Charging of Depreciation

Debit / Credit	Code	Details
Debit	272-60-01	Depreciation- Computer
Credit	411-60-01	To Accumulated Depreciation - Computer

**Explanation:** The Depreciation will be charged on all assets e.g., at the rates prescribed. The amount of Depreciation determined will be charged to the Accumulated Depreciation A/c. Depreciation will be charged for either six months or twelve months depending on the date of purchase/ sale. In case assets are purchased out of Grants, a proportionate amount of grant shall also be credited to the Income & Expenditure Account from Grant against Asset A/c.

**Trigger Point:** End of the Financial Year/ sale of assets

**Source Document:** Calculation Sheet and Fixed Asset Register

**Records updated:** Journal book, Ledger, Register of Movable Property, and the relevant registers.

## 5. Sale of Assets held for disposal

Debit / Credit	Code	Details
Debit	450-21-01	Bank A/c
Debit	411-40-01	Accumulated Depreciation
Debit	271-10-76	Loss on sale of assets
Credit	410-60-01	To Fixed assets- Computers
Credit	180-30-09	To Profit on disposal of fixed asset - computers

**Explanation:** There may be sale of asset items which have become obsolete or otherwise. The above entry shall be passed to remove respective asset from the books of accounts, and to recognise Profit/ Loss on sale of assets.

**Trigger Point:** At the time of sale of Asset

**Source Document:** Calculation Sheet, Approval letter from Mayor/ Chairman, Register of Movable Property, Register of Immovable Property

**Records updated:** Cash Book, Journal book, Ledger

## 6. Revaluation of Fixed Assets

Debit / Credit	Code	Details
Debit	410-20-01	Fixed assets- Office Building
Credit	312-60-01	To Revaluation Reserve

**Explanation:** In case of Fixed Asset revalued upwards compared to the current value, the above entry should be passed. In case of downward revaluation of fixed asset revaluation loss should be adjusted against Revaluation Reserve by debiting the same and the balance if any shall be charged to Income and Expenditure Account and fixed asset is credited. In the above entry the example of Office Building has been taken. The provision applies to all the fixed assets.

**Trigger Point:** At the time of revaluation of fixed asset

**Source Document:** Calculation sheet, approval from relevant authority regarding the revaluation to be made and Fixed asset register

**Records updated:** Journal book, Ledger

## 7. Recording of adjustment of depreciation against revaluation reserve

Debit / Credit	Code	Details
Debit	312-60-01	Revaluation Reserve
Credit	272-20-01	To Depreciation on Office Building

**Explanation:** The above entry is to be passed for adjusting depreciation charged on increased value of Asset due to revaluation, against revaluation reserve.

**Trigger Point:** At the time of adjusting depreciation against revaluation reserve

**Source Document:** Calculation sheet, approval from relevant authority regarding the revaluation to be made and Fixed asset register

**Records updated:** Journal, Ledger, Fixed Asset Register

## 8. Recording Impairment of Asset

Debit / Credit	Code	Details
Debit	270-40-07	Asset Written off- Vehicles
Credit	410-90-09	To Fixed assets- Vehicles

**Explanation:** Example has been taken as if a vehicle has been impaired, i.e. its recoverable amount is less than the carrying amount. The difference is termed as Impairment Loss and is to be charged to Income & Expenditure account.

The above entry will be passed to record an impairment loss, to bring the value of the Asset to its estimated recoverable amount. The loss will first be adjusted against revaluation reserve and the balance should be charged to Income and expenditure account

**Trigger Point:** At the time of impairment of asset

**Source Document:** Fixed asset register, Internal reports, Chartered Valuer's certificate

**Records updated:** Journal, Ledger

## 9. Recording Impairment of Asset (which was revalued earlier)

Debit / Credit	Code	Details
Debit	312-60-01	Revaluation Reserve
Debit	270-40-07	Asset Written off- Vehicles



Credit	410-90-09	To Fixed assets- Vehicles
<b>Explanation:</b> Continuing previous example with a modification, that the vehicle has been revalued earlier, and a revaluation reserve has been created at that time. The above entry will be passed to record an impairment loss of an asset revalued earlier. The impairment loss will first be adjusted against revaluation reserve and the balance should be charged to Income and expenditure account <b>Trigger Point:</b> At the time of impairment of asset <b>Source Document:</b> Fixed asset register, Internal reports, Chartered Valuer's certificate <b>Records updated:</b> Journal, Ledger		

## 10. Reversal of Impairment Loss

Debit / Credit	Code	Details
Debit	410-90-09	Fixed assets- Vehicles
Credit	270-40-07	To Asset Written off- Vehicles
<b>Explanation:</b> Continuing previous example, the ULB at the end of each Financial Year should review whether the previously recognized impairment loss continue to exist or whether it has been decreased. The ULB must assess various external and internal indicators as to estimate the recoverable amount of the asset. If the recoverable amount of the asset is more than the carrying amount, then the impairment loss has to be reversed. <b>Trigger Point:</b> Annual monitoring and estimation of value of previously recognised impaired asset <b>Source Document:</b> Fixed asset register, Internal reports, Chartered Valuer's certificate <b>Records updated:</b> Journal, Ledger		

## 11. Accounting of Assets procured/constructed out of Grant

Accounting for assets purchased out of Grant to be done as provided in Chapter-16, Entry no. 1 to 24.

## 12. Accounting for decrease in value of Asset on first time revaluation

Debit / Credit	Code	Details
Debit	270-40-07	Asset Written Off – Vehicle
Credit	410-50-01	To Vehicles – Ambulance

**Explanation:** In case of Fixed Asset revalued downward compared to the current value, the above entry should be passed. In the above entry the example of vehicle has been taken. Any increase in the value of the Asset revalued downward on subsequent revaluation shall be charged to the Income and Expenditure Account to the extent of the decrease in value on first time revaluation

**Trigger Point:** At the time of revaluation of fixed asset

**Source Document:** Calculation sheet, approval from relevant authority regarding the revaluation to be made and Fixed asset register

**Records updated:** Journal book, Ledger

## 13. Accounting for Increase in value of Asset which was earlier revalued downward

Debit / Credit	Code	Details
Debit	410-50-01	Vehicles – Ambulance
Credit	180-80-16	Increase in value of Assets devalued earlier [To the extent of amount recognised in Income & Expenditure Account on earlier revaluation]
Credit	312-60-01	Revaluation Reserve [Balance amount]

**Explanation:** Any increase in the value of the Asset revalued downward on subsequent revaluation shall be charged to the Income and Expenditure Account to the extent of the decrease in value on first time revaluation. The balance of the increase in value on subsequent revaluation will be credited to Revaluation Reserve.

**Trigger Point:** At the time of subsequent revaluation of fixed asset

**Source Document:** Calculation sheet, approval from relevant authority regarding the revaluation to be made and Fixed asset register

**Records updated:** Journal book, Ledger

## 14. Accounting for decrease in value of Asset which was earlier revalued upward

Debit / Credit	Code	Details
Debit	312-60-01	Revaluation Reserve [To the extent of Balance Available in Revaluation Reserve for that class of Asset]
Debit	270-40-01	Assets Written Off – Office Building [Decrease in excess of balance available in Revaluation Reserve]
Credit	410-20-01	Fixed Assets – Office Building

**Explanation:** Any decrease in the value of the Asset revalued upward on subsequent revaluation shall be charged to the Revaluation Reserve to the extent of credit available in revaluation reserve. Balance if any shall be charged to Income and Expenditure Account.

**Trigger Point:** At the time of subsequent revaluation of fixed asset

**Source Document:** Calculation sheet, approval from relevant authority regarding the revaluation to be made and Fixed asset register

**Records updated:** Journal book, Ledger

## Chapter 16: Grants

*This chapter describes the records, registers, documents, forms, accounting entries, etc., in respect of accounting for Grants. Whereas this chapter provides role of Accounts department for Accounting, it also provides roles and responsibilities of Public Works/Stores department for utilization of grant fund and co-ordination with Accounts department*

*Form AC 05, AC 07, AC 12 AC 13, AC 22, AC 24 AC 31 will be maintained by the Accounts department.*

### Introduction

- 16.1.1. 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.
- 16.1.2. Grants received by the ULB may be of a capital or revenue nature. A Capital Grant is usually utilised for capital expenditure i.e. creation of a fixed asset (like purchase of land, building, equipment, facilities, etc.). The benefits of such expenditure are of an enduring nature and spread over an extended period of time. A Revenue Grant, on the other hand, is generally utilised for meeting recurring expenditure, the benefits of which usually expire within the accounting year in which it is incurred. Revenue Grants are usually in the nature of a subsidy. Grants may be for a non-specific purpose, i.e., Untied Grants or for a specific purpose, i.e., Specified Grants. These are further described below.
  - (a) **Untied Grants (General):** Grants received for general (unspecified) purposes are usually in the form of a lumpsum payment from the State Government to facilitate meeting certain expenditure (usually revenue in nature) relating to the ULB's activities.
  - (b) **Specified Grants:** The ULB usually also receive grants for carrying out specific projects/schemes or for meeting specific expenditures. These can be Revenue or Capital in nature based on the purpose for which they are received. Certain Specified Grants can have both, capital and revenue components, e.g., grant for construction of new roads and subsequent repairs and maintenance of roads. Specified Grants may either be received in advance or as a reimbursement of the expenditure incurred by the ULB.

Some example of type of grant applicable for the ULBs of Uttarakhand, are given in Para 16.1.32 to 16.1.37 subsequently.

## Accounting Records and Procedures

- 16.1.3. The Accounts Department shall maintain a Grant Register in Form AC 24 with separate registers for capital and revenue grants and separate pages for each grant for recording details of receipt of grant and expenditures incurred from it.

## Untied (General) Grants

- 16.1.4. **Recording of receipt of Untied Grant.** Details of Untied grants received shall be entered in the Receipt Register (Form AC 13) maintained at the Accounts Department and deposited into the Main Bank Account. A Receipt shall be issued in Form AC 12 to the Government/ sponsoring agency.
- 16.1.5. **Recording of deductions made by the State Government at the time of payment:** At the time of release, state government may deduct from the grants the payments to be made by ULB like Electricity Charges, Interest on Loans, Loan repayment etc. ULBs shall account for the gross amount of the grant as Income and book the relevant heads for the deductions made as per the details of the deductions in the government order sanctioning the grant.

## Specified Grants

- 16.1.6. The accounting entries for Specified 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)

### I. Specified Grant in respect of Revenue Expenditure

- 16.1.7. Grants received in advance shall be deposited in their respective designated Grant Bank Account and they shall be accounted for in the following manner. These shall be treated as liability till the conditions of the grant are met.

- (a) Recording of grant received in advance: The details of the Grant as per Sanction Order shall be recorded in the Grant Register (Form AC 24) and Cash Book (Form AC 05) on receipt.
- (b) When a specific grant is received the amount will be kept in a specific bank account.
- (c) The accounting procedure to be followed in respect of revenue expenditure incurred against Specified Grants shall be the same as for other revenue expenditures.
- (d) All payments will be made from the specific Grant bank account.
- (e) For the Specific Grant, the ULB is required to submit an “Utilisation Certificate” in the manner, prescribed in the Grant Sanction Order. At the year end the amount of Grant spent is recognized as expenditure and an equivalent amount is recognized as income.

## **II. Specified Grant in respect of Capital Expenditure**

16.1.8. Grants received in advance shall be deposited in their respective designated Grant Bank Account and they shall be accounted for in the following manner. These shall be treated as liability till the conditions of the grant are met.

- a. Recording of grant received in advance: The details of the Grant as per Sanction Order shall be recorded in the Grant Register (Form AC 24) and Cash Book (Form AC 05) on receipt.
- b. When a specific grant is received the amount will be kept in a specific bank account.

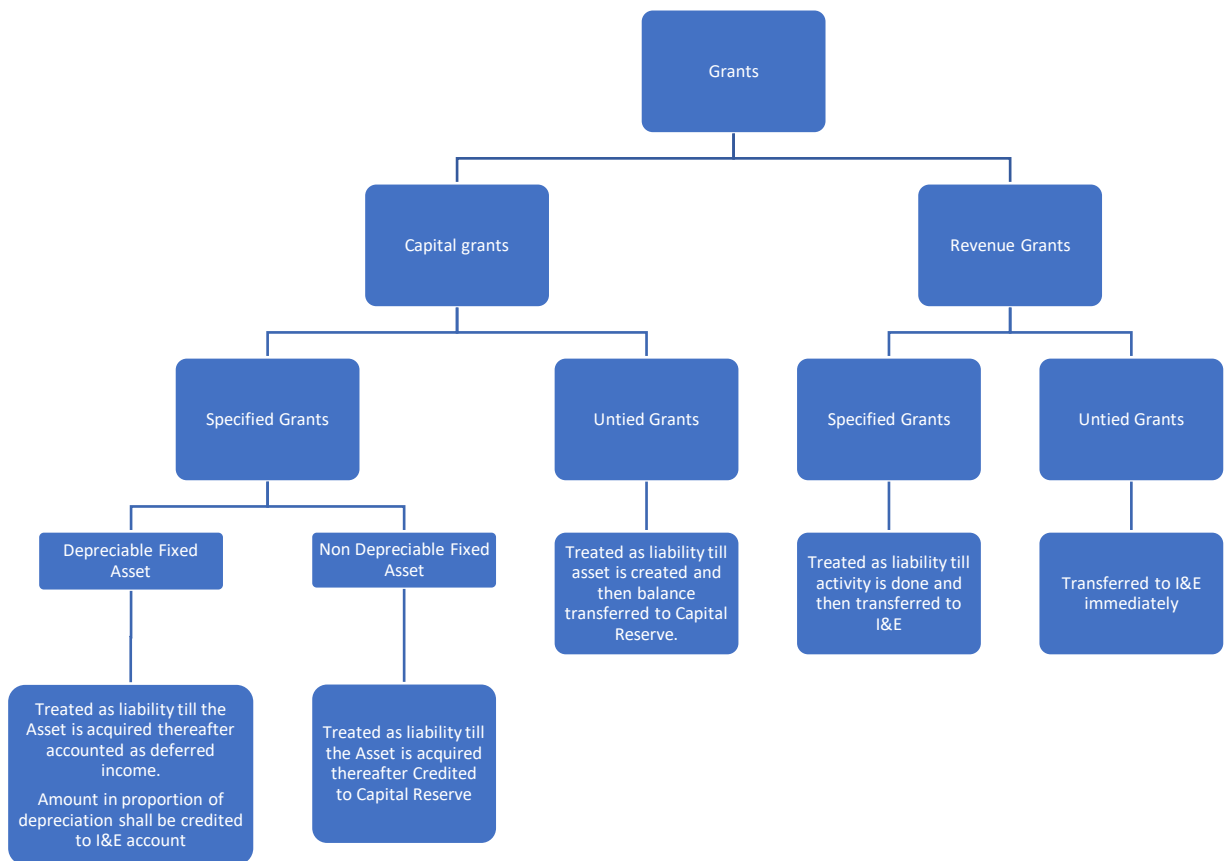
16.1.9. Recording payment to contractors/suppliers: Same procedure as given in the “public Works” chapter-12. Payment shall be made from the respective Designated Grant Bank Account.

16.1.10. All payments will be made from the specific Grant bank account.

16.1.11. For the Specific Grant, the ULB is required to submit an “Utilisation Certificate” in the manner, prescribed in the Grant Sanction Order.

16.1.12. Specified Grant received for non-depreciable fixed asset will be transferred to Capital Reserve once the specific condition has been fulfilled and the asset is acquired. Specified Grant received for depreciable fixed asset shall be treated as deferred income on

capitalisation of capital work-in-progress or on acquisition of such fixed assets, an amount equivalent to the depreciation shall be transferred to Income and Expenditure account every year from the deferment.



## Earnest Money Deposit & Security Deposit

16.1.13. The accounting procedure to be followed for this shall be the same as described in Chapter of the “Public Works”.

## Investment of Funds from Specified Grant Received

- 16.1.14. Investments made from Specified Grants received shall be entered in a Grant Investment Register to be maintained in Form AC 31. The accounting entries /procedures to be followed for investments of such moneys are similar to those followed in respect of other investments.
- 16.1.15. Interest earned on investments, profit/loss on disposal of Investments, if any, shall be updated in the Grant Register (Form AC 24) by the Accounts Department.

## Grants Received as Nodal/ Implementation Agency

- 16.1.16. 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 beneficiary's group who upon spending will produce the relevant expenditure / utilisation statement.
- 16.1.17. Recording of grant received: The details of the Grant Sanction Order shall be recorded in the Grant Register (Form AC 24).
- 16.1.18. Recording of liability for 'Scheme expenses' on receipt of bill: ULBs may receive the bills for payment either directly from the contractors or from the implementing agency. The expenses incurred against Scheme to which the grant is received by the ULB shall be taken to a separate control account to accumulate the expenditure incurred.
- 16.1.19. Recording of payments made to contractor / implementing agency. The payment for the bills shall be made only from the respective designated grant bank account.
- 16.1.20. Recording of payment for deductions made. The deductions made on behalf of the Government shall also be paid from the respective Designated Grant Bank Account.
- 16.1.21. Recording of transfer of money from Designated Grant Bank Account to Main Bank Account on utilisation of common stores. 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 before issue of any common stores. Accounts Department shall update the Grant Register (Form AC 24) for the same.



16.1.22. Recording of Transfer of Scheme expenses on completion of the scheme or at period end:

On completion of the scheme or at the period ends, the total amount of grant received for specified purpose as a nodal agency shall be adjusted to the extent of amounts utilised under the project.

## Period End Procedures

16.1.23. At the period-end it shall be ensured that the bills received in respect of revenue expenditure incurred as well as works executed or acquisition / purchase of fixed assets before the last date of the accounting period, are processed and forwarded to the Accounts Department for accounting and payment within 15 days from the end of the accounting period.

16.1.24. For grants received as a nodal agency, it shall be ensured that the transfer entry is made for expenses incurred against it and the balance in the 'Scheme Expenses – Nodal Agency' account has become nil.

## Repayment of Unutilized Specified Grants Received in Advance

16.1.25. Repayment of unutilised grant. Specified grants are normally to be used within a period specified in the Grant Sanction order. Generally, the Specified grants shall be refunded in the following circumstances:

- On expiry of the period for utilisation of the grant as per grant sanction order.
- The total amount utilised out of the grant is lesser than the amount of the grant received

16.1.26. The unutilised Specified Grant received in advance shall be repaid from the respective Designated Grant Bank Account.

## Specified Grants Received as Reimbursement of Expenditure Incurred by the ULB

16.1.27. Specified 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.

## Internal Controls

16.1.28. The following internal controls shall be observed by the ULB in respect of Grant related transactions:

16.1.29. The Head of the Accounts Department shall ensure that the grant received for a specific purpose shall not be utilised for any other purpose.

16.1.30. The Head of the Accounts Department shall, after entry in Cash Book in respect of grants received, ensure that the grant received is recorded in the Grant Register.

16.1.31. The Chief Municipal Officer/Head of the ULB shall specify such appropriate calendar of returns /reports for monitoring.

16.1.32. **Reconciliation:**

- i. The Head of the Accounts Department and the Head of the Department implementing the project/scheme sponsored by the grant shall yearly reconcile the expenditure incurred during the period in respect of each of the grant from the Ledger (Form AC 07) and the Grant Register (Form AC 24) maintained at the Accounts Department and the relevant records maintained at the respective departments.
- ii. The Head of the Accounts Department shall yearly reconcile the amount of grant received and receivable in the Ledger (Form AC 07) and the Grant Register (Form AC 24) maintained at the Accounts Department.

## Examples of Government Grants

### State Govt Grants-

16.1.33. **State Finance Commission:** Main and major component of this grant is for disbursement of salary and allowances of employees (regular & contractual), then Street lighting and Water bill payments and claims of retired employees. Balance money, if any, can be utilised for development works and only for vehicles related to sanitation and cleaning such as waste carriage, dumper, tipper, JCB, Compactor etc. The Grants need to be utilised in given time and ULBs have to submit Utilisation Certificate (UC) to Government

through Urban Development Directorate (UDD). This grant is non-refundable. Once these grants are received it can be treated as income from grants for the year.

**16.1.34. Special Purpose grants:** These grants are disbursed to few ULBs for specific purposes such as establishing/ strengthening grounds, underground garbage collection containers, constructing public parking, constructions of a Solid Waste Management facility, construction of slaughterhouses, etc.). Grant is disbursed considering ULB-specific requirements. Such grants are generally capital in nature, and its utilisation cannot be diverted for any other purpose. Unspent grant for specified purpose shall be refundable in the event of failure to do the work. These grants will be treated as given in specified capital grants.

**16.1.35. Infrastructure Development Fund:** State Govt allocate a certain amount for infrastructure development activities through the Urban Development Budget. The ULBs which are not able to undertake an important infrastructure development project owing to financial crunch submit their projects to UDD and after scrutiny these are sent to Govt with recommendation. The State Govt. sanction the projects subject to budget allocation in the concerned head. Such grant cannot be diverted for any other use and is returnable in the event of failure. These grants will be treated as given in specified capital grants.

## Central Govt Grants-

**16.1.36. Centrally sponsored schemes:** AMRUT, SBM, PMAY, NULM etc. Majority of the grant components are capital in nature, and refundable, if not spent as per scheme guidelines. These schemes should be accounted separately. Revenue expenditure should be shown in the I&E account with matching transfer from the grants while capital expenditure should be added to CWIP or Fixed Assets as the case may be and grants adjusted over the life of the asset.

**16.1.37. Central Finance Commission:** This is untied fund. ULBs can use this fund as per local need. However, spending on account of salary or other establishment expenses are not permissible. A specific time frame is allowed within which ULBs are supposed to utilise the released amount and submit a utilisation certificate to UDD. This fund is non-refundable. Once these grants are received it can be treated as income from grants for the year.

## MPLAD/ MLA fund-

16.1.38. Under MPLAD scheme, each MP has choice to suggest to the District Collector for works to the tune of Rs 5 crores per annum to be taken up in his/her constituency. Similarly, under MLA LAD scheme in Uttarakhand, each legislator gets 3.75 crore for carrying out development works in his/her constituency in a Financial Year. The works executed within municipal area are transferred to ULBs after its completion. In such cases both the assets and the grant are recognized in the books.

## List of forms and formats to be maintained

Serial number	Form name	Form number	Department (Main Responsibility first)
1	Cash Book	AC 05	Accounts
2	Ledger Account	AC 07	Accounts
3	Receipt	AC 12	Accounts
4	Receipt Register	AC 13	Accounts
5	Register of Security Deposits Other than Cash	AC 22	Accounts
6	Grant Register	AC 24	Accounts
7	Investment Ledger/Register	AC 31	Accounts

## List of Ledgers and Sub Ledgers

List of ledgers and subledgers is given below:

- Revenue Grant (Sub ledger for each type of revenue grant),
- Capital Grant,
- Investment of Grant Received in Advance,
- Income from Investment Made out of Grant Fund

All ledger accounts are having separate code in chart of account, and also separate provision has been kept for creation of sub-ledger code. However, it may be noted that mentioned ledger accounts are used whenever relevant accounting transaction takes place in the ULB.

## Summary of Accounting Policies

Serial Number	Transaction	Accounting Treatment & Recognition
1	Untied (General) Revenue Grant	To be recognised as income on actual receipt. If a sanction order has been received, amount sanctioned shall be accounted as income, and also as "Receivable from Government".
2.	Specified revenue grant	To be accounted as a liability on receipt. It shall be recognised as income in the accounting period in which the corresponding revenue expenditure is charged to the Income and Expenditure Account.
3	Grants received for depreciable fixed assets	Such Grant shall be treated as liability until the asset is constructed / acquired. On Construction / acquisition of the Asset, the extent of liability corresponding to the value of the asset so constructed/ acquired shall stand reduced and the amount shall be treated as deferred Income. Amount proportionate to depreciation of the asset shall be credited to the Income and Expenditure Account every year.
4.	Grants received for non-depreciable assets (with no conditions attached)	The Grant received shall be credited to Capital reserve.
5.	Grants received for non-depreciable assets (with conditions attached)	It shall be credited to income over the same period over which cost of meeting such obligation is charged to income.
6	Building/ constructing of an asset by an external Govt. controlled agency out of Govt. Grants where asset constructed is handed over to the ULB	The whole of the capital cost of the asset as well as the grant should be shown in the books of accounts of the said ULB on transfer of the asset.

## Accounting Entries

(Scheme of Accounting entries have been provided as examples, using few heads from Chart of Account. Accounting personnel, who will pass accounting entries, shall refer to the examples provided herein, and use appropriate accounting code (from Chart of Account) relevant for the specific transaction or series of transactions.)

## Revenue Grants for Non-Specific Purpose

### 1. Receipt of Revenue Grants for a non – specific purpose

Debit / Credit	Code	Details
Debit	450-21-01	Bank A/c
Credit	160-10-06	To Revenue Grant-Revenue Deficit Grant

**Explanation:** When Revenue Grants E.g. Revenue Deficit Grant are received basically for a non-specific purpose, they are recognised as income on their receipt.

**Trigger Point:** Grant sanction order

**Source Document:** Deposit receipt of Bank

**Records updated:** Cash Book, Ledger, Grant Register

## Revenue Grants for Specific Purpose

### 2. Receipt for Grants for a specific purpose

Debit / Credit	Code	Details
Debit	450-61-01	Bank A/c- Specific Grant
Credit	320-20-01	To Grants, contributions for specific purpose-Salary Grant

**Explanation:** When Revenue Grants E.g. Salary Grant are received basically for a specific purpose, they are recognised as Liability on their receipt.

**Trigger Point:** Grant sanction order

**Source Document:** Deposit receipt of Bank

**Records updated:** Cash Book, Ledger, Grant Register

## 3. Payment of expenditure from Revenue Grant received for specific purpose

Debit / Credit	Code	Details
Debit	210-10-01	Salaries, wages and bonus-Basic salary
Credit	450-61-01	To Bank A/c Specific Grant
<b>Explanation:</b> Payment of expenditure from specific Grant Account		
<b>Trigger Point:</b> Payment of expenditure		
<b>Source Document:</b> Government order of Grant, Establishment records		
<b>Records updated:</b> Cash Book, Ledger, Grant Register		

## 4. Recognising income in respect of revenue expenditure incurred from Specific Grant

Debit / Credit	Code	Details
Debit	320-20-01	Grants, contributions for specific purpose-Salary Grant
Credit	160-10-01	To Revenue Grant-Salary
<b>Explanation:</b> The specific Revenue Grant e.g. Salary Grant which was treated as a Liability at the time of receipt, has to be now recognised as an income, to the extent revenue expenditure has been booked in the Income & Expenditure Account.		
<b>Trigger Point:</b> When the specific expenditure has been incurred.		
<b>Source Document:</b> Calculation sheets and Grant Register		
<b>Records updated:</b> Journal book, Ledger, Grant Register		

## 5. Refund of revenue grant received for Specific Purpose

Debit / Credit	Code	Details
Debit	270-30-05	Revenue Written off - Grant [Amount already recognised as income, if any]
Credit	350-40-07	To Refund Payable for specific grants [Total Grant amount refundable]

**Explanation:** The specific revenue Grant received, sometimes become refundable because certain conditions are not fulfilled, or the amount of grant is not utilized within the period specified in the Grant order. In that case the total amount refundable has to be charged to the income and expenditure account to the extent of amount recognised as income.

**Trigger Point:** Non fulfilment of conditions attached to the Grant

**Source Document:** Calculation sheets, Grant Order

**Records updated:** Journal Book, Ledger

## 6. Payment of Grant refundable

Debit / Credit	Code	Details
Debit	350-40-07	Refund Payable for specific grants
Credit	450-61-01	To Bank A/c Specific Grant

**Explanation:** The specific revenue Grant received, sometimes become refundable because certain conditions are not fulfilled, or the amount of grant is not utilized within the period specified in the Grant order.

**Trigger Point:** Payment of Refund payable

**Source Document:** Calculation sheets, Grant Order

**Records updated:** Cash Book, Ledger

## Capital Grant for Depreciable Fixed Asset

### 7. Receipt of Grant for depreciable fixed asset

Debit / Credit	Code	Details
Debit	450-61-01	Bank A/c- Specific Grant
Credit	320-10-01	To Grants and contributions for specific purposes- <sup>**th</sup> Finance Commission

**Explanation:** When Capital Grants are received, they are to be utilised only for that specific purpose. In case it is received in Advance or has not been utilised, it shall remain as a Liability (Illustration - Received from <sup>\*\*th</sup> Finance Commission).

**Trigger Point:** Receipt of grant sanction order

**Source Document:** Deposit receipt of Bank



**Records updated:** Cash Book, Ledger, Grant Register

## 8. Payment out of Capital Grants and related Entries

16.1.39. Entries relating to the payment of advances to contractors/ suppliers out of Capital Grants, recording of bills from contractors, payment of bills of contractors and Entries for receipt of Security Deposit, Earnest Money Deposit, capitalisation of fixed assets shall be same as mentioned in the chapter-12 on Public Works.

## 9. Recognition of Grant received for depreciable fixed asset as Deferred Income

Debit / Credit	Code	Details
Debit	320-10-01	Grants and contributions for specific purposes- <sup>**th</sup> Finance Commission
Credit	312-12-01	To Deferred Income - Grant against depreciable Fixed Asset Account

**Explanation:** The specific Capital Grant which was treated as a Liability at the time of receipt e.g. <sup>\*\*th</sup> Finance Commission, has to be now treated as deferred income, to the extent of capitalisation has been booked for the asset.

**Trigger Point:** At the end of a certain period or when the Asset is ready/ put to use.

**Source Document:** Calculation sheets, Work Sheet

**Records updated:** Journal Book, Ledger, Grant Register

## 10. Recognition of Income in the ratio of depreciation

Debit / Credit	Code	Details
Debit	312-12-01	Deferred Income - Grant against Fixed Asset Account
Credit	160-40-01	To Recovery of depreciation expense

**Explanation:** The Grant received towards capital assets, has to be transferred as income in proportion to the Depreciation charged on the Asset.

**Trigger Point:** At the year end, the relevant deferred Grant income Account shall stand reduced

**Source Document:** Calculation sheets, Register of Immovable property, Register of Movable property

**Records updated:** Journal Book, Ledger,

## 11. Refund of Grant on violation of attached conditions

Debit / Credit	Code	Details
Debit	320-10-01	Grants and contributions for specific purposes-***th Finance Commission
Credit	350-40-07	To Refund Payable for specific grants [Total Grant amount refundable]

**Explanation:** The specific Grant received, sometimes become refundable because certain conditions are not fulfilled as per the Grant order. In that case the total amount refundable has to be reduced from the liability recognised at the time of receipt of Grant.

**Trigger Point:** Non fulfilment of conditions attached to the Grant

**Source Document:** Calculation sheets, Grant Order

**Records updated:** Journal Book, Ledger

## 12. Payment of Grant refundable

Debit / Credit	Code	Details
Debit	350-40-07	Refund Payable for specific grants
Credit	450-61-01	To Bank A/c Specific Grant

**Explanation:** The specific Grant received, sometimes become refundable because certain conditions are not fulfilled, or the amount of grant is not utilized within the period specified in the Grant order.

**Trigger Point:** Payment of Refund payable

**Source Document:** Calculation sheets, Grant Order

**Records updated:** Cash Book, Ledger

## Capital Grant for Non-Depreciable Fixed Asset

### 13. Receipt of Grant for non-depreciable fixed asset (With no Condition)

Debit / Credit	Code	Details
Debit	450-61-01	Bank A/c Specific Grant
Credit	312-11-01	To Capital Reserve
<b>Explanation:</b> The specific Capital Grant received for non-depreciable asset without any conditions attached to it shall be transferred to capital reserve on receipt. <b>Trigger Point:</b> When the Grant is received. <b>Source Document:</b> Calculation sheets, Work Sheet <b>Records updated:</b> Journal Book, Ledger, Grant Register		

### 14. Payment of Grant refundable

16.1.40. The Entry relating to payment of grant refundable for non-depreciable asset (with no conditions attached) will be similar to entry number 10 above.

### 15. Receipt of Grant for non-depreciable fixed asset (With Conditions attached)

16.1.41. The Entry relating to receipt of grant for non-depreciable asset (with conditions attached) will be similar to Grant received for depreciable fixed asset, entry number-5 above.

### 16. Recognition of Grant received for non-depreciable fixed asset (with conditions attached) as Deferred Income

Debit / Credit	Code	Details
Debit	320-10-01	Grants and contributions for specific purposes-***th Finance Commission
Credit	312-12-02	To Deferred Income - Grant against non-depreciable Fixed Asset Account

**Explanation:** The specific Capital Grant which was treated as a Liability at the time of receipt e.g. <sup>\*\*\*</sup>th Finance Commission, has to be now treated as deferred income, to the extent of capitalisation has been booked for the asset.

**Trigger Point:** At the end of a certain period or when the Asset is ready/ put to use.

**Source Document:** Calculation sheets, Work Sheet

**Records updated:** Journal Book, Ledger, Grant Register

## 17. Amortisation of Grant received for non-depreciable asset (with conditions attached)

Debit / Credit	Code	Details
Debit	312-12-02	Deferred Income - Grant against non-depreciable Fixed Asset Account
Credit	160-40-02	To Amortisation of Grant received for non-depreciable asset

**Explanation:** The capital grant received for non-depreciable asset (with no conditions attached) recognised as deferred revenue will be credited to the Income and Expenditure account over the same period over which cost of meeting such obligation is charged to income.

**Trigger Point:** At the end of the accounting year.

**Source Document:** Calculation sheets, Work Sheet

**Records updated:** Journal Book, Ledger

## 18. Refund of Grant received for non-depreciable asset (with conditions attached)

Debit / Credit	Code	Details
Debit	320-10-01	Grants and contributions for specific purposes- <sup>***</sup> th Finance Commission
Credit	350-40-07	To Refund Payable for specific grants [Total Grant amount refundable]

**Explanation:** The specific Grant received, sometimes become refundable because certain conditions are not fulfilled as per the Grant order. In that case the total amount refundable has to be reduced from the liability recognised at the time of receipt of Grant.

**Trigger Point:** Non fulfilment of conditions attached to the Grant

**Source Document:** Calculation sheets, Grant Order

**Records updated:** Journal Book, Ledger

## 19. Payment of Grant refundable

16.1.42. The Entry relating to payment of grant refundable for non-depreciable asset (with conditions attached) will be similar to entry number 10 above.

## 20. Repayment of unutilized specific Grant

Debit / Credit	Code	Details
Debit	320-30-01	Grants and contributions for specific purposes
Credit	450-61-01	To Bank A/c-Grant Funds

**Explanation:** Specific Grants are normally to be used within a period specified in the Government sanction order.

**Trigger Point:** Generally, the Specific Grants shall be refunded in the following circumstances:

- On expiry of the period for utilisation of the Grant as per sanction order
- The total amount utilised out of the Grant is lesser than the amount of the Grant received.

**Source Document:** Calculation sheets, Grant Register

**Records updated:** Journal Book, Ledger,

## Non-Monetary Grant

### 21. Receipt of grant in the form of non-monetary asset (e.g. Land) free of cost

Debit / Credit	Code	Details
Debit	410-10-05	Vacant Land [Rs.1/-]
Credit	310-10-01	To Municipal Fund [Rs.1/-]

**Explanation:** Government grants received in the form of non-monetary asset free of cost shall be recorded at nominal value in the books of the ULB.

**Trigger Point:** At the time of receipt of non-monetary grant.

**Source Document:** Grant sanction order

**Records updated:** Journal Book, Ledger, Grant Register, Fixed Asset Register

## Receipt of Grant as Nodal Agency

### 22. Receipt of Grant as nodal agency

- i. Receipt of Grant as a nodal agency shall be booked as a separate Grant and credited to a separate Bank Account

Debit / Credit	Code	Details
Debit	450-61-01	Bank A/c-Grant Funds
Credit	320-30-01	To Grants and contributions for specific purposes

**Explanation:** When Grant is received as nodal agency, the above entry is to be passed.

**Trigger Point:** Receipt of Grant

**Source Document:** Deposit receipt of Bank

**Records updated:** Cash Book, Ledger, Grant Register

## 23. Expenditure on projects for which the ULB is an implementing / nodal agency

Debit / Credit	Code	Details
Debit	460-80-04	Scheme Expenses
Credit	450-61-01	To Bank A/c – Grant Funds

**Explanation:** ULBs may receive the bills for payment either directly from the contractor's or from the implementing agency. The Expenses incurred against Scheme to which the Grant is received by the ULB shall be paid from the specific Grant fund Bank account.

**Trigger Point:** Receipt of bills from the contractor's

**Source Document:** Bills of contractor's/ MB records, Work Sheet

**Records updated:** Cash Book, Ledger

## 24. Transfer of expenditure incurred for which the ULB is an implementing / nodal agency

Debit / Credit	Code	Details
Debit	320-30-01	Grants and contributions for specific purposes
Credit	460-80-04	To Scheme Expenses

**Explanation:** On completion of the scheme or at the period ends, the total amount of Grant received for specific purpose, as a nodal agency shall be adjusted to the extent of amounts utilised under the project.

**Trigger Point:** End of the project/ accounting period

**Source Document:** Calculation sheets

**Records updated:** Journal Book, Ledger, Grant Register

## Chapter 17: Borrowings or Loans received

*This chapter contains the recommended accounting system for transactions relating to loans received by the ULB. Form AC 23 and AC 31 will be maintained by the Accounts department.*

### Introduction

#### 17.1.1. Loan Process:

- The ULB will place its requirement of borrowing to a Board meeting. A Board resolution will approve the proposal.
- ULB will send its feasibility report, purpose for taking the loan along with the copy of Boards resolution to the Director of the Urban Development Directorate (UDD).
- Director, UDD will review and forward the same to the Secretariat (Urban & Finance Department) for its approval.
- Once approved by Secretariat (Urban Department in concurrence from Finance Department), the ULB becomes eligible to apply for a loan.
- ULB may borrow funds, either by issuing debentures, or otherwise, for the purposes specified in the approval. Unless specifically approved by the State Government, the loans cannot be used for any purpose other than that specified in the approval.

17.1.2. 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 to 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.



## Accounting Records and Procedures

- 17.1.3. The amount borrowed as per the terms of sanction shall be entered in the Register of Loans in Form AC 23 maintained by the Accounts Department of the ULB. A separate folio shall be allotted for each loan taken.

### Accounting of Interest Payable on Loan/Debentures

- 17.1.4. The amount of interest remaining unclaimed or unpaid shall be treated as Current Liability
- 17.1.5. Recording of interest accrued but not due. For the period between the date of last payment of interest till the end date of Financial Year, the amount of interest accrued for the period aforesaid shall be determined and a provision shall be made for it.

### Investment of Sinking Fund

- 17.1.6. Establishment of Sinking Fund: For creation / addition to Sinking fund. Where the terms of sanction for raising loan or issuing debentures provides for establishment of a Sinking Fund, an amount stipulated in the terms of sanction shall be transferred to the Sinking Fund from the Municipal Fund at the end of the year.
- 17.1.7. Investments made in respect of Sinking Fund shall be entered in a Sinking Fund Investment Register (Form AC 31). The accounting entries / procedures to be followed for investments of such moneys are similar to those followed in respect of other investments.
- 17.1.8. Interest earned on Investments, profit / loss on disposal of Investments, if any, shall be updated in Form AC 31.

### Creation of Fund for repayment of Borrowings, and managing fund

- 17.1.9. **Establishment of Sinking Fund:** Recording of transfer from Municipal Fund to make good the deficit in Sinking Fund observed during an examination of sinking fund investment. On examination, if it is observed that the present value of sinking fund investment is less than the value of the Fund stipulated in terms of sanction, the difference shall be made good from the Municipal Fund.
- 17.1.10. **Creation of Escrow account:** Where the terms of sanction for raising loan or issuing debentures provide for the establishment of an Escrow account, an amount equivalent to

that stipulated in the sanction shall be transferred to the Escrow account based on collections of earmarked income. For e.g. if a loan has been taken for building Sewerage Network, then out of the sewer connection and collection charges collected, an amount equal to certain percentage of such income shall be deposited into the Escrow account.

**17.1.11. Investment of Sinking Fund/Escrow account:** Investments made in respect of Sinking Fund/ Escrow account shall be entered in Investment Register (Form AC 31). The accounting entries / procedures to be followed for investments of such moneys are similar to those followed in respect of other investments. Interest earned on Investments, profit/loss on disposal of Investments, if any, shall be updated in the Investments Register.

**17.1.12. Repayment of borrowings/Debenture:** Repayment of Borrowings / Debentures made from the designated Bank account by debiting the respective Borrowing / Debenture account code. The repayment will be made from the proceeds of the Investment out of Sinking fund. If any surplus remains in the sinking fund bank account after the repayment of the Loan, such surplus in the Sinking Fund Bank Account will be transferred to the main bank account. If there is a loss at maturity on disposal of the Investment made from the sinking fund, such loss will be adjusted from the Main Bank Account of the ULB. In that case, amount equivalent to the shortfall due to such loss will be transferred from the main Bank Account to the Sinking Fund Bank Account. The Accounts department will update the Investment Register (AC 31) on encashment of Sinking Fund Investment and Register of Loan (AC 23) at the time of repayment.

**17.1.13. Repayment of borrowings / Debenture when sinking Fund is not maintained:** Where the ULB does not maintain a sinking Fund, the repayment of borrowings / debenture will be made out of the fund available in the General Bank Account.

## Accounting for Expenditure Incurred in Raising Loans or Issuing Debentures

**17.1.14. 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 (Loan Issue Expenses) shall be in the nature of deferred revenue expenditure.

**17.1.15. Recording of amortisation of Loan Issue Expenses:** The Loan Issue Expenses shall be amortised in equal instalments over a period of 5 years or the tenure of the loan

whichever is lower. For instance, issue expenses of Rs. 50,000 incurred for raising loan shall be amortised over a period of 5 years in equal instalments of Rs. 10,000/- every year. At the end of each Financial Year, for amortising the relevant portion of Loan Issue Expenses, the Accounts Department shall pass the entry.

**17.1.16. Recording of write-off of Loan Issue Expenses:** In case the loans are pre-paid, or debentures are redeemed prematurely, the balance outstanding in the Loan Issue Expenses shall be written-off during the year in which the prepayment or premature redemption has been made.

## Internal Controls

**17.1.17.** The following internal controls shall be observed by the ULB in respect of Loans related transactions:

**17.1.18.** The Head of the Accounts department will ensure that the process for acceptance of loan as given in Para 17.1.1 has been followed.

**17.1.19.** 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 till the end date of Financial Year and is charged to the current period's Income and Expenditure Statement.

**17.1.20.** 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.

**17.1.21.** The Chief Municipal Officer/Head of the ULB shall specify such appropriate calendar of returns /reports for monitoring.

**17.1.22. Reconciliation:**

- i. 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.
- ii. For the purpose of ensuring proper utilization of Loan account, the Head of the Accounts Department shall reconcile the funds borrowed with utilisation certificate prepared by implementing agencies.

- iii. The Head of the Accounts Department shall carry out physical verification of Sinking Fund Investment documents and compare with the Sinking Fund Investment Account.

## List of forms and formats to be maintained

Serial number	Form name	Form number	Department (Main Responsibility first)
1	Cash/Bank Payment Voucher	AC 09	Accounts
2	Register of Loans	AC 23	Accounts
3	Investment Register	AC 31	Accounts

## List of Ledgers and Sub Ledgers

List of ledgers and subledgers is given below:

- Loan from State Government,
- Loan from Central Government,
- Loan issue Expenses,
- Debenture,
- Sinking Fund,
- Interest Payable,
- Interest Expenses,
- Investment made out of Sinking Fund,
- Income from investment made out of Sinking Fund

All ledger accounts are having separate code in chart of account, and also separate provision has been kept for creation of sub-ledger code. However, it may be noted that mentioned ledger accounts are used whenever relevant accounting transaction takes place in the ULB.

## Summary of Accounting Policies:

Serial Number	Transaction	Basis of Accounting
1	Loans taken by ULB under any scheme	Accounted as liabilities and shall be reduced by repayments made towards such loans.
2	Interest/penal interest on loans	Recognised as expenditure in the period in which they accrue.

## Accounting Entries

(Scheme of Accounting entries have been provided as examples, using few heads from Chart of Account. Accounting personnel, who will pass accounting entries, shall refer to the examples provided herein, and use appropriate accounting code (from Chart of Account) relevant for the specific transaction or series of transactions.)

### 1. When Loans are Received / Debentures / Bonds are raised

Debit / Credit	Code	Details
Debit	450-21-01	Bank A/c-Loan
Credit	330-20-01	To Secured Loans-State Government
Credit	331-20-01	To Unsecured Loans-State Government

**Explanation:** When loans are received by Municipality e.g. from State Government / others, the above entry is passed. Details of loans such as rate of interest, tenure, repayment schedule, interest payment, dates etc. need to be maintained in a Loan Register. On receipt of loans in the form of debentures or bonds, the respective Account will be debited. When the loans are being re-paid, a reverse entry shall be passed.

**Trigger Point:** Receipt of Funds

**Source Document:** Loan application/ Sanction letter

**Records updated:** Cash Book, Ledger, Loan Register

## 2. When Interest on Loan becomes due

Debit / Credit	Code	Details
Debit	240-20-01	Interest and Finance Charges-State Government
Credit	350-12-02	To Interest accrued and due
Credit	360-20-01	To Provision for interest

**Explanation:** Above entry is passed to account for interest Expenses as and when they fall due, as per the loan agreement e.g. with State Government. The amount due is recognised and transferred to the interest payable Account. Amount of Interest accrued and not due shall be credited to a Provision for Interest Account

**Trigger Point:** Due date/ Financial Year end

**Source Document:** Loan application/ Sanction letter, Loan Register

**Records updated:** Journal Book, Ledger

## 3. Recording of reversal of interest provisioning

Debit / Credit	Code	Details
Debit	360-20-01	Provision for interest
Credit	350-12-02	To Interest accrued and due

**Explanation:** Above entry is passed when provision made for interest accrued and not due is reversed when such interest becomes accrued and due. Provision for Interest Account is debited whereas Interest accrued, and due account has been credited.

**Trigger Point:** Due date/ Financial Year end

**Source Document:** Loan application/ Sanction letter, Loan Register

**Records updated:** Journal Book, Ledger

## 4. When Interest is paid

Debit / Credit	Code	Details
Debit	350-12-02	Interest accrued and due
Credit	450-21-01	To Bank A/c

**Explanation:** This entry will be passed at time of actual payment of the interest to the lender. Any interest amount, which has accrued but has not been paid to the lender, will appear as part of interest payable at the year end.

**Trigger Point:** Payment of interest

**Source Document:** Loan Register

**Records updated:** Cash Book, Ledger

## 5. Creation of Sinking Fund for repayment of loan

Debit / Credit	Code	Details
Debit	290-10-02	Transfer to Sinking Fund (appropriation from Municipal Fund)
Credit	311-50-01	To Sinking Fund

**Explanation:** Where the terms of sanction for raising loan or issuing debenture provides for establishment of a Sinking Fund, an amount stipulated in the terms of sanction shall be transferred to the Sinking Fund from the Municipal Fund at the end of the year. In case the fund is allocated from any other Fund, the same shall be debited.

**Trigger Point:** End of period

**Source Document:** Loan Register, Calculation Sheet

**Records updated:** Journal Book, Ledger

## 6. Transfer of Funds from Main Bank Accounts to Sinking Fund Account

Debit / Credit	Code	Details
Debit	450-41-01	Bank A/c-Sinking Fund
Credit	450-21-01	To Bank A/c-Main Account
<b>Explanation:</b> The amount so transferred to the Sinking Fund from the Municipal Fund shall be deposited in a separate Bank Account. This Bank Account can be kept with the ULB or maintained by the Collector <b>Trigger Point:</b> Transfer of amount <b>Source Document:</b> Transfer documents <b>Records updated:</b> Cash Book, Ledger		

## 7. Investment of fund available in sinking fund bank account

Debit / Credit	Code	Details
Debit	420-20-01	Investment in State Government securities- Sinking Fund
Credit	450-41-01	To Bank A/c-Sinking Fund
<b>Explanation:</b> The above entry is to be passed when investment is made of out of the funds available in Sinking fund bank account. <b>Trigger Point:</b> At the time of investment <b>Source Document:</b> Payment voucher <b>Records updated:</b> Cash Book, Ledger		

## 8. Interest accrued on the investment made

Debit / Credit	Code	Details
Debit	431-40-02	Receivables-Interest from others
Credit	311-50-01	To Sinking Fund
<b>Explanation:</b> The above entry is to be passed when interest is due from investment made of out of the funds available in Sinking fund bank account. <b>Trigger Point:</b> Interest due <b>Source Document:</b> Investment register		



**Records updated:** Journal, Ledger

## 9. Receipt of Interest accrued

Debit / Credit	Code	Details
Debit	420-20-01	Investment in State Government securities- Sinking Fund
Credit	431-40-02	To Receivables-Interest from others

**Explanation:** The above entry is to be passed when interest accrued on the Investment made out of sinking fund is adjusted with that Investment.

**Trigger Point:** At the of adjustment of Interest receivable with the Investment.

**Source Document:** Investment register

**Records updated:** Journal, Ledger

## 10. Amount received on maturity of sinking fund investment

Debit / Credit	Code	Details
Debit	450-41-01	Bank A/c-Sinking Fund
Credit	420-20-01	Investment in State Government securities- Sinking Fund

**Explanation:** The above entry is to be passed when investment made out of the sinking fund is matured and the amount is received on maturity.

**Trigger Point:** Maturity of Investment

**Source Document:** Investment register, Receipt voucher

**Records updated:** Cash Book, Ledger

## 11.Payment of interest and repayment of loan from sinking fund bank account

Debit / Credit	Code	Details
Debit	330-20-01	Secured loans-State Government
Debit	240-20-01	Interest on Loans from State Government
Credit	450-41-01	To Bank A/c-Sinking Fund

**Explanation:** The above entry is to be passed when repayment of loan and interest is made from sinking fund bank account

**Trigger Point:** Repayment of Loan

**Source Document:** Payment voucher

**Records updated:** Cash Book, Ledger

## 12.Transfer of balance in sinking fund to Municipal Fund on closure of the loan

Debit / Credit	Code	Details
Debit	311-50-01	Sinking Fund
Credit	310-10-01	To Municipal Fund

**Explanation:** The above entry is to be passed when the Loan is repaid and the balance standing at the credit of Sinking Fund is transferred to municipal fund.

**Trigger Point:** End of period

**Source Document:** Loan register

**Records updated:** Journal, Ledger

## 13. Transfer of surplus in sinking fund bank account to Main bank account

Debit / Credit	Code	Details
Debit	450-21-01	Bank A/c-Main Account
Credit	450-41-01	Bank A/c-Sinking Fund

**Explanation:** The above entry is to be passed if any surplus remains in the sinking fund bank account after the repayment of the Loan. Such surplus in the Sinking Fund Bank Account will be transferred to the main bank account. If there is a loss at maturity on disposal of the Investment made from the sinking fund, such loss will be adjusted from the Main Bank Account of the ULB. In that case, amount equivalent to the shortfall due to such loss will be transferred from the main Bank Account to the Sinking Fund Bank Account.

**Trigger Point:** Transfer of amount

**Source Document:** Transfer documents

**Records updated:** Cash book, Ledger

## Municipal Bond and Credit Rating of Bond

17.1.23. Issue of Municipal Bonds for development of urban infrastructure. Subject to such guidelines and procedure as the Central Government may lay down from time to time and with the previous approval of the State Government, the Municipality may issue tax-free Municipal Bonds for financing of projects for development of urban infrastructure.

17.1.24. **Credit rating of Municipal Bonds:**

- A Municipality shall, if and when required for the purpose of raising funds through a Municipal Bond, arrange to have a credit rating of the Municipal Bonds by a Credit Rating Agency, duly approved by the Central Government or the State Government, as the case may be.
- The Municipality shall provide to the Credit Rating Agency such information as it may require.

17.1.25. **Pledging of municipal assets as security for Municipal Bonds:**

- The Municipality may pledge its movable and immovable assets including lands, buildings, and revenues from tax in special escrow accounts as security for the Municipal Bonds issued for development of urban infrastructure.

17.1.26. **Use of proceeds from Municipal Bonds:**

The fund to be raised from the Municipal Bonds shall be used for the purpose for which it was raised. Funds will have to be used for the intended purpose as given in the prospectus and offer documents. Diversion of funds is a serious offence.

17.1.27. Municipal Bonds: Impact on ULB Accounts & Audit

Municipal Bonds Regulation is governed by SEBI (Issue and Listing of Debt Securities by Municipalities) (Amendment) Regulations, 2019. The main points covered in these guidelines are as follows:

## ➤ **Accounting and Audit**

- An Issuer, being a Municipality, shall prepare its accounts in accordance with the National Municipal Accounts Manual or in accordance with similar Municipal Accounts Manual adopted by the respective State Government.

Provided that in case of the Issuer being a Corporate Municipal Entity, the accounts shall be prepared in accordance with section 129 and 134 of the Companies Act, 2013 and the rules made thereunder.

- In case of the Issuer being a Municipality, the accounts of the issuer shall be audited by the persons appointed by the Municipal Corporations, as permissible under its constitution/state legislation governing the Municipality

Provided further that in case of an issuer being a Corporate Municipal Entity, the accounts of the issuer shall be audited by an auditor, in terms of section 139 of the Companies Act, 2013 and the rules made thereunder.

Provided further that within six months of the close of every Financial Year, the bank account for issue proceeds and separate escrow account with earmarked revenues, shall be audited by the person mentioned above

- For this purpose, “Corporate Municipal Entity” means a company as defined under Companies Act, 2013, which is a subsidiary of a municipality and which is set up for the purpose of raising funds for a specific municipality or group of municipalities

## ➤ **Utilization of Issue Proceeds**

- The funds raised from issue of Municipal Bonds shall be used only for the projects that are specified under objects in the offer document.
- The proceeds of the proposed issue shall be clearly earmarked for a defined project or a set of projects.
- It will be mandatory for the issuer to obtain rating from a credit rating agency registered with SEBI before the issuance of Municipal Bonds.

- The issuers shall maintain a separate account of the amount raised from the issuance of Municipal Bond, to be utilised only for the project related expenditure.

➤ **Continuous compliance Conditions**

- All the issuers making public issues of debt securities or seeking listing of debt securities issued on private placement basis, shall comply with conditions of listing including continuous disclosure and other requirements specified by the Board in general and those specified in Schedule V to these Regulations in specific, till the debt securities are listed on the stock exchange
- The issuer, the respective debenture trustees, wherever appointed, and stock exchanges shall disseminate all information and reports regarding debt securities including compliance reports filed by the issuers and the debenture trustees, if appointed, to the investors and the general public by placing them on their websites.
- The issuer shall file its Annual Audited financial results, forthwith, with the stock exchange and debenture trustee, wherever applicable.
- Following periodic disclosures/compliances shall be made by the Issuer on half yearly basis to the stock exchange and debenture trustee, wherever applicable:
  - Half yearly certification of Chartered Accountant on Utilizations of the issue proceeds for execution of the projects stated in the offer document.
  - Material adverse changes affecting ability to service bonds.
  - Important ratios like Debt Equity Ratio, Debt Service Coverage Ratio, Interest Service Coverage Ratio etc.
  - Half Yearly return on servicing of bonds, maintenance of Asset Cover, Credit enhancement facilities and Investors Grievances & Redressal.
  - A CA/Bank certificate for timely servicing of bonds.

## Chapter 18: Special Funds

*This section describes the records, registers, documents, forms, accounting entries, etc., in respect of accounting for transactions related to Special Funds. Form AC 23 and AC 31 will be maintained by the Accounts department*

### Introduction

18.1.1. 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.

18.1.2. The following is an illustrative list of the Special Funds that may be created by the ULB:

(A) Development Funds

- Road Fund
- Water Supply Reserve Fund
- City Development Funds
- Solid Waste Management Fund
- Infra-Structure Development Fund
- Employee Funds:
- Pension Fund
- General Provident Fund / Contributory Provident Fund
- Welfare Fund, etc.

(B) Sinking Funds:

- Asset Replacement Fund
- Debt Repayment Fund

18.1.3. The accounting procedure in respect of employee funds are described in Chapter of “Employee Related Transactions”.

- 18.1.4. The accounting procedure for creation/addition to sinking fund and its utilisation, investments made from fund and other related aspects are described in Chapter relating to “Borrowings” (Loans Received)
- 18.1.5. This chapter essentially covers the accounting procedures in respect of Development Funds only.

## Accounting Records and Procedures

### Creation of Funds

- 18.1.6. 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 where details of each fund created, expenditure incurred in respect of each fund, etc., is separately recorded.
- 18.1.7. 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 appropriate entry:
- 18.1.8. 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.
- 18.1.9. 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.
- 18.1.10. In respect of Development Charges, the amount collected shall be transferred to Development Fund. In addition, money equal to Development Charges so collected shall be transferred from the Main Bank Account to Development Fund Bank Account.
- 18.1.11. Similar procedure shall be followed for identifying transactions and transferring an equivalent amount to designated bank account pertaining to various other Special Funds created/ought to be created.



## Utilization of Funds

- 18.1.12. 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.
- 18.1.13. The accounting procedure to be followed in respect of revenue expenditure & Capital Expenditure incurred against Special Fund shall be the same as provided for "Public Works", "Stores" and "Other Revenue Expenditures"
- 18.1.14. Payment of advance to contractor/supplier in respect of a Special Fund. Any advance if 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.
- 18.1.15. 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 and pass necessary entry.
- 18.1.16. Earnest Money Deposit and Security Deposit: Any amount received or paid on account of Earnest Money Deposit & Security Depositing 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 shall be the same as of "Public Works".
- 18.1.17. 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.
- 18.1.18. 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).

## Investment of Special Funds

18.1.19. Investments made in respect of Special Fund shall be entered in a Special Fund Investment Register (Form AC 31). The accounting procedures 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.

18.1.20. Interest earned on Investments, profit/ loss on disposal of Investments, if any, shall be updated in the Special Fund Register (Form AC 31) by the Accounts Department.

## Period End Procedures

18.1.21. In respect of capital project / schemes, bills received in respect of works executed or acquisition / purchase of fixed assets before the last date of the accounting period, must be processed and forwarded to the Accounts Department for accounting and payment by 15th April of the next Financial Year.

## On Closure of Funds

18.1.22. On closure of Special Funds: Once the purpose for which the Special Fund created is achieved, the unutilised balance in the fund, if any, shall be transferred from Special Fund to Municipal Fund by transferring the money from the Special Fund Bank Account to the Main Bank Account. The approval of the ULB shall be obtained wherever required.

## Internal Controls

18.1.23. 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. AC 11 prepared to record the transaction, shall provide reference to the Special Fund Register.

18.1.24. 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.

18.1.25. The Head of the Accounts Department and/ 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.

18.1.26. The Chief Municipal Officer/Head of the ULB shall specify such appropriate calendar of returns /reports for monitoring.

**18.1.27. Reconciliation:**

- i. 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.
- ii. 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.
- iii. At the end of the year, 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.

**List of Forms and formats to be maintained shall be similar to the forms as mentioned in Chapter 17 “Borrowings or Loans received”.**

## **List of Ledgers and Sub Ledgers**

List of ledgers and subledgers is given below:

- Development Fund (Sub ledger for each type of special funds received),
- Sinking Fund,
- Investment of Special Funds,
- Income from Investment out of special fund,
- Expenditure from the designated fund

All ledger accounts are having separate code in chart of account, and also separate provision has been kept for creation of sub-ledger code. However, it may be noted that mentioned ledger accounts are used whenever relevant accounting transaction is happening in ULB.

## Summary of Accounting Policies:

Serial Number	Transaction	Basis of Accounting
1	Accounting treatment on creation of special fund	Special Fund will be created from the Municipal Fund. Special Funds provided for specific purpose shall be treated as a liability on their creation.
2	Income on investments made from Special Fund	<ul style="list-style-type: none"> <li>➤ Recognised and credited to Special Fund, whenever accrued.</li> <li>➤ Profit/loss, if any, arising on disposal of investments made from the Special Fund shall be recognised and adjusted to Special Fund Account</li> </ul>
3	Revenue expenditure out of special fund	Revenue expenditure incurred specifically on scheme/project for the purpose for which the special fund is created shall be charged to that Special Fund.
4	Creation / Acquisition of Fixed Asset from the Special Fund and closure of the special fund of achievement of fund objective	The amount of capital expenditure incurred as well as the unspent balance lying at the credit of the respective special fund shall be transferred to Municipal fund. The amount lying in the special fund bank account will be transferred back to the Main Bank Account

**Accounting Entries – For accounting entries please refer chapter 17 – “Borrowings or Loans received” entry numbers 5 to 13.**

## Chapter 19: Lease and Hire Purchase

*This chapter contains the accounting system for transactions relating to fixed assets purchased or sold under hire purchase and leases by ULBs. Procurer department/s is/are responsible to provide all such procurement details to Accounts department in time for proper accounting of Lease and Hire purchase transactions*

### Introduction

- 19.1.1. A lease is an agreement where the Lessor conveys to the Lessee the right to use an asset for an agreed period of time in return for a payment or series of payments. One who grants the lease is called “Lessor” and the party taken the asset on lease, is called “Lessee”.
- 19.1.2. A lease is classified as a finance lease if it transfers substantially all risks and rewards incident to ownership. Contextually under finance lease agreement the ownership passes on to the lessee on completion of the lease.
- 19.1.3. All other leases are classified as operating leases. In case of an operating lease the ownership always remains with the Lessor.
- 19.1.4. Whether a lease is finance lease or an operating lease depends on the substance of the transaction rather than the form. Classification is made at the inception of the lease.
- 19.1.5. Hire purchase agreement is a contract, also called “Contract of hire” with an option of purchase, in which a person hires goods for a specified period and at a fixed rent, with the added condition that if he retains the goods for the full period and pay all the instalments of rent as they become due the contract shall determine and the title vest absolutely in him.
- 19.1.6. Accounting of leases and hire purchase transactions shall be divided into the following situations:
- Finance lease in the books of the Municipality when it is the Lessee.
  - Operating lease in the books of the Municipality when it is the Lessor.
  - Finance lease in the books of the Municipality when it is the Lessor
  - Operating lease in the books of the Municipality when it is the Lessee

- Hire Purchase in the books of the Municipality when it is the buyer.
- Hire Purchase in the books of the Municipality when it is the seller.

## Accounting for Finance Lease in the Books of the ULB as Lessee

- 19.1.7. When a ULB (as a lessee) have obtained an asset on lease, effecting the lease agreement as a finance lease, then it have assumed all the risks and rewards incident to ownership. Fixed assets purchased under a 'Finance Lease' shall be as per the agreement. At the commencement of the lease term, both asset and a liability will be recognised.
- 19.1.8. The lease item would be recognized as an asset and a corresponding liability associated with lease obligation at the lower of:
- Fair value of the leased asset at the commencement of lease.
  - Present value of minimum lease payment from the standpoint of the lessee.
- 19.1.9. Amount of lease payments would be apportioned between the finance charge and the principal repayment. The principal repayment would reduce the lease liability and the finance charges would be considered as an expense.
- 19.1.10. The total amount of interest portion out of the 'Lease Payment ' shall be accounted by debiting to a control account "Interest Payable Control Account". This amount will be adjusted on accounting of finance charges.
- 19.1.11. 'Lease charges payable – Leases account' is a control account, which represents an equivalent number of unpaid instalments. The balance in this account gets reduced at the period ends by accounting for the lease payments dues for the period.
- 19.1.12. Lease payments: The periodical lease payments shall be accounted as per the lease agreement.
- 19.1.13. Finance Charges: The portion of finance charges out of the lease payments due for the current period shall be identified at the period ends and accounted as finance charges for the period.
- 19.1.14. Depreciation Charge: At the end of the accounting year, depreciation shall be provided on each class of fixed assets under finance lease at the prescribed rates. The calculation of depreciation shall be same as explained in the Chapter of "Fixed Assets".

## Accounting for Operating Lease in the Books of the Lessee

- 19.1.15. When a ULB (as a lessee) have obtained an asset on lease, effecting the lease agreement as an operating lease, then it have not assumed all the risks and rewards incidental to ownership, as all such risks are still with the lessor.
- 19.1.16. Lease payment: All lease payments (including initial direct costs and excluding cost for services) shall be recognised as an expense.
- 19.1.17. Principal repayment and finance charges: No distinction between principal repayment and finance charges shall be made.
- 19.1.18. Depreciation charge: No depreciation charge to be provided on the assets.

## Accounting for Finance Lease in the Books of the Lessor

- 19.1.19. When a ULB (as a lessor) have granted an asset on lease, effecting the lease agreement as a finance lease, then it have relinquished all the risks and rewards incidental to ownership.
- 19.1.20. Accounting for sale of Fixed Asset under a 'Finance Lease' shall be recorded as Receivable in the Balance Sheet at agreed value by crediting the respective Fixed Asset.
- 19.1.21. The difference between the agreed value and the W.D.V of the Asset sold under finance lease shall be recorded as Gain / Loss on Leasing of Asset, as the case may be. If the agreed value is more than the W.D.V then there will gain, and a loss would appear if the agreed value is less than the W.D.V.
- 19.1.22. Total amount of Finance charges receivable over the Lease period is credited to Interest Receivable control account. It is in the nature of a control account, which represents an equivalent amount of unpaid interest portion included in the 'Annual Lease Payments'. The balance in this account gets reduced at the period ends by accounting for the finance charges portion of the lease payments dues for the period.
- 19.1.23. Lease payments: The periodical lease payments shall be accounted as per the lease agreement.

19.1.24. Finance Charges: The portion of finance charges out of the lease payments due for the current period shall be identified at the period ends and accounted as income for the period.

19.1.25. Depreciation Charge: Since the rights if ownership under a Finance lease gets transferred to the Lessee, the Lessor (ULB) will not charge depreciation in its books.

## **Accounting for Operating Leases in the Books of the Lessor**

19.1.26. When a ULB (as a lessor) have granted an asset on lease, effecting the lease agreement as an operating lease, then it have not relinquished all the risks and rewards incident to ownership.

19.1.27. Lease rental income: The lease rentals due for the period shall be accrued and received in accordance with the lease agreement.

19.1.28. Accounting of Fixed assets and depreciation: Accounting treatments for the Fixed assets given under an operating lease and depreciation on those assets shall follow the same principles and procedures as in the case of "Fixed Assets".

19.1.29. Identification of Accrual of lease rentals: The Accounts Department shall identify the total lease rentals due for the period under reporting and compare the same with the lease rental income recognised till date in the books and account for differences if any.

19.1.30. Assets given under operating lease shall be accounted as own assets but need to be separately disclosed in the schedule of Fixed Assets in Financial Statements.



## Summary of Accounting Policy:

Type	Finance lease	Operating lease	Finance lease	Operating lease
<b>Municipality</b>	Lessee	Lessee	Lessor	Lessor
<b>Asset transfer to be recorded as</b>	Create Asset and liability	Expense	Remove Assets and Create Receivable	Ownership of Assets continues
<b>Value of asset</b>	Lower of: i) Fair Value ii) Present value of minimum lease payment from the standpoint of the lessee	NA	Agreed Value	Cost
<b>Lease payment /Receipt</b>	Apportioned between reduction in liability and finance charge	Payment As per lease agreement	Apportioned between reduction in liability and finance charge	Income Receipt on straight line basis over the lease term
<b>Depreciation on assets as</b>	Owned Assets	Not to be charged	Not to be Charged	Owned Assets

## List of Ledgers and Sub Ledgers

List of ledgers and sub ledgers are given below:

- Creditor for Finance Lease (Sub ledger for each lessor),
- Debtor for Finance Lease (Sub ledger for each lessee),
- Fixed Asset – Finance Lease (Sub Ledger for each fixed asset),
- Finance Charge Payable – Finance Lease,
- Finance Income – Finance Lease,
- Lease Rental Income,
- Lease Rental Receivable,
- Lease Rent,
- Lease Rent Payable

All ledger accounts are having separate code in chart of account, and also separate provision has been kept for creation of sub-ledger code. However, it may be noted that mentioned ledger accounts are used whenever relevant accounting transaction is happening in ULB.

## Accounting of Hire Purchase (HP) in the Books of ULB (as Buyer)

- 19.1.31. The purchase price shall be capitalised as the cost of fixed assets.
- 19.1.32. Hire Purchase (HP) instalments paid shall be apportioned between the finance charge and the reduction of the principal outstanding. The finance charge shall be allocated so as to produce a constant periodic rate of interest on the remaining balance of the liability.
- 19.1.33. The total amount of interest shall be accounted by debiting Interest Suspense Account (Interest control payable - Hire purchase) which is in the nature of a control account. This amount will be adjusted on accounting of finance charges due for every year. The Balance in the Interest Suspense Account is shown in the Balance Sheet as a deduction from the Hire Purchase Payable Account.
- 19.1.34. Down payment against purchase of Asset under Hire purchase agreement: The HP agreement may have clauses for down payments either before or after delivery or receipt of the asset depending on the terms of the HP agreement.
- 19.1.35. Finance Charges: The portion of interest out of the 'HP payable' due for the period under reporting shall be identified at the period ends and accounted as 'finance charges for that period.
- 19.1.36. Depreciation Charge: At the end of the accounting year, depreciation shall be provided on each class of Fixed Asset purchased under HP at the prescribed rates. The calculation for Depreciation on Fixed Assets purchased under HP shall be same as explained in the Chapter of "Fixed Assets".
- 19.1.37. Recording of interest portion of the instalments due appropriately: The Accounts Department shall identify the interest portion of the instalments payable for the period under reporting and accordingly account for the Interest Charges for the period.

## Accounting of Hire Purchase (HP) in the Books of the Seller

- 19.1.38. The sale price (including the interest portion) shall be accounted as receivable from HP agreement and recognize the transaction of relinquishing the rights as a disposal of asset.,
- 19.1.39. HP instalments shall be apportioned between the interest income and the reduction of the principal amount receivable (the finance income to be allocated so as to produce a constant periodic rate of interest on the remaining balance of the receivable).
- 19.1.40. Down payment received under Hire purchase agreement: The HP agreement may have clauses for down payments to be received from the buyer up-front either before or after delivery of the asset depending on the terms of the HP agreement.
- 19.1.41. Interest Income: The total amount of interest portion out of the 'HP Receivable' shall be accounted by crediting to a control account (Hire Purchase Interest Receivable Control Account). This amount will be adjusted while accounting for finance charges. The balance in the Interest Suspense Account is shown in the Balance Sheet as a deduction from the Hire Purchase Receivables (HP instalments receivable).
- 19.1.42. The portion of interest income out of the control account due for the period under reporting shall be identified at the period ends and accounted as 'Interest Income for that period.
- 19.1.43. Recording of interest portion of the instalments due appropriately: The Accounts Department shall identify the interest portion of the instalment receivable for the period under reporting and accordingly account for the Interest Charges for the period.
- 19.1.44. The difference between the agreed value and the net book value of the Asset sold under HP shall be recorded as Gain / Loss on HP of Asset, as the case may be. If the agreed value is more than the W.D.V. then there will be gain and a loss would appear if the agreed value is less than the W.D.V.

## Summary of Accounting Policies:

Type	Hire Purchase	
Municipality	Buyer	Seller
To be recorded as	Assets	Receivable from hire purchase
Value	Cost	Sale price including interest
Lease payment/ HP installments	Apportioned between the finance charge and the reduction of the principle outstanding	Apportioned between the interest and reduction of the receivables
Depreciation on assets as	Owned Assets	Not Applicable

## List of Ledgers and Sub Ledgers

List of ledgers and subledgers is given below:

- Fixed Asset obtained Under Hire Purchase,
- Hire Purchase payable (Sub Ledger for each Hire Vendor),
- Interest on Hire Purchase,
- Hire Purchase receivable (Sub Ledger for each Hire Purchaser),
- Hire Purchase Interest Income

All ledger accounts are having separate code in chart of account, and also separate provision has been kept for creation of sub-ledger code. However, it may be noted that mentioned ledger accounts are used whenever relevant accounting transaction is happening in ULB.

## Internal Controls

19.1.45. The following internal controls shall be observed by the ULB:

### For Finance lease /Hire purchase in the books of lessee /buyer:

19.1.46. The Head of the Accounts Department shall ensure that the 'purchase of fixed assets' under a finance lease or HP and the terms (lease/HP rentals, lease/HP periods and interest rate) of the lease/HP agreement is approved before recording the capitalisation.

19.1.47. The Head of the Accounts Department shall ensure that the interest charges included in the Lease Charges/HP Payable for the period under reporting are accounted appropriately.

19.1.48. The Head of the Accounts Department shall ensure that penalties or additional interests on account of delay in instalment dues are provided as per the Lease /HP agreement.

**For Finance lease in the books of Lessor / Seller:**

19.1.49. The Head of the Accounts Department shall ensure that the 'sale of fixed assets' under a finance lease are effected through removal of such asset from Fixed Asset register, clearing up related accumulated depreciation account and creation of a receivable account.

19.1.50. The Head of the Accounts Department shall ensure that the interest control account created for recognizing income from the lease, is monitored regularly and accounted appropriately.

19.1.51. The Head of the Accounts Department shall ensure that no further depreciation entry is passed on these assets.

**For Operating Leases in the books of Lessor.**

19.1.52. The Head of the Accounts Department shall ensure that lending the 'fixed assets' under an operating lease and the terms (lease rentals, lease periods) of the lease agreement are approved before recording of any lease rental income.

19.1.53. The Head of the Accounts Department shall ensure that penalties or additional interests on account of delay in instalment dues are raised timely and accounted as per the Lease agreement.

19.1.54. The Head of the Accounts Department shall have 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. Alternatively, a periodical confirmation of the assets held under operating lease from the lessee shall also be obtained. Any discrepancies with the Fixed Assets Register and the physical verification sheets or confirmation shall be reconciled

19.1.55. The Head of the Accounts Department shall ensure that the fixed assets given under operating leases are updated in the Register of Immovable Properties with the name of the lessee and location.

## **For Operating Leases in the books of Lessee**

19.1.56. The Head of the Accounts Department shall ensure that neither the asset is booked in Fixed Asset register, nor any depreciation is charged.

19.1.57. The Head of the Accounts Department shall reconcile the amount booked as expenditure with that mentioned in the contract.

19.1.58. The Head of the Accounts Department shall have a system of conducting physical verification of such assets regularly and damage, if any, is reported to the Board immediately.

## **For Hire Purchase in the books of Seller**

19.1.59. The Head of the Accounts Department shall ensure that 'sale of fixed assets' under a hire purchase agreement and the terms (HP instalments, periods and interests) of the agreement are approved before recording the sale of assets.

19.1.60. The Head of the Accounts Department shall ensure that the interest income included in the HP Instalments due for the period under reporting are accounted appropriately.

19.1.61. The Head of the Accounts Department shall ensure that penalties or additional interests on account of delay in instalment dues are levied and accounted as per the HP agreement.

19.1.62. The Head of the Accounts Department shall ensure that the asset sold are removed from the Register of Immovable properties with the name of the buyer and its location.

## Accounting Entries - Lease

(Scheme of Accounting entries have been provided as examples, using few heads from Chart of Account. Accounting personnel, who will pass accounting entries, shall refer to the examples provided herein, and use appropriate accounting code (from Chart of Account) relevant for the specific transaction or series of transactions.)

### Finance Lease when ULB is Lessee

#### 1. Fixed assets under finance lease

Debit / Credit	Code	Details
Debit	410-40-26	Leasehold Plant & Machinery - (Sub ledger Mechanical Sweeper)
Debit	470-30-01	Interest control payable-Leases
Credit	350-80-04	To Lease hold charges Payable
<b>Explanation:</b> The Asset shall be capitalised as and when the Asset is ready/ put to use or as per the agreement the Asset has been delivered. 'Interest control payable Leases Account' is in the nature of a control Account, which represents an equivalent amount of unpaid interest portion included in the 'Other Liabilities-creditors. The balance in this Account gets reduced at the period ends by accounting for the finance charges portion of the lease payment dues for the period. <b>Trigger Point:</b> Purchase of Asset/Asset is ready/Put to use <b>Source Document:</b> Lease agreement <b>Records updated:</b> Journal book, Ledger, Register of Movable Property		

#### 2. Payment of periodic lease charges

Debit / Credit	Code	Details
Debit	350-80-04	Lease hold charges Payable
Credit	450-21-01	To Bank A/c
<b>Explanation:</b> Payment of periodic lease charges to the lessor shall be carried out as per lease agreement <b>Trigger Point:</b> Payment of lease charges on the due date <b>Source Document:</b> Payment documents, Lease agreement, Register of Movable properties		

**Records updated:** Cash Book, Ledger

### 3. Adjustment of Finance charges

Debit / Credit	Code	Details
Debit	240-60-01	Interest on leases
Credit	470-30-01	To Interest control payable-Leases

**Explanation:** The portion of finance charges out of the lease payments due for the current period shall be identified at the period end and accounted as finance charges for the period.

**Trigger Point:** End of period/ lease period

**Source Document:** Calculation sheets/ Statement of lessor, Lease agreement Register of Movable properties

**Records updated:** Journal Book, Ledger

### 4. Accounting for depreciation on leased asset

Refer Chapter 15: Fixed Assets Entry number 3

## Operating Lease when ULB is Lessee

### 1. Recognition of lease payment under operating lease

Debit / Credit	Code	Details
Debit	240-80-04	Other Finance charges-expenses
Credit	350-10-08	To Other Liabilities-creditors

**Explanation:** The above entry is passed for recognition of lease rental amount payable under operating lease as per the lease agreement and such payment should be treated as an expense.

**Trigger Point:** End of period/ lease period/ As per lease agreement

**Source Document:** Lease agreement

**Records updated:** Journal book, Ledger



## 2. Payment of the lease rental under operating lease

Debit / Credit	Code	Details
Debit	350-10-08	Other Liabilities-creditors
Credit	450-21-01	To Bank A/c
<b>Explanation:</b> The above entry is to be passed at the time of making payment of the lease rental payable as per the lease agreement. <b>Trigger Point:</b> Payment of lease rentals <b>Source Document:</b> Payment documents <b>Records updated:</b> Cash book, Ledger		

## Finance Lease when ULB is Lessor

### 1. Accounting for Asset given as Finance Lease

Debit / Credit	Code	Details
Debit	431-40-09	Receivables for leased Assets (Agreed Price + Interest)
Debit	271-10-11	Loss on Leasing of Asset (Agreed Value < W.D.V)
Credit	410-40-08	To Bulldozer
Credit	360-31-01	To Interest Control Receivable Account
Credit	180-30-12	To Profit on Leasing of Asset (Agreed Value > W.D.V)
<b>Explanation:</b> The Asset relinquished as Finance Lease is accounted by debited the lessee as receivable. The total amount receivable from the lessee is apportioned as Finance charge and principal repayment. Amount equivalent to total Finance charge over the lease period is credited to Interest control account receivable account. Based on the Agreed value of the Lease and the W.D.V of the Asset relinquished, Gain or Loss may arise. If there is gain, it is credited to "Gain on Leasing of Asset account". In case of loss the loss is debited to "Loss on Leasing of Asset Account". <b>Trigger Point:</b> Inception of the Lease <b>Source Document:</b> Calculation sheets, Lease agreement <b>Records updated:</b> Journal Book, Ledger		

## 2. Receipt of First Installment

Debit / Credit	Code	Details
Debit	450-21-01	Bank A/c
Credit	431-40-09	To Receivables for leased Assets

**Explanation:** The Installments for lease Payment shall be received in accordance with the lease agreement. The above entry shall be passed at the time of receipt of the lease Payment.

**Trigger Point:** Receipt of lease payment

**Source Document:** Receipt documents

**Records updated:** Cash Book, Ledger

## 3. Accrual of Finance Charges for the first year

Debit / Credit	Code	Details
Debit	360-31-01	Interest Control Receivable Account
Credit	170-10-05	Interest Income on Leased Asset

**Explanation:** The Lease payment received shall be apportioned as Finance charge and Principal repayment. At the end of each financial year, the total finance charge recognized at the inception of lease is adjusted with the Finance charge accrued for that Financial year.

**Trigger Point:** End of the Financial Year

**Source Document:** Receipt documents

**Records updated:** Cash Book, Ledger

**Additional disclosure:** The asset given on lease should be disclosed in the Financial Statement and also in the notes to accounts

## Operating Lease when ULB is Lessor

### 1. Fixed Assets under operating lease

Debit / Credit	Code	Details
Debit	431-40-06	Receivables for lease rentals
Credit	130-80-03	To Other rents-lease rentals

**Explanation:** The Lease rentals due for the period shall be accrued in accordance with the lease agreement

**Trigger Point:** End of period/ lease period/ As per lease agreement

**Source Document:** Calculation Sheet, Lease agreement

**Records updated:** Journal book, Ledger

### 2. Receipt of lease rentals under operating lease

Debit / Credit	Code	Details
Debit	450-21-01	Bank A/c
Credit	431-40-06	To Receivables for lease rentals

**Explanation:** The lease rentals shall be received in accordance with the lease agreement. The above entry shall be passed at the time of receipt of the lease rentals.

**Trigger Point:** Receipt of lease rentals

**Source Document:** Receipt documents

**Records updated:** Cash book, Ledger

### 3. Accounting for Fixed Asset given on lease

Refer Chapter 15: Fixed Assets Entry number 1-6

## Accounting Entries – Hire Purchase

### Hire Purchase when ULB is Buyer

#### 1. Down payment against purchase of assets

Debit / Credit	Code	Details
Debit	460-40-04	Advance for HP assets
Credit	450-21-01	To Bank A/c
<b>Explanation:</b> The HP agreement may have clauses for down payments either before or after delivery or receipt of the Asset. <b>Trigger Point:</b> Payment of Advance <b>Source Document:</b> Payment records/ Hire purchase agreement <b>Records updated:</b> Cash Book, Ledger		

#### 2. Purchase of fixed assets through hire purchase

Debit / Credit	Code	Details
Debit	410-40-09	Fixed assets-Mechanical Sweepers
Debit	470-30-02	Interest control payable Hire purchase
Credit	330-60-01	To Hire purchase payable
Credit	460-40-04	To Advance for HP assets
<b>Explanation:</b> Purchase of fixed assets e.g. on hire purchase and also adjustment of down payment <b>Trigger Point:</b> Purchase of Asset <b>Source Document:</b> HP agreement <b>Records updated:</b> Journal book, Ledger, Register of Movable Property		

### 3. Payment of periodic hire purchase instalments

Debit / Credit	Code	Details
Debit	330-60-01	Hire purchase payable
Credit	450-21-01	To Bank A/c

**Explanation:** Payment of periodic HP instalments

**Trigger Point:** Payment of installment

**Source Document:** Payment records/ Hire purchase agreement,

**Records updated:** Cash Book, Ledger, Register of Movable Property

### 4. Adjustment of finance charges

Debit / Credit	Code	Details
Debit	240-60-02	Interest on Hire purchase
Credit	470-30-02	To Interest control payable-Hire purchase

**Explanation:** The portion of interest out of the 'HP payable' due for the period under reporting shall be identified at the period ends and accounted as 'finance charges for that period.

**Trigger Point:** Period end/ end of HP period

**Source Document:** Calculation sheets/ HP agreement

**Records updated:** Journal Book, Ledger

## Hire Purchase when ULB is Seller

### 1. Down payment received against sale of assets

Debit/Credit	Code	Details
Debit	450-21-01	Bank A/c
Credit	350-80-06	To HP Advance received

**Explanation:** The HP agreement may have clauses for down payments either before or after delivery or receipt of the Asset.

**Trigger Point:** Receipt of Advance

**Source Document:** Receipt records/ HP Agreement

**Records updated:** Cash Book, Ledger

## 2. Sale of fixed assets through hire purchase

Debit / Credit	Code	Details
Debit	350-80-06	HP Advance received
Debit	460-80-01	HP instalments receivable
Credit	410-40-09	To Fixed Assets-Mechanical Sweepers
Credit	350-80-05	To Hire Purchase Interest Receivable Control Account

**Explanation:** Sale of fixed assets e.g. on hire purchase and also adjustment of down payment

**Trigger Point:** Sale of Asset

**Source Document:** HP agreement, Register of Movable Property

**Records updated:** Journal book, Ledger

## 3. Receipt of periodic hire purchase instalments

Debit / Credit	Code	Details
Debit	450-21-01	Bank A/c
Credit	460-80-01	To HP instalments receivable

**Explanation:** Receipt of periodic HP instalments as per HP agreement

**Trigger Point:** Receipt of instalment

**Source Document:** Receipt records/ HP Agreement

**Records updated:** Cash Book, Ledger

## 4. Adjustment of finance charges

Debit / Credit	Code	Details
Debit	350-80-05	Hire Purchase Interest Receivable Control Account
Credit	171-80-01	To Interest on Hire Purchase

**Explanation:** The portion of interest out of the HP interest control A/c due for the period under reporting shall be identified at the period ends and accounted as interest for that period.

**Trigger Point:** Period end/ end of HP period

**Source Document:** Calculation sheets/ HP agreement

**Records updated:** Journal Book, Ledger

## Chapter 20: Public Private Partnership arrangements

*This chapter contains the accounting system Public Private Partnership transactions. Whereas Accounts department is responsible for proper accounting, other departments, for example Works, Health, etc. who are party to such transactions, will be responsible to provide proper data and information for enabling proper accounting.*

### Public Private Partnership (PPP)

- 20.1.1. PPP as a procurement and financing mechanism, is an effective means of establishing cooperation between public and private parties to bundle financial resources, know-how, and expertise to address urban needs more effectively. PPP arrangements are established through various types of contracts ranging from simple operation & management contract to varieties of Concession arrangements, combining the advantages of both the public and the private sector. Examples of some of the areas in which ULBs may be involved in PPPs includes: Solid Waste Management, Water supply, Sewerage, Street Lighting, Municipal Markets, Parking, etc.
- 20.1.2. Government of Uttarakhand's revised PPP Policy, 2019 is applicable to all infrastructure projects including those in social sectors and primary sectors. The policy is applicable for the State of Uttarakhand including Urban Local Bodies. Above policy has bifurcated the contractual/implementation structure in two parts – (a) Existing assets such as O&M contracts, Lease, etc., and (b) New assets such as Built-Operate-Transfer, Design-Built-Finance-Operate-Transfer, etc. ULBs will use different modes of contracts or their combination which is most reasonable in case to case basis. For example, one ULB can a simple O&M contract for vehicle parking but a more complex concession contract in Solid Waste Management. It is apparent from the above that there can be various types of contracts as per the need of the situation, and accordingly, accounting treatments will need to be modified.
- 20.1.3. Few examples of PPP projects undertaken by Urban Local Bodies in India are given below:
  - Design, Development, Implementation, Operation and Maintenance of Smart Parking Solution for on street, off street and multi-level parking in Bhopal on PPP model

- Development of Multilevel Car Parking on D.B.F.O.T. at Nandra Bridge Civic Centre in Jabalpur
- Timarpur Okhla Integrated Municipal Solid Waste Management Project, New Delhi in BOOT
- Design, manufacture, supply, erection, testing and commissioning including warranty, operation and maintenance of Roof Top Solar PV power system on roof top of Government Buildings
- Development, operations & maintenance including identification of locations for toilet facilities and allied works on PPP mode in Panaji, Goa
- Implementation of Intelligent Street Pole at Indore under PPP on DBOOT Model in Indore
- Institutional Water Supply project in DBFOT in West Bengal

20.1.4. Keeping in mind the area of activities of ULBs, and ULB as “Grantor”, commonly used PPP contracts can be categorized as:

- **Operation & Management contract (without creation of asset):** Where ULB appoints private partner to operate and manage certain assets/facilities of ULB, under complete control of ULB;
- **Lease contract:** Where ULB leases out any asset for use by the lessee. Asset is generally used as per necessity of Lessee.
- **Concession arrangement:** Generally, the PPP partner is responsible to create new asset and/or upgrade existing asset, without any major financial involvement from Grantor (ULB). This could be DBOT (Design Build Operate Transfer with revenue collections), BOT (Build Operate Transfer with revenue collections), and Annuity (Build without revenue collections, and payments made by ULB),
- Generally, the Grantor (ULB) is responsible to provide asset (such as Land) to PPP partner and/or provide various authority/control over usage of such public assets;
- Generally, the Grantor (ULB) controls the regulatory aspects of the project. For example, a PPP partner may be allowed to collect revenue within a limit fixed by ULB. The arrangement sets the initial prices to be levied by the operator and regulates price revisions over the period of the service concession arrangement;



- The operator is generally responsible to handle and maintain during the concession period
- The operator is obliged to hand over the concession asset to the grantor in a specified condition at the end of the period of the arrangement, for little or no incremental consideration, irrespective of which party initially financed it;
- The arrangement is governed by a binding arrangement that sets out performance standards, mechanisms for adjusting prices, and arrangements for arbitrating disputes.

## Accounting aspects

### DBOT/BOT

- 20.1.5. In this type of contract, the private party contributes for funds and development of assets as well as is responsible for revenue collection.

### Annuity contracts

- 20.1.6. In this type of contract, the private party contributes for funds and development of assets. However, the revenue collection will be done by the ULB. The ULB will pay to the vendor for the asset creation as well as operation and maintenance costs.

- 20.1.7. A synopsis of PPP transactions is given below:

Accounting for Public-Private-Partnership transactions in the books of ULB (Grantor)			
Transaction in the nature of Lease	Transaction in the nature of "Management Contract", without any asset creation	Concession contracts (with or without O&M)	
		New Asset creation	Usage of existing asset of ULB
<b>Same accounting treatment as given in the chapter on "Lease"</b>	<ul style="list-style-type: none"> <li>• Payment to PPP partner, if any –</li> <li>Accounted for as general vendor payment</li> </ul>	<ul style="list-style-type: none"> <li>• ULB to recognise Concession Asset at Fair value</li> <li>• ULB to recognise liability equal to value of asset</li> </ul>	<ul style="list-style-type: none"> <li>• Asset is to be reclassified at fair value (of the asset given or asset acquired, whichever is clearly evident)</li> </ul>

Accounting for Public-Private-Partnership transactions in the books of ULB (Grantor)			
Transaction in the nature of Lease	Transaction in the nature of "Management Contract", without any asset creation	Concession contracts (with or without O&M)	
		New Asset creation	Usage of existing asset of ULB
		<ul style="list-style-type: none"> <li>Any payment made to PPP partner (or any revenue share accrued to ULB) will be accounted for as reduction of liability.</li> <li>Any revenue accrual to ULB over and above reduction of liability, will be treated as direct income and will be accrued as and when due</li> <li>Payment made to PPP partner as finance charge and service charge will be recognised as expense</li> <li>Depreciation will be charged as per provision given in "Fixed Assets" chapter</li> <li>On transfer of Asset – ULB to reclassify the concession asset to Fixed Asset</li> </ul>	<ul style="list-style-type: none"> <li>ULB to follow Asset accounting as given in the chapter "Fixed Assets"</li> <li>Income from PPP partner will be recognised at accrual basis when due</li> </ul>
Upfront payment or a stream of payments, like premium payment as a consequence of highest financial bid received by the ULB - Accrual of revenue on as and when such revenue falls due			

***Accounting treatments for Concession contracts have been given below through examples:***

20.1.8. These examples deal with three of many possible types of service concession arrangements. Their purpose is to illustrate the accounting treatment for some features that are commonly found in practice. To make the illustrations as clear as possible, it has been assumed that the term of the service concession arrangement is only ten years and that the operator's annual receipts are constant over that period. In practice, terms may be much longer and annual revenues may increase with time.

**Example-1: The Grantor makes a Predetermined Series of Payments to the Operator**

Key components	Assumptions
PPP project	Construction of Road (2 years), Operation & Maintenance (8 years). Total 10 years concession
PPP partner's responsibility	Construction, re-surfacing at the end of 8 <sup>th</sup> year, Operation and maintenance, Transfer to ULB at the end of year 10
Life span of Road base layer	25 years
Construction cost	Rs.525 in year-1 and Rs.525 in year-2. Total Rs.1050
Component of Construction cost	Original layer- Rs.940 + Surface Layer- Rs.110. Total Rs. 1050
Fair value of Road at inception	Rs. 1050
Payment to Private partner	<ul style="list-style-type: none"> <li>Finance charge @ 6.18% per annum</li> <li>Service charge during O&amp;M period- Rs.12 per year</li> <li>Payment to Private partner – Rs 200 per year from year 3</li> </ul>
Annual payment (Rs.200) to private partner for 8 years, cover	Fair values asset, Financial charge, Service charge

**Detailed assumptions and calculations are given below:**

- 20.1.9. The terms of the arrangement require an operator to construct a road-completing construction within two years - and maintain and operate the road to a specified standard for eight years (i.e., years 3-10). The arrangement is within the scope of service concession.
- 20.1.10. The terms of the arrangement also require the operator to resurface the road when the original surface has deteriorated below a specified condition. The operator estimates that it will have to undertake the resurfacing at the end of year 8 at a fair value of Rs. 110. The compensation to the operator for this service is included in the predetermined series of payments and/or the revenue the operator has the right to earn from the concession asset or another revenue-generating asset granted to the operator by the grantor.
- 20.1.11. It is assumed that the original road surface is a separate component of the concession asset when such asset is initially recognised. It is further assumed that there is sufficient certainty regarding the timing and amount of the resurfacing work for it to be recognised as a separate component when the resurfacing occurs. It is assumed that the expected cost of the resurfacing can be used to estimate the initial cost of the surface layers recognised as a separate component of the concession asset. The road surface is therefore recognised as a separate component of the initial fair value of the concession asset and measured at the estimated fair value of the resurfacing and depreciated over years 3-8. This depreciation period is shorter than that for the road base and takes into account that resurfacing would ordinarily occur over six years, rather than 25 years. During the construction phase, it is assumed that only the road base is constructed in year 1, and that the road only becomes ready to use at the end of year 2.
- 20.1.12. Recognition of the replacement component of the road surface as a separate component of the concession asset in year 8 also results in an increase in the liability recognised by the grantor. Where the liability relates to the grant of a right to the operator model, additional revenue in respect of this increase is recognised evenly over the term of the arrangement. However, if the expenditure represented an improvement in service potential such as a new traffic lane rather than restoration to original service capability then it would be appropriate to instead recognise revenue relevant to that improvement only once it has occurred.

- 20.1.13. At the beginning of year 3, the total fair value of the road is Rs. 1,050, comprised of Rs. 940 related to the construction of the base layers and Rs. 110 related to construction of the surface layers. The fair value of the surface layers is used to estimate the fair value of the resurfacing. The estimated life of surface layers (i.e., six years) is also used to estimate the depreciation of the replacement component in years 9 and 10. The total initial fair value of the road is lower than the present value of the series of predetermined payments pertaining to the asset, where applicable.
- 20.1.14. The road base has an economic life of 25 years. Annual depreciation is taken by the grantor on a straight-line basis. It is therefore Rs. 38 ( $940/25$ ) for the base layers. The surface layers are depreciated over 6 years (years 3-8 for the original component and starting in year 9 for the replacement component). Annual depreciation related to the surface layers is Rs. 18 ( $\text{Rs.}110/6 = 18 \text{ approx.}$ ). There is no impairment in the value of the road over the term of the service concession arrangement.
- 20.1.15. The operator's cost of capital is not practicable to determine. The rate implicit in the service concession arrangement specific to the asset is 6.18%.
- 20.1.16. It is assumed that all cash flows take place at the end of the year.
- 20.1.17. It is assumed that the time value of money is not significant.
- 20.1.18. At the end of year 10, the arrangement will end. At the end of the arrangement, the operator will transfer the operation of the road to the grantor.
- 20.1.19. The terms of the arrangement require the grantor to pay the operator Rs. 200 per year in years 3-10 for making the road available to the public. The total consideration (payment of Rs. 200 in each of years 3-10) reflects the fair values for each of the services indicated in Exhibit 1. These payments are intended to cover the cost of constructing the road, annual operating costs of Rs. 12 and reimbursement to the operator for the cost of resurfacing the road in year 8 of Rs. 110.

## **Calculations**

- 20.1.20. The grantor initially recognises the concession asset as Fixed Asset at its fair value (total Rs. 1,050, comprised of Rs. 940 related to construction of the base layers and Rs. 110 related to construction of the original surface layers). The asset is recognised as it is

constructed (Rs. 525 in year 1 and Rs. 525 in year 2). Depreciation is taken annually (Rs. 56, comprised of Rs. 38 for the base layers and Rs. 18 for the surface layers), starting from year 3.

- 20.1.21. The grantor initially recognises a financial liability at fair value equal to the fair value of the asset under construction at the end of year 1 (Rs. 525). The liability is increased at the end of year 2 to reflect both the fair value of the additional construction (Rs. 525) and the finance charge on the outstanding financial liability. Because the amount of the predetermined payment related to the service component of the service concession arrangement is known, the grantor is able to determine the amount of the payment that reduces the liability. A finance charge at the implicit rate of 6.18% is recognised annually. The liability is subsequently measured at amortised cost, i.e., the amount initially recognised plus the finance charge on that amount calculated using the effective interest method minus repayments.
- 20.1.22. The compensation for the road resurfacing is included in the predetermined series of payments. There is no direct cash flow impact related to the road resurfacing; however
- 20.1.23. The grantor recognises the resurfacing as an asset when the work is undertaken and recognises depreciation expense of Rs. 110/6 = Rs. 18, beginning in year 9.
- 20.1.24. The compensation for maintenance and operating the road (Rs. 12) is included in the predetermined series of payments. There is no cash flow impact related to this service expense; however, the grantor recognises an expense annually.
- 20.1.25. Scheme of Accounting entries are given below

## ***Accounting Entry for First Year***

### **1. Recognising Concession Asset in First year along with recognition of Liability**

Debit / Credit	Code	Details	Amount (Dr)	Amount (Cr)
Debit	410-30-08	Concession Asset - Road	525	
Credit	350-10-08	To Financial Liability under Concession (Concessionaire)		525

**Explanation:** The asset is recognised as it is constructed i.e. Rs. 525 in year 1. The grantor (ULB) initially recognises a financial liability at fair value equal to the fair value of the asset under construction at the end of year 1 (Rs. 525).

**Source Document:** Concession agreement

**Records updated:** Journal, Ledger

## ***Accounting Entry for Second Year***

### **2. Recognising Concession Asset in Second year along with recognition of Liability**

Debit / Credit	Code	Details	Amount (Dr)	Amount (Cr)
Debit	410-30-08	Concession Asset - Road	525	
Debit	240-60-05	Financial charge for Concession contract	32	
Credit	350-10-08	To Financial Liability under Concession (Concessionaire)		557

**Explanation:** The asset is recognised as it is constructed i.e. Rs. 525 in year 2. The ULB recognises a financial liability for second year at fair value equal to the fair value of the asset under construction at the end of year i.e. Rs. 525. ULB recognises finance charge of Rs.32 on the outstanding financial liability (6.18% on Rs.525 = Rs.32). Value of concession asset at the end of second year is Rs.1050, and liability Rs.1082.

**Source Document:** Concession agreement

**Records updated:** Journal, Ledger

## ***Accounting Entry for Third Year***

### **3. Charging Depreciation on Concession Asset commencing from Third year**

Debit / Credit	Code	Details	Amount (Dr)	Amount (Cr)
Debit	272-30-02	Depreciation on Black top Road	56	

Credit	411-30-02	To Accumulated Depreciation on Black top Road		56
<b>Explanation:</b> Depreciation is taken annually (Rs. 56, comprised of Rs. 38 for the base layers and Rs. 18 for the surface layers), starting from year 3. Accordingly, net value of Concession Asset at the end of Year-3 becomes to Rs.994 (Rs.1050-56). Such annual depreciation will change once replacement SCA is created on 8 <sup>th</sup> Year, and the existing replacement asset is fully depreciated at that year. <b>Source Document:</b> Concession agreement <b>Records updated:</b> Journal, Ledger				

## 4. Recognition of Financial Liability

Debit / Credit	Code	Details	Amount (Dr)	Amount (Cr)
Debit	240-60-05	Financial charge for Concession contract	67	
Debit	230-59-08	Service Expenses	12	
Credit	350-10-08	To Financial Liability under Concession (Concessionaire)		79
<b>Explanation:</b> ULB recognises finance charge of Rs.67 on the outstanding financial liability @ 6.18% on Rs.1082 (1050+outstanding Rs.32). ULB also recognises Service expenses of Rs.12 commencing from year 3. <b>Source Document:</b> Concession agreement <b>Records updated:</b> Journal, Ledger				

## 5. Annual Payment to Operator

Debit / Credit	Code	Details	Amount (Dr)	Amount (Cr)
Debit	350-10-08	Financial Liability under Concession (Concessionaire)	200	
Credit	450-21-01	To Bank A/c		200



**Explanation:** ULB makes payment to PPP partner on annual basis. Accordingly, Liability under the head “350-10-08” will have a balance of Rs.961 (Opening balance Rs.1082+ Rs.67+ Rs.12-Rs.200).

**Source Document:** Concession agreement

**Records updated:** Cash Book, Ledger

## ***Accounting Entry from fourth Year to Seventh Year***

6. Similar scheme of entries as per third year will be passed with different amount on yearly basis

## ***Accounting Entry for Eighth Year and Ninth Year***

7. Similar scheme of entries as per third year will be passed with different amount on yearly basis. However, as replacement surface asset is created in 8th year (Rs.110), ULB will modify calculations for recognition of Concession Asset and Liability, calculation of Depreciation.

## **Accounting Entry for Tenth Year, on completion of Concession contract**

### **8. Recognising Fixed Asset in the books instead of Concession Asset [after the asset is transferred on completion of concession period]**

Debit / Credit	Code	Details	Amount (Dr)	Amount (Cr)
Debit	410-30-02	Roads & Pavements-Black topped	709	
Credit	410-30-08	Concession Asset - Road		709

**Explanation:** The asset is transferred to ULB at the completion of concession period at the value appearing in the Books. ULB will change the nomenclature of such asset by making above entry. Accumulated depreciation of Rs.451 is already appearing in the books. Accordingly, now the Balance Sheet will show gross Block of Rs.1160, and Accumulated depreciation Rs.451.

**Source Document:** Concession agreement, Transfer document

**Records updated:** Journal, Ledger, Fixed Assets register

## **After passing the above entries, given below the Overview of Cash Flows, Income and Expenditure Statement, and Balance Sheet of the ULB**

20.1.26. The ULB's cash flows, income and expenditure statement, and balance sheet over the duration of the arrangement will be as illustrated. In addition, the table below shows the changes in the financial liability.

### **Cash Flows (Rupees)**

Year	1	2	3	4	5	6	7	8	9	10	Total
Predetermined Series of Payments	-	-	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(1,600)
Net inflow/(outflow)	-	-	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(1,600)

# UTTARAKHAND MUNICIPAL ACCOUNTING MANUAL

## Income and Expenditure Statement (Rupees)

Year	1	2	3	4	5	6	7	8	9	10	Total
Service expense	-	-	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(96)
Finance charge	-	(32)	(67)	(59)	(51)	(43)	(34)	(25)	(22)	(11)	(344)
Depreciation base layers	-	-	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(304)
Depreciation original surface layers	-	-	(18)	(19)	(18)	(18)	(19)	(18)	-	-	(110)
Depreciation replacement surface layers	-	-	-	-	-	-	-	-	(18)	(19)	(37)
Total depreciation	-	-	(56)	(57)	(56)	(56)	(57)	(56)	(56)	(57)	(451)
Annual surplus/(deficit)	-	(32)	(135)	(128)	(119)	(111)	(103)	(93)	(90)	(80)	(891)

## Balance Sheet (Rupees)

Year	1	2	3	4	5	6	7	8	9	10
Concession asset layers	525	940	902	864	826	788	750	712	674	636
Concession asset original surface layers	-	110	92	73	55	37	18	-	-	-
Concession asset replacement surface layers	-	-	-	-	-	-	-	110	92	73
Total concession asset	525	1,050	994	937	881	825	768	822	766	709
Cash	-	-	(200)	(400)	(600)	(800)	(1,000)	(1,200)	(1,400)	(1,600)
Financial liability	(525)	(1,082)	(961)	(832)	(695)	(550)	(396)	(343)	(177)	-
Cumulative surplus/(deficit)	-	(32)	(167)	(295)	(414)	(525)	(628)	(721)	(811)	(891)

# UTTARAKHAND MUNICIPAL ACCOUNTING MANUAL

Year	1	2	3	4	5	6	7	8	9	10
Balance brought forward	-	525	1,082	961	832	695	550	396	343	177
Liability recognized along with initial concession asset	525	525	-	-	-	-	-	-	-	-
Finance charged added to liability prior to payments being made	-	32	-	-	-	-	-	-	-	-
Portion of predetermined series of payments that reduces the liability	-	-	(121)	(129)	(137)	(145)	(154)	(163)	(166)	(177)
Liability recognized along with replacement surface layers	-	-	-	-	-	-	-	110	-	-
Balance carried forward	525	1,082	961	832	695	550	396	343	177	-

**Example 2: The ULB Makes a Predetermined Series of Payments to the Operator and also Grants the Operator the Right to Charge Users a Toll for Use of the Road**

Key components	Assumptions
PPP project	Construction of Road (2 years), Operation & Maintenance (8 years) including collection of Tolls. Total 10 years concession
PPP partner's responsibility	Construction, re-surfacing at the end of 8 <sup>th</sup> year, Operation and maintenance, Transfer to ULB at the end of year 10
Life span of Road base layer	25 years
Construction cost	Rs.525 in year-1 and Rs.525 in year-2. Total Rs.1050
Component of Construction cost	Original layer- Rs.940 + Surface Layer- Rs.110. Total Rs. 1050
Fair value of Road at inception	Rs. 1050
Payment to Private partner	Rs.100 per year from 3 <sup>rd</sup> year

Key components	Assumptions
Estimated Toll collection by Private Partner	Rs. 100 per year from 3 <sup>rd</sup> year
Annual payment (Rs.100) to private partner for 8 years, cover	50% of (Fair values asset, Financial charge, Service charge)

**Detailed assumptions and calculations are given below:**

- 20.1.27. The terms of the arrangement allow the operator to collect tolls from drivers using the road. The operator forecasts that vehicle numbers will remain constant over the duration of the arrangement and that it will receive tolls of Rs. 100 in each of years 3-10. The arrangement also requires the grantor to make a predetermined series of payments to the operator of Rs. 100 annually. The fair value of the right to collect tolls and the predetermined series of payments are considered to compensate the operator equally (i.e., 50% from each form of compensation to the operator).
- 20.1.28. The grantor initially recognises the concession asset as property, plant, and equipment at its fair value (total Rs. 1,050, comprised of Rs. 940 related to construction of the base layers and Rs. 110 related to construction of the original surface layers). The asset is recognised as it is constructed (Rs. 525 in year 1 and Rs. 525 in year 2). Depreciation is taken annually (Rs. 56, comprised of Rs. 38 for the base layers and Rs. 18 for the surface layers).
- 20.1.29. As consideration for the concession asset, the grantor recognises both a liability under the grant of a right to the operator model by granting the operator the right to collect tolls of Rs. 100 in years 3-10, and a financial liability to make payments of Rs. 100 in years 3-10. A liability and a financial liability are recognised as the asset is recognised at the end of year 1 (Rs. 525). The liability and financial liability are increased at the end of year 2 to reflect both the fair value of the additional construction (Rs. 525) and the finance charge on the outstanding financial liability.
- 20.1.30. The grantor's obligation related to the right granted to the operator to charge tolls and the predetermined payments are regarded as two separate items. Therefore, in this arrangement it is necessary to divide the grantor's consideration to the operator into two parts – a liability and a financial liability.

- 20.1.31. The liability of Rs. 525 (recognised evenly at the end of year 1 and 2) is reduced over years 3-10, and the grantor recognises revenue on the same basis because the tolls are expected to be earned evenly over the term of the service concession arrangement from the point at which the asset is capable of providing service benefits.

The grantor initially recognises a financial liability at fair value equal to half of the fair value of the asset (Rs. 525), recognised evenly at the end of years 1 and 2; a liability under the grant of a right to the operator model is recognised in an amount equal to the other half of the fair value of the asset. The financial liability is also increased at the end of year 2 by the finance charge on the outstanding financial liability. Because the amount of the predetermined payments related to the service component of the service concession arrangement is known, the grantor is able to determine the amount of the payments that reduces the liability. A finance charge at the implicit rate of 6.18% is recognised annually. The liability is subsequently measured at amortised cost i.e., the amount initially recognized plus the finance charge on that amount calculated using the effective interest method minus repayments.

- 20.1.32. The operator is compensated for the road resurfacing (Rs. 110) equally through the tolls the operator expects to earn over the term of the service concession arrangement and the series of predetermined payments (i.e. from 50% each). There is no direct cash flow impact related to the road resurfacing; however, the grantor recognizes the resurfacing as an asset when the work is undertaken and recognizes depreciation expense of Rs.  $110/6 = \text{Rs. } 18$  beginning in year 9. The operator is compensated for maintenance and operating the road (Rs. 12) equally through tolls that the operator expects to earn over the term of the service concession arrangement and the predetermined payment (i.e. 50% from each). There is no direct cash flow impact related to this service expense because the grantor has no cash outflow. However, the grantor recognizes an expense annually for the portion of the compensation related to the series of predetermined payments (Rs. 6). There is no Financial Statement impact for the remaining Rs. 6 of this service expense. It is not recognized as an operating expense because the fair value of the asset and liability initially recognized do not include any service costs the operator may incur.

## Accounting Treatments:

- 20.1.33. Scheme of Accounting entries are given below:

## Accounting Entry for First Year

### 1. Recognising Concession Asset in First year along with recognition of Liability

Debit / Credit	Code	Details	Amount (Dr)	Amount (Cr)
Debit	410-30-08	Concession Asset - Road	525	
Credit	350-10-08	To Financial Liability under Concession (Concessionaire)		263
Credit	350-10-09	To Other Liability under Concession		262

**Explanation:** The asset is recognised as it is constructed i.e. Rs. 525 in year 1. The grantor (ULB) initially recognises a financial liability at 50% of fair value of the asset under construction at the end of year 1 (Rs. 525). Balance 50%, towards right to collect toll, is taken to other concession liability

**Source Document:** Concession agreement

**Records updated:** Journal, Ledger

## Accounting Entry for Second Year

### 2. Recognising Concession Asset in Second year along with recognition of Liability

Debit / Credit	Code	Details	Amount (Dr)	Amount (Cr)
Debit	410-30-08	Concession Asset - Road	525	
Debit	240-60-05	Financial charge for Concession contract	16	
Credit	350-10-08	To Financial Liability under Concession (Concessionaire)		278
Credit	350-10-09	To Other Liability under Concession		263

**Explanation:** The asset is recognised as it is constructed i.e. Rs. 525 in year 2. The ULB recognises a financial liability for second year at 50% of fair value of the asset under construction at the end of year i.e. Rs. 525. ULB recognises finance charge of Rs.16 on 50% outstanding financial liability (6.18% on 50% of Rs.525 = Rs.32). Value of concession asset at the end of second year is Rs.1050, Financial Liability Rs.541, and Liability Rs.525.

**Source Document:** Concession agreement

**Records updated:** Journal, Ledger

## Accounting Entry for Third Year

### 3. Charging Depreciation on Concession Asset commencing from Third year

Same entry as per Example-1

### 4. Recognition of Financial Liability

Debit / Credit	Code	Details	Amount (Dr)	Amount (Cr)
Debit	240-60-05	Financial charge for Concession contract	33	
Debit	230-59-08	Service Expenses	6	
Credit	350-10-08	To Financial Liability under Concession (Concessionaire)		39

**Explanation:** ULB recognises finance charge of Rs.33 on the outstanding financial liability @ 6.18% on Rs.541. ULB also recognises Service expenses of Rs.6 commencing from year 3.

**Source Document:** Concession agreement

**Records updated:** Journal, Ledger



## 5. Annual Payment to Concessionaire, and reduction of ULB's liability

Debit / Credit	Code	Details	Amount (Dr)	Amount (Cr)
Debit	350-10-08	Financial Liability under Concession (Concessionaire)	100	
Credit	450-21-01	To Bank A/c		100

**Explanation:** ULB makes payment to PPP partner on annual basis. Accordingly, Liability under the head "350-10-08" will have a balance of Rs.480 (Opening balance Rs.525+ Rs.16+ Rs.33+Rs. 6+ Rs.12-Rs.100).

**Source Document:** Concession agreement

**Records updated:** Cash Book, Ledger

## 6. Revenue recognition by ULB through liability written back

Debit / Credit	Code	Details	Amount (Dr)	Amount (Cr)
Debit	350-10-09	To Other Liability under Concession	73	
Credit	180-70-01	Income from PPP transaction		73

**Explanation:** ULB recognises income through liability written back at the end of each year commencing from the year of commencement of toll collection. As per assumption made, the estimated toll of Rs.100 per annum would cover the fair value of asset created through Concessionaire. Fair value of Asset created by Concessionaire is Rs.580 (525+55). Accordingly, ULB recognises liability written back at Rs.73 per year approx. (i.e. Rs.580/8 years).

**Source Document:** Concession agreement

**Records updated:** Cash Book, Ledger

## **Accounting Entry from fourth Year to Seventh Year**

**7. Similar scheme of entries as per third year will be passed with different amount on yearly basis**

## **Accounting Entry for Eighth Year and Ninth Year**

**8. Similar scheme of entries as per third year will be passed with different amount on yearly basis. However, as replacement surface asset is created in 8th year (Rs.110), ULB will modify calculations for recognition of Concession Asset and Liability, calculation of Depreciation.**

## **Accounting Entry for Tenth Year, on completion of Concession contract**

**9. Recognising Fixed Asset in the books instead of Concession Asset [after the asset is transferred on completion of concession period]**

Debit / Credit	Code	Details	Amount (Dr)	Amount (Cr)
Debit	410-30-02	Roads & Pavements-Black topped	709	
Credit	410-30-08	Concession Asset - Road		709

**Explanation:** The asset is transferred to ULB at the completion of concession period at the value appearing in the Books. ULB will change the nomenclature of such asset by making above entry. Accumulated depreciation of Rs.451 is already appearing in the books. Accordingly, now the Balance Sheet will show gross Block of Rs.1160, and Accumulated depreciation Rs.451.

**Source Document:** Concession agreement, Transfer document.

**Records updated:** Journal, Ledger, Fixed Assets register

# UTTARAKHAND MUNICIPAL ACCOUNTING MANUAL

20.1.34. Calculation of all necessary financials and the Financial Statements will be as follows:

## Overview of Cash Flows, Income and Expenditure Statement, and Balance Sheet

### Cash Flows (Rupees)

Year	1	2	3	4	5	6	7	8	9	10	Total
Predetermined series of payments	-	-	-100	-100	-100	-100	-100	-100	-100	-100	-800
Net inflow/ outflow (-)	-	-	-100	-100	-100	-100	-100	-100	-100	-100	-800

### Income and Expenditure Statement (Rupees)

Year	1	2	3	4	5	6	7	8	9	10	Total
Revenue	-	-	73	72	73	72	73	72	73	72	580
Service expense	-	-	-6	-6	-6	-6	-6	-6	-6	-6	-48
Finance charge	-	-16	-33	-30	-26	-22	-17	-12	-11	-5	-172
Depreciation base layers	-	-	-38	-38	-38	-38	-38	-38	-38	-38	-304
Depreciation original surface layers	-	-	-18	-19	-18	-18	-19	-18	-	-	-110
Depreciation replacement surface layers	-	-	-	-	-	-	-	-	-18	-19	-37
Total depreciation	-	-	-56	-57	-56	-56	-57	-56	-56	-57	-451
Annual deficit	-	-16	-22	-21	-15	-12	-7	-2	-	4	-91

#### Notes:

Depreciation in years 3-8 reflects the depreciation on the initially constructed road surface. It is fully depreciated over that period.

Depreciation in years 9-10 reflects the depreciation on the new concession asset component (surface) recognized in year 8

All revenue is recognized evenly over the term of the arrangement

# UTTARAKHAND MUNICIPAL ACCOUNTING MANUAL

## Balance Sheet (Rupees)

Year	1	2	3	4	5	6	7	8	9	10
<b>Concession asset: base layers</b>	525	940	902	864	826	788	750	712	674	636
<b>Service concession: surface layers</b>	-	110	92	73	55	37	18	-	-	-
<b>Service concession: replacement surface layers</b>	-	-	-	-	-	-	-	110	92	73
<b>Total concession asset</b>	525	1,050	994	937	881	825	768	822	766	709
<b>Cash</b>	-	-	(100)	(200)	(300)	(400)	(500)	(600)	(700)	(800)
<b>Liability</b>	(262)	(525)	(452)	(380)	(307)	(235)	(162)	(145)	(72)	-
<b>Financial liability</b>	(263)	(541)	(480)	(416)	(348)	(276)	(199)	(172)	(89)	-
<b>Cumulative deficit</b>	-	16	38	59	74	86	93	95	95	91

20.1.35. In case of annuity scheme entries in the first case will be followed as the revenue will be collected by ULB.

20.1.36. When ULB compensates the private partner through revenue grant, the second case is to be followed for payment of revenue grant.

20.1.37. In case the private partner commits to provide upfront grant to the ULB, such grant will be accounted for over the contract period. For example, a ULB gives out the SWM plant to vendor on PPP basis. The vendor incurs Rs.100 O&M expenditure every year. Apart from that the vendor sells the treated water and sludge and earns Rs.120 every year. The agreement is for five years and the vendor has provided an upfront grant of Rs.40 to the ULB for the entire five years. Following scheme of entry will be passed for accounting the upfront grant.

## 1. On receipt of upfront Grant

Debit / Credit	Code	Details	Amount (Dr)	Amount (Cr)
Debit	450-21-01	To Bank A/c	40	
Credit	350-41-07	To Advance against Revenue – upfront grant from PPP partner A/c		40
<b>Explanation:</b> ULB receives payment on account of upfront grant from PPP partner. Accordingly, Liability under the head “350-40-08” will be created. <b>Source Document:</b> Concession agreement <b>Records updated:</b> Cash Book, Ledger				

## 2. On recognizing revenue on account of upfront Grant – entry to be passed each year during PPP contract period

Debit / Credit	Code	Details	Amount (Dr)	Amount (Cr)
Debit	350-41-07	To Advance against Revenue – upfront grant from PPP partner A/c	8	
Credit	180-70-01	To Income from PPP transactions A/c		8
<b>Explanation:</b> ULB will recognise revenue in each of the five years proportionately. <b>Source Document:</b> Concession agreement <b>Records updated:</b> Ledger				

## Internal Controls

The following internal controls shall be observed by the ULBs:

- The Head of the Accounts Department shall ensure that actual cash flow is estimated properly and reviewed to know sustainability through adequate Return on

Investment (ROI). He shall also ensure that any revenue derived from the properties constructed under the scheme is deposited in the Designated Bank Account.

- ii. The Head of the Accounts Department shall ensure that ensure that appropriate Legal advice has been taken to review the concession agreement and related documents.
- iii. Before making any payment to PPP partner, the Head of the Accounts Department shall ensure that the proposed payments are strictly as per terms of Concession agreement.
- iv. Head of Accounts department shall ensure proper calculation of accounting transactions for PPP project and appropriate accounting.
- v. Annual reconciliation of all Ledger accounts will be taken up by Accounts department along with the respective department directly responsible for the PPP project.
- vi. Head of Accounts department will provide the status of progress of each PPP project periodically to the Commissioner/ EO.

## Chapter 21: Special Transactions

*This chapter covers special transactions for:*

- a. Grants given by ULBs to the Schools or other undertakings established under an ULB
- b. Contributions made by ULBs in creation of assets not owned by it.
- c. Income Tax applicable to an ULB, if applicable by Law

### A. Grants given by ULBs to the Schools or Other Undertakings Established Under an ULB

#### Accounting Entries

(Scheme of Accounting entries have been provided as examples, using few heads from Chart of Account. Accounting personnel, who will pass accounting entries, shall refer to the examples provided herein, and use appropriate accounting code (from Chart of Account) relevant for the specific transaction or series of transactions.)

#### 1. Recording of Revenue Grants either as Reimbursement of the Monthly Expenses or towards any other Revenue Expenses

Debit / Credit	Code	Details
Debit	260-10-02	Grants given
Credit	450-21-01	To Bank A/c

**Explanation:** ULBs may provide Grants to the Municipal Schools or other undertakings. ULB may provide the following recurring and non-recurring Grants e.g. received from State Government a. Revenue Grant in the form of reimbursement of monthly Expenses of the Schools or other undertakings; b. Revenue Grant for any other revenue expenditure of the Schools or other undertakings, etc.; c. Capital Grant for purchase/construction/modifications of any assets of the schools or undertakings. The above entry should be passed when the ULB is used just as a channelising agent for disbursement of grant by the Government and all responsibilities including providing Utilisation Certificate rests with the School. This entry should

be distinguished with providing advance out of Grants. In the later case, Advance A/c should be debited instead of Grants A/c.

**Trigger Point:** Transfer of Grant to the undertakings e.g. school, health unit, hospital

**Source Document:** Documents related to payment

**Records updated:** Cash Book, Ledger, Register of Grants to Schools & Other Undertakings (AC 32)

## B. Contributions by ULBs in Creation of Assets not owned by it

### 1. Contribution by ULB for assets not owned by it

Debit / Credit	Code	Details
Debit	260-20-03	Contributions-Other Government Agencies
Credit	450-21-01	To Bank A/c

**Explanation:** ULBs may contribute as its share in some projects, which are created by external agencies e.g. to some other Government Agencies e.g. contribution in any infrastructure projects like multi-modal transport. In such cases ULB does not have any ownership rights on the assets.

**Trigger Point:** Transfer of contribution to the undertaking creating the Asset

**Source Document:** Approval letter, Register of bills for payment

**Records updated:** Cash Book, Ledger

## C. Income Tax payable by ULB in certain situations

21.1.1. As per Section 10(20) of Income Tax Act' 1961, the following income of a local authority is exempt from tax:

- Income which is chargeable under the head "Income from house property", "Capital gains" or "Income from other sources" or
- Income from a trade or business carried on by it which accrues or arises from the supply of a commodity or service (not being water or electricity) within its own jurisdictional area or
- Income from business of supply of water or electricity within or outside its own jurisdictional area.



21.1.2. If at any point of time an ULB generates income other than the exempt income mentioned above, it may be subject to Income Tax as per the rules prevalent at that time.

21.1.3. For accounting for Income Tax, following scheme of entries will be made:

## 1. Creation of Provision of Income Tax

Debit / Credit	Code	Details
Debit	270-20-05	Income Tax
Credit	360-10-01	To Provision for Taxes

**Explanation:** ULB should calculate the amount of Income Tax is to be paid on the non-exempt income. A provision shall be created in the Income and Expenditure Account with corresponding liability in Balance Sheet.

**Trigger Point:** Calculation of Income Tax

**Source Document:** Heads of Taxable Income as per Income Tax Act and computation of Income Tax Liability

**Records updated:** Ledger

## 2 . Creation of TDS Receivable at the time of collection of Rental Income – An Example

Debit / Credit	Code	Details
Debit	450-21-01	Bank Account
Debit	460-60-06	Income Tax Deducted at Source
Credit	431-40-01	To Receivables for Rental Income

**Explanation:** To record the income based on the Summary of Daily Collections received from the various Collection Offices and Collection Centers, the Accounts Department shall pass the above entry.

**Trigger Point:** At the end of month for all collections made during the month

**Source Document:** Summary of Daily Collection (Form –Coll 01)

**Records Updated:** Journal Book, Ledger Account

## 3. Deposit of Income Tax- self assessment

Debit / Credit	Code	Details
Debit	460-60-05	Income Tax – self assessment
Credit	460-60-06	To Tax deducted at source
Credit	450-21-01	To Bank A/C

**Explanation:** ULB should calculate the amount of Income Tax is to be paid on the non-exempt income, deduct the TDS deducted on collection of rental income by payer, and deposit net Tax payable to Govt account.

**Trigger Point:** Calculation of Income Tax, compilation of TDS credit receivable

**Source Document:** Heads of Taxable Income as per Income Tax Act and computation of Income Tax Liability, TDS

**Records updated:** Ledger, Bank

## 4. Adjustment of Ledgers in case lesser amount assessed by IT Authority, on completion of assessment

Debit / Credit	Code	Details
Debit	360-10-01	Provision for Taxes (amount lying in the ledger for that assessment year)
Debit	431-50-05	Income Tax Refund receivable (As per Refund order)
Credit	460-60-05	To Income Tax – self assessment (amount lying in the ledger for that assessment year)
Credit	270-20-05	To Income Tax (As per Refund order)

**Explanation:** In case assessed tax figure is less than self-assessed figure, ULB shall adjust Income & Expenditure Account for taking debit of shortfall of self-assessed tax through Refund. When refund is received, Bank account will be debited, and Income tax Refund receivable account will be credited.

**Trigger Point:** Assessment order of Income Tax department

**Records updated:** Ledger, Bank

## 5. Adjustment of Ledgers in case assessed tax on completion of Assessment by IT Authority is in excess of what has been provided in self-assessment

Debit / Credit	Code	Details
Debit	360-10-01	Provision for Taxes (amount lying in the ledger for that assessment year)
Debit	270-20-05	Income Tax (As per Demand order)
Credit	460-60-05	To Income Tax – self assessment (amount lying in the ledger for that assessment year)
Credit	350-30-07	To Income Tax payable (As per Demand order)

**Explanation:** In case assessed tax figure is more than self-assessed figure, ULB need to provide for the balance tax payable. Otherwise, ULB shall adjust Income & Expenditure Account for taking credit of excess self-assessed tax. When additional tax is paid, Income Tax Payable account is debited and Bank account will be credited.

**Trigger Point:** Assessment order of Income Tax department

**Records updated:** Ledger, Bank

## 6. Recording of payment of Income Tax Liability

Debit / Credit	Code	Details
Debit	350-30-07	Income Tax Payable (As per Demand Order)
Credit	450-21-01	To Bank A/C

**Explanation:** The ULB is required to make payment for the Tax Liability finalized on receipt of Assessment order from the Income Tax department

**Trigger Point:** At the time of Payment of Tax Liability

**Records updated:** Ledger, Bank

## Chapter 22: Investment in Associates (Smart City SPV)

*This chapter explains accounting procedures to be followed in case of investment in Associates (Smart City SPV). Form AC 09, AC 07 and AC 31 will be maintained by the Accounts department.*

### Smart Cities Mission<sup>12</sup>

- 22.1.1 Smart City Mission at the City level is being implemented through a Special Purpose Vehicle (SPV) created for this purpose. Each smart city is having an SPV which is headed by a full time CEO and have nominees of Central Government, State Government and Urban Local Body on its Board. Main objective of formation of SPV is to plan, appraise, approve, release funds, implement, manage, operate, monitor and evaluate the Smart City development projects.
- 22.1.2 The responsibility of States/ULBs is to ensure that, (a) a dedicated and substantial revenue stream is made available to the SPV so as to make it self-sustainable and could evolve its own credit worthiness for raising additional resources from the market and (b) Government contribution for Smart City is used only to create infrastructure that has public benefit outcomes. The execution of projects may be done through joint ventures, subsidiaries, public-private partnership (PPP), turnkey contracts, etc suitably dovetailed with revenue streams.
- 22.1.3 Each SPV is a limited company incorporated under the Companies Act, 2013 at the city-level, in which the State/UT and the ULB are the promoters having 50:50 equity shareholding. The private sector or financial institutions could be considered for taking equity stake in the SPV, provided the shareholding pattern of 50:50 of the State/UT and the ULB is maintained and the State/UT and the ULB together have majority shareholding and control of the SPV.
- 22.1.4 Funds provided by the Government of India in the Smart Cities Mission to the SPV will be in the form of tied grant and kept in a separate Grant Fund. These funds can be utilized only for the purposes for which the grants have been given and subject to the conditions laid down by the MoUD.

<sup>12</sup> Sourced from GOI website: <http://smartcities.gov.in/upload/uploadfiles/files/SPVs.pdf>

- 22.1.5 The State Government and the ULB determine the paid-up capital requirements of the SPV commensurate with the size of the project, commercial financing required and the financing modalities. To enable the building up of the equity base of the SPV and to enable ULBs to contribute their share of the equity capital, Gol grants will be permitted to be utilized as ULBs share of equity capital in the SPV, subject to the conditions given in Annexure -5 of the smart city mission guidelines.
- 22.1.6 Initially, to ensure a minimum capital base for the SPV, the paid up capital of the SPV should be such that the ULB's share is at least equal to Rs.100 crore with an option to increase it to the full amount of the first instalment of Funds provided by Gol (Rs.194 crore). With a matching equity contribution by State/ULB, the initial paid up capital of the SPV will thus be Rs. 200 crore (Rs. 100 crores of Gol contribution and Rs. 100 crore of State/UT share). Since the initial Gol contribution is Rs.194 crore, along with the matching contribution of the State Government, the initial paid up capital can go up to Rs.384 crore at the option of the SPV. The paid-up capital may be enhanced in the subsequent years as per project requirements, with the provision mentioned above ensuring that ULB is enabled to match its shareholding in the SPV with that of the State/UT.
- 22.1.7 At present, the State of Uttarakhand is having one Smart city, i.e. Dehradun. For the purpose of implementing the smart cities project in Dehradun, a Special Purpose Vehicle (SPV) has been incorporated, under the Indian companies Act, 2013. Name of the smart city is Dehradun Smart City Limited (DSCL). The Municipal Commissioner, Dehradun Nagar Nigam is one of the Directors, and the Dehradun Nagar Nigam holds 49997 Equity shares (out of 100000 issued) in DSCL as per the Financial Statements dated 31st March 2019<sup>13</sup>.

## **Treatment of carrying value of investment in Associates (Smart City SPV)**

- 22.1.8 An associate is an entity over which the investor has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of another entity but is not control of those policies. Presumption of significant influence is holding by an entity, directly and indirectly, 20 per cent or more of the voting power of the investee. In this chapter, specific accounting treatment has been provided for an investment made by

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<sup>13</sup> Sourced from Annual Report of DSCL for the FY 2018-19

the Investor (ULB) to an Associate (Smart City SPV). This can be extended to other companies held by the ULB provided they have significant influence.

22.1.9 Once a Municipality becomes an Investor of another entity, which is an associate (or subsequently becomes an associate), the Municipality shall initially recognise the investment at cost in its books of accounts. However, the carrying amount of such investment shall be calculated at each year end on equity method and carried to accounts at that value. To clarify, the investment in an associate is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets/equity of the associate. The ULB's surplus or deficit shall include its share of the investee Associate's surplus or deficit and the ULB's net assets/equity includes its share of changes in the investee Associate's net assets/equity. that have not been recognised in the investee Associate's surplus or deficit. An investment is accounted for using the equity method from the date on which it becomes an associate or a joint venture. The most recent available Financial Statements of the associate or joint venture are used by the entity in applying the equity method.

22.1.10 Associate's accounting policies should be the same as those of the investor for like transactions and events in similar circumstances. If an associate uses different accounting policies other than those of the ULB for like transactions and events in similar circumstances, the results of associate needs to be reworked so that valuation can be done correctly. For the limited purpose of calculation of equity adjustments should be made to make the associate's accounting policies confirm to those of the entity.

22.1.11 An ULB should discontinue the use of the equity method from the date when its investment ceases to be an associate and treat it is as normal investments.

## Accounting policies

Serial Number	Transaction	Recognition & Measurement
1	Initial Recognition of Investment in Associates	Investment in Associates will initially be recognised at Cost.
2	Subsequent valuation of ULB's Share in Associate	<p>I. The ULB's share in the investee associate will be accounted as per the Equity method.</p> <p>II. The value of Investment will be adjusted at the end of every Financial Year for the post-acquisition change in the investor's share of the investee's net assets/equity of the associate.</p>

## List of forms to be maintained

Serial number	Form name	Form number	Department (Main Responsibility first)
1	Cash/Bank Payment Voucher	AC 09	Accounts
2	Ledger Account	AC 07	Accounts
3	Investment Register	AC 31	Accounts

# UTTARAKHAND MUNICIPAL ACCOUNTING MANUAL

## Accounting Treatment:

Accounting treatment has been explained through following example.

### Illustrative Example

Set out below are the draft accounts of ABC Municipal Corporation and of Associate Co. Group (say, Smart City SPV) has acquired 40% of the equity capital of Associate Co three years ago when the latter's reserves stood at Rs.10,000.

In 000's

Particulars	ABC Municipal Corporation	ScSPV
<b>Non-Current Assets</b>		
Fixed Assets	250	150
Investment in Associate (Cost price)	60	-
<b>Current Assets</b>	120	50
<b>Total</b>	<b>430</b>	<b>200</b>
Corporation Fund	250	-
Share Capital	-	100
Retained Earnings	130	70
<b>Current Liabilities</b>		
Trade Payables	50	30
<b>Total</b>	<b>430</b>	<b>200</b>

Particulars	ABC Municipal Corporation	ScSPV
Surplus Before Tax	95	80
Income tax expense	-35	-30
Surplus for the year	60	50



# UTTARAKHAND MUNICIPAL ACCOUNTING MANUAL

Prepare Financial Statements of the group after accounting for the associate under Equity accounting.

## Solution

### Income and Expenditure Account

Particulars	ABC Municipal Corporation
Surplus	95
Share of profits of associated company (50 x 40%)	20
<b>Surplus before tax</b>	<b>115</b>
Income tax expense	-35
<b>Surplus attributable to the Municipal Fund</b>	<b>80</b>

### Balance Sheet

Assets	ABC Municipal Corporation
<b>Non-Current Assets</b>	
Fixed Assets	250
Investment in Associates	84
<b>Current Assets</b>	120
<b>Total</b>	<b>454</b>
Corporation Fund	250
Retained Earnings	154
<b>Current Liabilities</b>	
Trade Payables	50
<b>Total</b>	<b>454</b>

Retained Earnings	Amount
<b>Reserves of ScSPV- present</b>	<b>70</b>
Less: Pre-Acquisition Reserves	10
Post-acquisition Reserves	60
Group Share in associate in Post-acquisition reserve	40%
Group share in Retained earnings	24

Carrying Value of Investment in ScSPV	Amount
Cost of investment	60
Share of post-acquisition retained earnings	24
<b>Total</b>	<b>84</b>

## **Accounting Entry**

(Scheme of Accounting entries have been provided as examples, using few heads from Chart of Account. Accounting personnel, who will pass accounting entries, shall refer to the examples provided herein, and use appropriate accounting code (from Chart of Account) relevant for the specific transaction or series of transactions.)

### **1. Transfer of Investment account to Investment-to-Associate (buying of shares)**

Debit / Credit	Code	Details
Debit	421-50-02	Investment in Associates
Credit	450-21-01	To Bank A/c

**Explanation:** An investment to another entity will be recorded as per accounting treatment given in the chapter on Investment. However, once the investee entity becomes an “Associate”, the initial value of investment (as per books and at cost) will be transferred to a separate account “Investment to Associate”.

**Trigger Point:** Approved accounts of Investee and criteria of determination of Associate

### **2. For recognizing share of income from Associate**

No accounting entry shall be passed. Share of retained earnings will be calculated and disclosed separately in Income and Expenditure Account. However, any dividend received will be accounted for as per the Accounting policy provided Chapter 3.13 Investments in this manual.

### 3. For adjusting carrying value of Investment to Associate (Increase in the value of investment)

Debit / Credit	Code	Details
Debit	421-50-02	Investment in Associates
Credit	170-80-02	To Increase in value of Investment

**Explanation:** Above entry is to be passed when, through calculation, it is found that there is an increase of value of investment to associate over and above its cost. In case of diminution in value, reverse entry is to be passed.

**Trigger Point:** Approved accounts of Investee and criteria of determination of Associate

### 4. For adjusting carrying value of Investment to Associate (Decrease in the value of investment)

Debit / Credit	Code	Details
Debit	271-30-01	Loss in value of Investment
Credit	421-50-02	To Investment in Associates

**Explanation:** Above entry is to be passed when, through calculation, it is found that there is a decrease of value of investment to associate over and above its cost.

**Trigger Point:** Approved accounts of Investee and criteria of determination of Associate

## Chapter 23: Addition / Merger of Local Bodies

*This chapter explains accounting procedures to be followed by the ULBs for the merger of ULBs/Undertakings.*

### Introduction

23.1.1. Additions or merger in ULBs can happen under the following circumstances.

- Merger between two or more local bodies for up-gradation
- Merger of any undertaking / Boards (para-statal agencies) which performs some of the functions assigned to the Local Bodies.
- Partial merger of a peri urban area added to the larger Urban area
- De merger of urban areas in two ULBs

23.1.2. The ULB into which other ULBs are to be merged shall be called as 'Merged ULB'.

23.1.3. The scheme of Addition/ Merger is implemented as per the scheme guidelines and notifications issued by State Government.

23.1.4. The scheme guidelines outline the rationale for the changes, the areas which are being merged/de-merged, what assets and liabilities are merged and the cut-off date from which the scheme will be effective. Normally such schemes will be notified through a GO and put in the Official Gazette.

### Summary of Accounting Policies

Serial Number	Transaction	Basis of Accounting
1	When new areas are added to existing ULBs	An opening Balance Sheet is prepared for each of the added local bodies. The Opening Balance sheets are then consolidated with the Balance Sheet of the Parent ULB at their carrying amount.
2	When one or more ULBs are merged to form a single ULB	The Financial Statements of the merging local bodies shall be consolidated at the cut-off dates under the pooling of interest method.

# UTTARAKHAND MUNICIPAL ACCOUNTING MANUAL

Serial Number	Transaction	Basis of Accounting
3	Assets, liabilities, reserves and fund balances of the merging local bodies	<ul style="list-style-type: none"> <li>➤ Recorded at their existing carrying amounts</li> <li>➤ It must be ensured that accounting policies adopted for preparation of Financial Statements of merging local bodies should be same.</li> </ul>
4	Where the accounting policies of the merging and merged entities are different	<ul style="list-style-type: none"> <li>➤ The Financial Statements of the merging entities must be recast as on the cut-off date in line with the policies of the merged ULB before consolidation.</li> <li>➤ The fact of the recasting of Financial Statements and its impact shall be disclosed in the Financial Statements.</li> <li>➤ Notes to accounts shall provide appropriate disclosure of this merger</li> </ul>
5	Situations similar to demerger where the area/jurisdiction of one ULB is reduced by partial movement of such area/jurisdiction to be merged with another ULB	<ul style="list-style-type: none"> <li>➤ The Balance sheet is to be redrafted on the date of demerger.</li> <li>➤ The assets, liabilities, reserves and fund balances of the unmerged portion (left with original ULB) will be recorded in the Balance sheet</li> <li>➤ The assets, liabilities, reserves and fund balances of the de-merged portion will be shown separately in the notes to accounts.</li> </ul>

## Accounting Entries

(Scheme of Accounting entries have been provided as examples, using few heads from Chart of Account. Accounting personnel, who will pass accounting entries, shall refer to the examples provided herein, and use appropriate accounting code (from Chart of Account) relevant for the specific transaction or series of transactions.)

## Incorporation of Balances of the Merged Units in the Books of Ultimate ULB/Undertaking

23.1.5. The Financial Statements of the individual ULBs / undertakings under the merger shall be prepared at the cut off dates and finalised.

23.1.6. Once the Financial Statements are finalised, the closing balances as at the cut-off date shall be carried over to the ultimate ULB accounts to which the operations are merged.

23.1.7. The following accounting entries shall be passed in the books of the ultimate ULB for incorporating the assets and liabilities of individual ULBs to be merged in the books of the Ultimate ULB selected for consolidation:

### 1. Recording for incorporation of assets and liabilities in case of merger

Debit / Credit	Code	Details
Debit	410-xx-xx	Fixed assets
Debit	412-xx-xx	Capital work in progress
Debit	431-xx-xx	Sundry Debtors
Debit	450-21-xx	Municipal Fund Bank
Credit	311-10-xx	To Road Fund
Credit	330-xx-xx	To Secured Loans
Credit	340-xx-xx	To Deposits received
Credit	350-xx-xx	To Other liabilities
Credit	360-10-xx	To Provision for expenses
Credit	411-20-xx	To Accumulated Depreciation
Credit	432-xx-xx	To Accumulated Provision against Debtors (Receivables)
Credit	310-10-xx	To Municipal Fund

**Explanation:** The above accounting entries shall be passed in the books of the ultimate ULB for incorporating the assets and liabilities of individual ULBs to be merged in the books of the Ultimate ULB selected for consolidation.

**Trigger Point:** When new areas are added to existing ULB an opening Balance Sheet is prepared for each of the local bodies thereafter it is consolidated with the Balance sheet of Parent ULB. The Financial Statement shall be consolidated at the cut off dates under the

pooling of interest method.

**Source Document:** Latest Audited Financial Statements including all detailed schedules, sub ledgers (Form AC 20 and AC 21), trial balance (Form AC 27), Fixed Asset Register, Capital work in progress register, Special funds register, Loan Register (Form AC 23), Deposit register (Form AC 19)

**Records Updated:** Cash, Bank, Journal book, Complete Municipal Financial Statements

(a) Insert Minor & Detailed Head Codes of Accounts as applicable

(b) Insert Detailed Head Codes of Accounts as applicable

Note: Since the incorporation of account balances is made under the line by line method, the account balances are incorporated without netting off. E.g. Sundry Debtors and Provision for doubtful receivables

23.1.8. The Financial Statements of the Ultimate ULB after the merger shall be treated as the opening Balance Sheet for the subsequent year.

## Adjustment of Inter ULB/Undertaking Transactions

23.1.9. Inter-ULB transactions shall be those transactions where in the services /goods of one ULB are availed by other ULBs. Examples of inter ULB transactions are as follows:

- Supply of water by 'Town Municipality' to 'School boards and primary education societies'
- Loans and advances between the local bodies/undertakings;
- Interest on loans and advances between the local bodies;

23.1.10. Adjustment entries in respect of inter ULB transactions: Inter ULB

23.1.11. Balances, if any, will have to be first matched. If there are any differences, it has to be reconciled. Once the balances are matched, the accounting entries that are to be passed in the books of Ultimate ULB for the adjustments.

23.1.12. For elimination of the inter ULB transactions:

## 1. Recording for elimination of inter ULB transactions

Debit / Credit	Code	Details
Debit	330-xx-xx	Loans
Debit	350-xx-xx	Other Liabilities
Debit	360-10-xx	Provision for interest
Credit	460-xx-xx	To Loans and Advances
Credit	431-xx-xx	To Sundry Debtors
Credit	460-80-xx	To Interest Receivable-Loans & Advances

**Explanation:** Any inter ULB transactions that took place before the merger such should be eliminated from the books of accounts.

**Trigger Point:** Before the time of merger if there is any inter ULB transactions between the ULBs, the same should be eliminated.

**Source Document:** Latest Financial Statements including all detailed schedules, sub ledgers (Form AC 20 and AC 21), trial balance (Form AC 27), Register of Loans (Form AC 23), Register of Provisions

**Records Updated:** Ledger (Form AC 07), Journal Book (Form AC 06)

(a) Insert Minor & Detailed Head Codes of Accounts as Applicable

(b) Insert Detailed Head Codes of Accounts as Applicable



## Accounting entry to be passed by the demerged ULB

23.1.13. The Financial Statements of the individual ULBs under the merger shall be prepared at the date when such demerger takes place

### 1. Recording for removing of portion of the assets and liabilities from the books of accounts in case of demerger

Debit / Credit	Code	Details
Debit	311-10-xx	Road Fund
Debit	330-xx-xx	Secured Loans
Debit	340-xx-xx	Deposits received
Debit	350-xx-xx	Other liabilities
Debit	360-10-xx	Provision for expenses
Debit	411-20-xx	Accumulated Depreciation
Debit	432-xx-xx	Accumulated Provision against Debtors (Receivables)
Debit	310-10-xx	Municipal Fund
Credit	410-xx-xx	To Fixed Assets
Credit	412-xx-xx	To Capital work in progress
Credit	431-xx-xx	To Sundry Debtors
Credit	450-21-xx	To Municipal Fund Bank

**Explanation:** The above accounting entries shall be passed in the books of ULB when it removes portion of its assets and liabilities from its books of accounts in case of demerger

**Trigger Point:** When some areas of the existing ULB is demerged, such recording should be done on the day when such demerger took place as per merger notification.

**Source Document:** Latest Audited Financial Statements including all detailed schedules, sub ledgers (Form AC 20 and AC 21), trial balance (Form AC 27), Fixed Asset Register, Capital work in progress register, Special funds register, Loan Register (Form AC 23), Deposit register (Form AC 19)

**Records Updated:** Cash, Bank, Journal book, Complete Municipal Financial Statements

## Differing Accounting Principles

- 23.1.14. In case, the accounting principles adopted by ULBs/Undertakings differ, a uniform set of accounting principles are to be adopted following the merger. The effect of the changes to the accounting principle shall be reported as extraordinary items and changes in accounting principles' in the first year of merged accounts.
- 23.1.15. In the first year of merger and demerger the notes to accounts will have full disclosure about the assets and liabilities merged/demerged with the ULB. In subsequent years (for next two years) a simple note stating the fact of merger/demerger will be disclosed in the notes.
- 23.1.16. The financial statement prepared on consolidation shall disclose:
- Names of the local bodies merged/demerged
  - Authority under which the merger/demerger has taken place
  - Effective date of merger/demerger
  - Principles adopted for consolidation/demerger
  - For three years from the year of merger, the merged ULB will write "Merged Municipality" on the face of Balance Sheet and Income & Expenditure Account.
  - Notes to accounts in the first year of merge/demerger shall provide full disclosure of how the balances was adjusted in the books. A separate note on this will be provided by the ULB.

## Internal Controls

- 23.1.17. The following internal controls shall be observed by the ULB in respect of Merger of two or more ULB and its related transactions:
- 23.1.18. The account balances of the Financial Statements of the individual
- 23.1.19. ULBs/Undertakings under merger should be verified by the Head of Accounts
- 23.1.20. Department before incorporation of their balances in the books of the Ultimate ULB/Undertaking.
- 23.1.21. The Head of the accounts department of the Ultimate ULB/Undertaking should compare the inter-unit/ULBs/Undertaking balances and differences if any identified has to be reconciled and rectified before incorporating the balances in the books of Ultimate ULB/Undertaking.
- 23.1.22. All the inter-ULB/undertakings transactions shall be identified and ensured that these are appropriately adjusted in the books of ultimate ULB/undertaking.
- 23.1.23. The Commissioner/ Executive Officer shall specify such appropriate calendar of returns /reports for monitoring.

## Chapter 24: Accounting for transactions made through PFMS and IFMS

*PFMS and IFMS systems are external to the ULBs Accounting system. Certain receipts and payments are made by ULBs using these external portals. Though the accounting entries are same as elaborated in previous chapters, there are some additional procedural requirements for using PFMS and IFMS. This chapter outlines the procedural aspects for specified transactions to be made through the PFMS and IFMS system.*

24.1.1. PFMS provides platform for efficient management of funds through tracking of funds and real time reporting of expenditure and receipts through Treasury and Bank Interface. The line ministries/ departments utilize this platform to monitor the utilization of funds provided to the implementing agencies and states governments. PFMS is also used for Direct Benefit Transfer (DBT) payments under MGNREGA and other notified schemes of the Government of India.

24.1.2. The scheme was rolled out across all States in 2013 with the aim to provide:

- a. A financial management platform for all plan schemes
- b. A database of all recipient agencies
- c. Integration with core banking solutions of banks handling plan funds
- d. Integration with State Treasuries and effective tracking of fund flow to the lowest level of implementation for plan schemes
- e. To provide information across all plan schemes/implementation agencies in the country on fund utilization towards better monitoring, review and decision support systems, with an overarching aim to enhance public accountability of schemes
- f. To promote effectiveness and economy in Public Finance Management (PFM) through better cash management for Government transparency in public expenditure and real-time information on resource administration and management

24.1.3. ULBs are the first point of contact for all Governments in ensuring public service delivery. It is therefore essential that the ULBs have access to as well as capacities to support the effective utilization of the systems introduced above. ULBs deal with both Central and State sponsored programmes and schemes. It is thus necessary to ensure that all transactions made by ULBs are respectively recorded in the systems. This would enhance effectiveness

for the entire PFM lifecycle, provide real time data to ULBs on status of funds that concern them and also enhance the State's PFM capabilities.

24.1.4. Given the Government of Uttarakhand's concerted efforts towards enhancing its own PFM functions, the PFMS has been successfully integrated in the State. Currently, the GoUK holds accounts for the following key flagship programs under the PFMS:

- Atal Mission for Rejuvenation and Urban Transformation (AMRUT)<sup>14</sup>
- Swachh Bharat Mission (SBM)<sup>15</sup>
- National Urban Livelihoods Mission (NULM)<sup>16</sup>
- Pradhan Mantri Awas Yojana (PMAY)<sup>17</sup>

24.1.5. Transactions incurred through PFMS are three types: (a) When ULB receives fund to specific CSS Fund Bank Account, and (b) When Payment advise is generated from PFMS for disbursement from respective Bank account, and (c) When unutilized fund is returned back.

## Accounting Entry – transactions through PFMS

### 1. Receipt of Fund by ULB

Debit / Credit	Code	Details
Debit	450-61-xx	Respective Bank Account
Credit	320-10-xx	To Respective Grant Liability Account
<b>Explanation:</b> The entry shall be passed at the time of receipt of grant amount to respective Bank account. <b>Source Document:</b> Bank statement, Order <b>Records Updated:</b> Cash Book, Ledger, Grant Register.		

<sup>14</sup> <http://amrut.gov.in>

<sup>15</sup> <https://swachhbharatmission.gov.in>

<sup>16</sup> <https://nulm.gov.in>

<sup>17</sup> <https://nulm.gov.in>

## 2. Booking of Vendor/ Supplier's Bill

Same entry is to be passed as given in chapters on Public Works, Fixed Assets, Stores. Bill is to be booked in Accounting system. Amount payable to Vendor is to be recorded in PFMS system. An illustrative entry for Contractor's bill booking is given below:

Debit / Credit	Code	Details
Debit	230-50-01	Operation and Maintenance- Roads and pavements
Credit	340-10-02	To Security Deposit
Credit	460-40-01	To Advance for Public Works
Credit	350-20-05	To TDS Payable
Credit	350-20-04	To Royalty payable
Credit	350-10-02	Sundry Creditor-Contractor

**Explanation:** The Bill is prepared by the Engineering Department and sent to Accounts for payment after approval by the Chief Engineer. The above entry is passed to recognise the Liability e.g. repairs and maintenance on roads and pavements. The amount due to the contractor for all expenditure related to repairs and maintenance for the particular asset will be credited to him by the above entry.

**Trigger Point:** Measurement of the work done by the contractor and approval of the Bill by the Municipal Engineer

**Source Document:** Measurement Book and Running Bill received from the Engineering Department

**Records updated:** Journal Book, Ledger

## 3. Payment to Vendor/ Supplier

Same entry is to be passed as given in chapters on Public Works, Fixed Assets, Stores. Payment advise is generated from PFMS and is to be used as cheque. Payment entry (net of all deductions) is to be passed in Accounting system. An illustrative entry for Contractor's bill booking is given below:

Debit / Credit	Code	Details
Debit	350-10-02	Sundry Creditor-Contractor
Credit	450-21-01	To Bank A/c

**Explanation:** The above entry will be passed at time of release of payment to the contractor.

**Trigger Point:** Approval of Running Bill of the contractor by Chairman/Mayor and preparation of the cheque

**Source Document:** Approved running Bill of the contractor, cheque and Register of bills for payment

**Records updated:** Cash Book, Ledger

## 4. Payment of recoveries payable

Same entry is to be passed as given in chapters on Public Works, Fixed Assets, Stores. Payment/ deposit is to be made from same bank account. However, as the deduction/ recovered amount is to be recorded in PFMS, entry is to be made in PFMS to record gross payment. An illustrative entry is given below:

Debit / Credit	Code	Details
Debit	350-20-05	TDS Payable
Debit	350-20-04	Royalty payable
Debit	350-20-14	GST from Contractors
Credit	450-21-01	To Bank A/c

**Explanation:** The amount of TDS and Royalty deducted from contractors will be remitted on the due dates to the Government. On such payment the above entry is passed.

**Trigger Point:** Remittance of deduction to the Government Account on due date

**Source Document:** Cheque, Ledger Account of TDS Payable and Royalty payable, running bills of the contractors, Register of bills for payment

**Records updated:** Cash Book, Ledger

## 5. Grant accounting

Same scheme of entries are to be passed as given in chapter of Grant including returning unutilized fund. Refer entries 1-13 in the chapter Grants

## IFMS

- 24.1.6. In line with the presence of the PFMS, the State has also spent continuous efforts in developing a Core Treasury System (now known as Integrated Financial Management System or IFMS)<sup>18</sup>. The key function of the IFMS is the execution and recording of all relevant fund movements. All State funds, expenses, schemes, grants etc. are recorded and disbursed via the IFMS.
- 24.1.7. Transactions incurred through IFMS are three types: (a) When ULB receives fund to PLA, (b) When Payment advise is generated from IFMS for disbursement from respective Bank account, and (c) For making online Salary payment.
- 24.1.8. Each ULB shall have separate PLA (Personal Ledger Account), which is linked with State Treasury. Such account shall be having separate code as per “UMAM Chart of Account” and be treated as similar as any other Bank account.

### Accounting Entry – transactions through IFMS

#### 1. Receipt of Fund

Debit / Credit	Code	Details
Debit	450-66-xx	Respective PLA Account
Credit	160-10-xx	To Respective Revenue Grant Account
<b>Explanation:</b> The entry shall be passed at the time of receipt of grant amount to respective Bank account.  <b>Source Document:</b> Bank statement, Order  <b>Records Updated:</b> Cash Book, Ledger, Grant Register.		

<sup>18</sup> Refer IFMS G.O. No. 129-132 dated 29<sup>th</sup> March 2019

## 2. Booking of Vendor/ Supplier's Bill

Same entry is to be passed as given in chapters on Public Works, Fixed Assets, Stores. Bill is to be booked in Accounting system. Detailed bill is also to be raised through IFMS for the amount payable to Vendor. An illustrative entry for Contractor's bill booking is given below:

Debit / Credit	Code	Details
Debit	412-10-01	Capital Work-In-Progress- Buildings
Credit	340-10-02	To Security Deposit
Credit	340-10-05	To Retention Money
Credit	350-20-05	To TDS Payable
Credit	350-20-14	To GST from Contractors
Credit	350-20-04	To Royalty payable
Credit	350-10-02	To Sundry Creditor-Contractor

**Explanation:** The Bill is prepared by the Engineering Department and sent to Accounts for payment after approval by the Executive / Municipal Engineer. The above entry is passed to recognise the Liability e.g. for buildings created out of specific Grants. The "Sundry Creditor-Contractor" account will be credited as net amount. Detailed bill is also to be raised through IFMS for the amount payable to Vendor

**Trigger Point:** Measurement of the work done by the contractor and approval of the Bill by the Executive / Municipal Engineer

**Source Document:** Measurement Book and Running Bill received from the Engineering Department, Contract agreement

**Records updated:** Journal Book, Ledger

## 3. Payment to Vendor/ Supplier/Employee

Debit / Credit	Code	Details
Debit	350-10-02	Sundry Creditor-Contractor
Credit	450-21-01	To Bank A/c



**Explanation:** The above entry will be passed at time of release of payment to the contractor. Payment advise is generated from IFMS and is to be used as cheque

**Trigger Point:** Approval of Running Bill of the contractor by Chairman/Mayor and preparation of the cheque

**Source Document:** Approved running Bill of the contractor, cheque and Register of bills for payment

**Records updated:** Cash Book, Ledger

## 4. Payment of salary through IFMS

Debit / Credit	Code	Details
Debit	350-11-02	Employee Liabilities-Net Salaries Payable
Credit	450-21-01	To Bank Account

**Explanation:** For accounting of payment of salary by cheque or direct Credit of the salary to employee Bank account, the Accounts Department shall pass the above entry

**Trigger Point:** At the time of Payment/Crediting of Salary to Employee account

**Source Document:** Consolidated pay bill and acquittance roll (Form –Est 01)

**Records Updated:** Cash Book, Ledger

## 5. Payment of recoveries payable

Debit / Credit	Code	Details
Debit	340-10-02	Security Deposit
Credit	450-21-01	To Bank A/c

**Explanation:** After the contract is completed to the satisfaction of the Municipal Engineers, Security Deposit is returned to the contractor as per the terms of the contract. The same would be accounted for in the manner shown above. In case earnest money/security Deposit is received in respect of any contract to be executed under any specific Grant, the respective Bank Account should be used.

**Trigger Point:** Payment of Security Deposit to Contractor

**Source Document:** Approval by the appropriate authority, Deposit ledger, Summary statement of deposits adjusted

**Records updated:** Cash Book, Ledger

## Chapter 25: Period End Procedures

*This chapter describes the procedures followed by ULB to facilitate preparation of periodical accounts. Such procedure will be reduced/ modified substantially once proper Accounting Software is implemented. Form AC 17, AC 18, AC 19, Dept 01 and Est 02 will be maintained by the accounts department.*

### Introduction

25.1.1. Each ULB would prepare periodical accounts on a daily, monthly, and annual basis under the following heads:

#### I. Daily Procedures

- Closing of Cash Book
- Physical verification of cash balance
- Deposit of collections (both cash and cheque) in the bank
- Verification of number of receipts issued as reported by the collection office with the Collection Register

#### II. Monthly Procedures

- Bank Reconciliation
- Recording of expenditures incurred against permanent advance (Imprest)
- Payment of provident fund dues and pension contribution in respect of employees
- Statutory deduction of Income Tax, GST, PF, Profession Tax. Deposit and reconciliation.
- Reconciliation of Function wise Income/Expense Subsidiary Ledgers with respective Trial Balance totals.
- Compilation of details of closing stock for recording the consumption of stores at the end of the months.
- Closing of ledger accounts
- Checking ledger accounts with the books of original entries, i.e., Cash Book and Journal Book
- Updation of Subsidiary Ledgers

#### III. Annual Procedures

- Reconciliation of deposits, advances, receivables and incomes
- Provision for period-end expenses
- Transfer of revenue grant received in advance for specific purpose to grant income
- Recognition of grant income for revenue expenditure incurred in respect of grant receivable as reimbursement
- Accrual of interest on borrowings
- Recording of provision for bills remaining unpaid in respect of Special Fund expenditure
- Accrual of interest on investments
- Accrual of interest on loans to employees
- Reconciliation of Capital Work in Progress
- Passing of adjustment entries
- Physical verification of stores
- Physical verification of fixed assets
- Transfer of funds from special funds to Municipal Fund
- Confirmation of all categories of advances
- Provision for unrealised revenue
- Accounting of prepaid expenses
- Confirmation from Government/Quasi-government and Government owned agencies [AC 37 and AC 38]
- Closing of ledger accounts

25.1.2. In case of computerised accounts, almost all the procedures will be performed automatically on real time basis, i.e. without any time barrier. For example, any Ledger account can be generated at any time and reconciliation can be conducted as and when necessary.

25.1.3. Activities which is linked with any statutory compliance or any other activity, shall be performed to achieve the ultimate timeline of such linked activities.

## Checklist for Closure of Annual Accounts

### [Non-exhaustive]

#### 25.1.4. Revenue

- Are accrual entries passed for all accruable revenue items?
- Are all the collections accounted properly against the respective receivable accounts?
- Are all adjustments against revenues properly accounted?
- Are all transactions pertaining to Schemes accounted properly, and are unutilized Scheme balances correct?

#### 25.1.5. Expenditure

- Ensure that no capital expenditure is accounted as revenue, or vice versa.
- Are all bills remaining unpaid at the end of the year accounted as expenditure for the current year?

#### 25.1.6. Assets & Liabilities

- Are all statutory liabilities accounted properly?
- Is depreciation calculated and provided for on all fixed assets except land?
- Are entries for capitalization passed in respect of all capital works completed during the year?
- Are proper entries been passed for sale of assets, if any, including profit/loss on sale?

#### 25.1.7. Period end procedures

- Are balance confirmations obtained in all cases?
- Are there any pending rectification entries to be passed?
- Are all month end reconciliations done, and rectification entries arising out of this passed in the accounts?

25.1.8. Period end accounts preparation and closure procedures.

25.1.9. All the period-end procedures, including the passing of adjustment entries performed at the end of the year, as explained above. In addition to that, further period-end procedures required to be performed at the year-end have been described below.

25.1.10. Physical verification of stores: The physical verification of stores and consumables shall be carried out in the following manner:

- 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 and the Head of the Accounts Department, who shall certify the stock sheet.
- The physically verified stores shall be reconciled with the balances as per the stores records.
- The reconciled register will be placed to Commissioner/EO for further action from their side if any.
- The value of physically verified closing stock would be incorporated in the Financial Statements after proper adjustment.

25.1.11. Physical verification of fixed assets: Will be conducted in the following manner:

- A Committee consisting of Commissioner/Executive Officer, 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.
- 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.
- 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.
- The Accounts Department together with the Public Works Department shall carry out physical verification as per the procedures provided in the verification plan. The details recorded in the verification sheets shall be checked with the relevant Fixed Assets Registers and suitable remedial steps (for example departmental proceedings, penalties, etc.) shall be taken in case of discrepancies identified.
- Appropriate procedure (through external expert, such as Chartered Valuer) is to be adopted by ULB to identify Impaired Fixed Assets as and when required and shall be at least once in every five years.

- 25.1.12. 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.
- 25.1.13. 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 the advances have been provided including the Head of the Department for Permanent Advance and employees of the ULB for miscellaneous advance provided.
- 25.1.14. Provision for unrealised revenue: A provision shall be made for the demands raised during the accounting period but remaining outstanding. The procedure for provisioning and the amount to be provided have been outlined in the respective chapters on incomes. The Accounts Department shall make a provision based on the provisioning norms for various types of Incomes.
- 25.1.15. 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 the Chapter of "Other Revenue Expenditures".
- 25.1.16. 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 Form AC 37 and AC 38. Based on replies received, the Accounts Department shall undertake appropriate remedial action, including passing of necessary rectification entries, for reconciling the balances.
- 25.1.17. Closing of ledger accounts: The ledger accounts shall be totalled and balanced at the end of the year or such shorter period as the ULB may decide. The closing balances for each of ledger accounts shall be posted in the Trial Balance prepared for that period.
- 25.1.18. After the Annual Financial Statements have been prepared, the Accounts Department shall pass entries for transfer of income and expenditure ledger balances to the Income & Expenditure Account.
- 25.1.19. In case of computerised accounting, Ledger balances are automatically transferred to respective spaces of Financial Statements.

## Events after Closing Date

- 25.1.20. Events after the reporting date as “those events, both favourable and unfavourable, that occur between the reporting date and the date when the Financial Statements are authorised for issue. Two types of events can be identified: (a) Those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and (b) Those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date)”<sup>19</sup>.
- 25.1.21. **Adjusting events** are **events** occurring after the reporting date that provide evidence of conditions that existed at the end of the reporting period. **Non-adjusting events** are **events** occurring after the reporting date that do not provide evidence of conditions that existed at the end of the reporting period.
- 25.1.22. Recognition of such events, treatment and disclosure in Financial Statements, etc. are to be followed by ULBs as mentioned in ASLB-14.
- 25.1.23. Some examples of adjusting and non-adjusting events are given in following paragraphs.

### Example of Adjusting event

- a. The receipt of information after the reporting date indicating that an asset was impaired at the reporting date, or that the amount of a previously recognised impairment loss for that asset needs to be adjusted. For example:
- (i) the insolvency of a debtor which occurs after the reporting date may often confirm that a doubt of recovery existed at the reporting date on a receivable account and that the entity needs to adjust the carrying amount of the receivable account; and
  - (ii) the sale of inventories after the reporting date may give evidence about their net realisable value (NRV) at the reporting date;
- b. The settlement after the reporting date of a court case that confirms that the entity had a present obligation at the reporting date. The entity adjusts any previously recognised provision related to this court case.

### Example of Non-Adjusting event

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<sup>19</sup> ASLB-14

- a. The insolvency of a debtor which occurs after the reporting date where no condition existed at the reporting date in respect of that debtor and, the entity does not adjust the carrying amount of the receivable amount. For example, insolvency of the debtor occurred due to his premises and other assets destroyed in fire after the reporting date.

## **Disclosure of Non-adjusting events after the Reporting date:**

- 25.1.24. Disclosure is required for (a) The nature of the event; and (b) An estimate of its financial effect, or a statement that such an estimate cannot be made.

## **Reconciliation, Adjustments, Rectification**

### **RECONCILIATION OF DEPOSITS**

- 25.1.25. 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. Accounts department will carry out all accounting reconciliation. In many of them, active and timely support from other departments will be necessary.
- 25.1.26. The Deposit Reconciliation shall be carried out yearly or at such shorter intervals as the ULB may decide.
- 25.1.27. The Department which had received the deposits shall prepare a Reconciliation Statement of Deposits Outstanding from the Deposit Register (Form AC 19) 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.
- 25.1.28. The balances as computed would be reconciled with the balances for Deposits shown in the Ledger of the Accounts Department and the Deposit Register (Form AC 19) maintained by the concerned departments. 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 RECEIVABLES AND COLLECTIONS**



25.1.29. The receivables and collections shall be reconciled on a yearly basis or such other shorter 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.:

- Water Supply receivables;
- Property Tax receivables;
- Other Tax receivables;
- Receivables on account of other heads of revenues.

25.1.30. For instance, for reconciling Property Tax receivables and collections, the following shall be done:

- The Property Tax Department based on their records, especially the Demand Register and the Collection Register shall ascertain the information required in Form TA 07 and forward the details to Accounts Department.
- 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 ADVANCES GIVEN**

25.1.31. This section describes the reconciliation procedure to be followed on a yearly basis or such shorter intervals as the ULB may decide for reconciling the advances given to, namely:

- Contractors/Suppliers;
- Departments of the ULB; and
- Employees of the ULB.

## **RECONCILIATION OF INTER UNIT BALANCES**

25.1.32. Reconciliation of Inter unit balances shall be carried out on a quarterly basis.

## Reconciliation of Advance given to Contractors/Suppliers

- 25.1.33. 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 AC 17).
- 25.1.34. The Department which had initially sanctioned advance to the contractor/supplier shall prepare a Reconciliation Statement of Advance Outstanding in the format Dept 01 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
- 25.1.35. The Reconciliation Statement of Advance Outstanding received by the Accounts Department shall be reconciled with the respective ledger accounts and the Register of Advances 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 Departments

- 25.1.36. 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 AC 18). The Accounts Department shall also maintain a record of the advances provided to the departments in a Register of Advance (Form AC 17).
- 25.1.37. 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 Dept 02. The confirmation received shall be tallied with the Register of Advances by the Accounts Department.
- 25.1.38. 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 Employees

- 25.1.39. The employees of the ULB may be provided with two kinds of advances namely personal advance or miscellaneous advance.
- 25.1.40. The details of the personal advances granted to the employees shall be recorded in a Register of Employees Advances in Form Est 02. The details of recovery of advances shall also be recorded in that Register. 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 Est 06. The confirmation statement so obtained shall be forwarded to the Accounts Department. The Accounts Department shall reconcile the total amount of advance provided with the control ledger accounts.
- 25.1.41. 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 AC 35. The statement obtained shall be confirmed with the records maintained in the Register of Advances in Form AC 17.
- 25.1.42. In the case of any discrepancy, measures shall be taken for rectification of the discrepancies, by way of either recovery of advance or where there is an error in accounting, by passing the necessary accounting entries.

## Reconciliation of Loans Taken

- 25.1.43. The Accounts Department shall maintain a record of all the loans borrowed in Register of Loan (Form AC 23). 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 AC 36 stating therein, the amount borrowed or disbursed directly to Executing Agency, the amount repaid and interest accrued and paid on the loan.
- 25.1.44. Based on the reply received, the ULB shall take steps for reconciliation of the difference, if any.

## **RECONCILIATION OF PAYABLES (SUPPLIERS AND CONTRACTORS)**

25.1.45. The concerned departments and the Accounts Department shall maintain file of Bill for Payment in which all bills submitted for payment are to be kept. The concerned department shall ascertain the information as required in Form Dept 03 and forward the details to the Accounts Department.

25.1.46. 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 BALANCES WITH GOVERNMENT, QUASI-GOVERNMENT AGENCIES, GOVERNMENT COPORATIONS ETC.**

25.1.47. At the end of each accounting year, the Accounts Department shall prepare and forward to the concerned authority/agency within 15 days from the end of the accounting year, a Confirmation Statement stating therein

- the amount receivable from the authority/agency in Form AC 37
- the amount payable to the authority/agency in Form AC 38

25.1.48. depending on whether sum is receivable from or payable to the concerned authority/agency.

25.1.49. In case, where both the amount is due and payable to any authority/agency, both the Statements shall be submitted for balance confirmation to the authority/agency concerned.

25.1.50. Based on the reply received, the ULB shall take steps for reconciliation of the difference, if any.

## **RECONCILIATION OF LEDGER BALANCES IN INCOME AND EXPENDITURE ACCOUNT WITH FUNCTION-WISE INCOME/EXPENSE SUBSIDIARY LEDGERS**

25.1.51. As explained in the Chapter of “General Accounting Procedures”, Function-wise Subsidiary Ledgers are to be opened in respect of all major income and expenses. The various incomes and expense accounts are to be posted directly from the Cash Book and/or Journal to the Main Ledger in the individual ledger accounts in respect of those income and expense

heads. Simultaneously, entries are to be made in the Function-wise Subsidiary Ledger so that department-wise information is also readily available.

Periodically, the two sets of records viz., those in the Main Ledger and those in the Subsidiary Ledgers should be reconciled to ensure that the totals in the respective places are matched.

## List of Subsidiary registers to be maintained and reconciliation

Serial Number	Reconciliation Head	Subsidiary Register	Reconciled with
1	Deposits	Deposit Register (Form AC 19)	Deposit register will be reconciled with the Ledger Account Maintained by Accounts department.
2	Receivables and Collection	Demand Register Collection Register	Demand and Collection register for each kind of receivable is reconciled with the respective ledger account maintained by the accounts department.
3	Advance given to Contractors / Suppliers	Register of Advances (Form AC 17) Statement of Advance Outstanding (Dept 01)	Reconciled with the respective ledger accounts and the Register of Advances maintained by the Accounts Department
4	Advance Given to departments	Register of Permanent Advance (Form AC 18) Register of Advance (Form AC 17).	Register of Advances is reconciled with the confirmation of the advances (Dept 02) received from head of the concerned department.
5	Advances given to Employees	Register of Employees Advances (Form Est 02) Register of Advances in (Form AC 17)	<b><u>Personal Advances</u></b> - Reconciliation is done between Register of Employees Advances (Form Est 02), confirmation statement (Format Est 06) and control Ledger accounts maintained by the Accounts department.

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			<b><u>Miscellaneous Advances -</u></b> Reconciliation is done between Form AC 35 and Register of Advances in Form AC 17.
6	Loans Taken	Register of Loan (Form AC 23) Confirmation Statement (Format AC 36)	Reconciliation will be done based on the reply received from the lender against the confirmation statement sent at the year end.
7	Payables	Bill File Form Dept 03	Details received in Form Dept 03 is reconciled with the respective ledger accounts maintained by the accounts department.
8	Balances with Government, Quasi Government Agencies, Government Corporations etc.	Confirmation Statement stating amount of receivable from authority / agency (Form AC 37)  Confirmation Statement stating amount payable to the authority / agency (Form AC 38)	Reconciliation will be prepared based on the reply received from the concerned authority / agency against the confirmation statement submitted at the year end.

## Chapter 26: Bank Reconciliation Statement

*This chapter describes the monthly reconciliation procedures between Bank balance as per the Accounts and Pass Book / Statement.*

### Introduction

26.1.1. Bank Reconciliation is a procedure which aims at reconciling the bank balance as shown in the Cash Book 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. In case the bank reconciliation is carried out monthly, it shall be completed within the first week of the next month.

26.1.2. The bank balances as per the Cash Book and the Pass Book may not tally for the reasons listed in the following table.

## Factors necessitating Bank Reconciliation

Reconciliation factors	Effect on Cash Book Bank Balance	Effect on bank balance as per Pass Book
<b>Cheques issued but not presented for payment</b>	Bank balance reduces by that amount	<b>No effect</b>
<b>Cheques deposited but not cleared</b>	Bank balance increases by that amount	<b>No effect</b>
<b>Cheques received but not deposited</b>	Bank balance increases to the extent of cheque received but not deposited	<b>No effect</b>
<b>Debit of charges by bank for any services rendered</b>	No effect	<b>Bank balance reduces to the extent of charges levied</b>
<b>Direct deposit of amount in the bank account</b>	No effect	<b>Bank balance increases to the extent of deposit</b>
<b>Interest allowed and credited by the bank</b>	No effect	<b>Bank balance increases to the extent of interest credited</b>
<b>Payment by the bank in respect of standing instructions given to the bank</b>	No effect	<b>Bank balance reduces to the extent of the payment made</b>
<b>Fixed deposit or any other sum directly credited by bank to the account</b>	No effect	<b>Bank balance increases to the extent of money credited</b>
<b>Any other reason which may result in difference between bank balance as per Cash Book and Pass Book</b>		

26.1.3. The procedure to be followed for reconciling the bank balance as per the Cash Book with the balance as per the Pass Book/Bank Statement is as under:

- Receipt Entries in The Cash Book
- The credit entries in the Bank Pass Book shall be compared with the entries in the Receipt Register (Form AC 13) and the entries appearing in both shall be ticked (✓). The date when the cheques have been realised shall also be recorded in the Cheque Receipt Register.
- The daily total of cheques realised in the bank shall be derived from the Cheque Receipt Register and the total shall be tallied with the entry in the Cash Book.
- The unticked items represent the cheques received and deposited in the bank but not cleared for payment by the bank. Likewise, they may also represent those cases



wherein cheques have been received but may not have been deposited with the bank.

- 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 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.

#### 26.1.4. Payment Entries in The Cash Book

- The debit entries in the Bank Pass Book shall be compared with the entries in the Cheque Issue Register (Form AC 16) and the Cash Book and the entries appearing in both shall be ticked (✓).
- The unticked item represents the cheques issued by the ULB but not presented to the bank for payment. Likewise, it may also represent those cases wherein cheques have been drawn and entered in the Cheque Issue Register but have not been issued to the payee.
- The unticked items in the Cash Book shall appear in the Bank Reconciliation Statement of that period. The entries appearing in the statement shall be traced for payment in subsequent period's Pass Book/Bank Statement and those which are not reconciled shall be carried forward to the next period's Bank Reconciliation Statement.
- All the cheques issued but not presented for payment within six months from their date of issue (or such shorter period as decided by the ULB) will become stale and shall be re-debited to the relevant bank account with a corresponding credit entry in the Stale Cheques Account.

#### 26.1.5. Other Entries in The Bank Pass Book/Bank Statement

- There may be instances of bank charging service charges/commission or making payment against the standing instructions issued by the ULB. Likewise, there may be instances of direct deposit with the bank by the debtor (e.g. property tax) or credit of interest by the bank. These entries in the first instance are recorded only in the Pass Book and later incorporated in the Cash Book. Care should be taken for identifying such items at the time of reconciliation and subsequently recording them in the Cash Book. Identification of bank charges entries in the Pass book is more important as these are identified only from the process of Bank reconciliation. Further, any unduly high bank charges shall also be identified and corresponded with the Bank for

clarifications. It is to be ensured that all the Bank Charges entry identified in the process of reconciliation, shall be supported with the Bank's debit advice.

## 26.1.6. Bank Reconciliation Statement

- The unticked items both in the Pass Book and the Cash Book shall be extracted for reconciliation in the format AC 34.
- Details of the difference shall be given under each of the broad heads with a serial listing of all the cheques deposited with the bank or issued for payment, to the extent possible. Any other factor impacting the bank balance as per the Cash Book and Pass Book should be appropriately stated.
- Format of Bank Reconciliation Statement is given below:

**AC34**

**Name of the ULB** \_\_\_\_\_

**Bank Reconciliation Statement**

**Bank Reconciliation Statement for** \_\_\_\_\_ **Bank as on** \_\_\_\_\_

Particulars	Amount (Rs.)	Amount (Rs.)
<b>Bank Balance as per Cash Book</b>		
Add: Cheques issued but not presented into bank (a cheque-wise list to be appended)		
Add: Cheques drawn but not actually issued to parties (a list to be appended)		
Add: Cheque issued and payment stopped by ULB (a list to be appended)		
Add: Credits of investment proceeds in Bank (e.g. Fixed Deposits) accounted by the bank but not accounted for in Cash Book		
Add: Amount (Cash or Cheque) deposited by the depositor(s) into bank but not accounted for in Cash Book		
Add: Credit given by Bank either for interest or for any other account but not accounted for in Cash Book		
<b>Sub-total</b>		
Less: Cheques Deposited but not cleared		
Less: Payments directly made by the bank but not accounted for in Cash Book		
Less: Cheques deposited but dishonoured		
Less: Service Charges / Bank Charges or any other charge levied by the Bank but not accounted for in Cash Book		
<b>Bank Balance as per Pass Book/Bank Statement</b>		

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An illustration of Bank Reconciliation Statement is provided below:

On 31<sup>st</sup> March 2020, XYZ ULB's Bank Pass Book showed a balance of Rs. 1,50,000 to its credit while balance as per Cash Book was Rs. 1,12,050. On scrutiny of the two books, ULB has ascertained the following:

1. It has issued cheques amounting to Rs. 80,000 of which Rs.32,000 were presented for payment.
2. ULB received a cheque of Rs. 5,000 which has been recorded but the same has not been deposited to bank.
3. A cheque of Rs.22,000 deposited into the bank but not yet cleared.
4. Mr. Gupta deposited an amount of Rs. 15,700 in ULB's bank which has not been recorded in Cash Book yet.
5. Bank has credited an interest of Rs.1,500 and debited bank charges worth Rs.250

Prepare a Bank Reconciliation Statement.

## Solution

Bank Reconciliation Statement as on 31<sup>st</sup> March 2020

From Bank Book

Particulars	Details (Rs.)	Details (Rs.)
Balance as per Pass Book (Cr.)		<b>1,50,000</b>
Add: Cheque deposited but not yet cleared	22,000	
Add: Cheque recorded in Cash Book but not yet deposited	5,000	
Add: Bank charges debited by bank	250	
		<b>27,250</b>
Less: Cheque issued but not presented for payment (80,000-32,000)	48,000	
Less: Amount Deposited but not recorded in cash Book	15,700	
Less: Interest allowed by bank	1,500	
		<b>(65,200)</b>
Balance as per Bank column of Cash Book (Dr.)		<b>1,12,050</b>

From Cash book

Particulars	Amount (Rs.)	Amount (Rs.)
<b>Bank Balance as per Cash Book</b>		112050
Add: Cheques issued but not presented into bank (a cheque-wise list to be appended)	48000	
Add: Amount (Cash or Cheque) deposited by the depositor(s) into bank but not accounted for in Cash Book	15700	
Add: Credit given by Bank either for interest or for any other account but not accounted for in Cash Book	1500	
<b>Sub-total</b>	65200	65200
Less: Cheques Deposited but not cleared	22000	
Less: Payments directly made by the bank but not accounted for in Cash Book		
Less: Cheques deposited but dishonoured		
Less: Service Charges / Bank Charges or any other charge levied by the Bank but not accounted for in Cash Book	250	
Less: Cheque not deposited	5000	27250
<b>Bank Balance as per Pass Book/Bank Statement</b>		150000

## Chapter 27: Financial Statements

*This chapter of the manual deals with financial statements and reports that the Accounts Department is responsible to prepare. This chapter covers the Financial Statements that each ULB would prepare and publish in compliance of this manual. This chapter also provides guidelines to prepare notes to accounts and disclosures.*

### Introduction

27.1.1. ULB shall prepare annual financial statements latest by 30<sup>th</sup> June every year for the accounts of previous Financial Year. The ULB shall prepare and issue an annual performance report, which contains the report on annual performance, auditors report, and Financial Statements. In case any other time limit is prescribed by the Finance Commission, such date will be abided by instead of 30<sup>th</sup> June.

27.1.2. In case of Corporation, the Financial Statements will be signed by the Commissioner and the Finance Controller and submitted to the Board. In case of Municipalities, the Financial Statements will be signed by the Executive Officer and submitted to the Board.

### 27.1. Annual Administration Report / Annual Performance Report

27.1.01. Section 145 of the Uttarakhand (UP) Municipal Corporation Act 1959 states about preparation of Annual Administration Report and statement of accounts. Sub section (1) states that the Municipal Commissioner shall, as soon as may be after the first day of April in each year, have prepared a detailed report of the Corporation' administration of the City, during the previous official year, together with a statement showing the accounts of the receipts and disbursement credited and debited to the Corporation Fund during the said year and the balance at the credit of the Fund at the close of the said year and shall submit the same to the Executive Committee. Sub section (2) states that the report shall be in such form and shall contain such information as the Executive Committee may from time to time direct. Sub section (3) mentions that the Executive Committee shall then examine the report and the statement, and a copy of the said statement together with a copy of the Committee's review shall be forwarded to the State Government and to each member and copies thereof shall also be placed on sale at the Corporation office.

27.1.02. However, the Uttarakhand (UP) Municipalities Act 1916 does not mention about any such provision. However, as this report is quite important and informative and is a key document

for transparency, the NPP and NPs will also prepare the same. In this case, the Executive Officer will prepare the same in line with the Nagar Nigams.

27.1.03. In case of Nagar Nigams, the report will be named as Annual Administration Report (“hereinafter mentioned as AAR”). In case of NPPs and NPs, the same will be named as Annual Performance Report (hereinafter mentioned as “APR”).

27.1.04. The AAR / APR shall be submitted to the Council within six months from the end of the Financial Year.

27.1.05. The AAR / APR shall consist of:

- i. A City Management Report with a commentary on performance of the ULB [details given below].
- ii. Financial Auditors Report on the Financial Statements [to include Auditors’ Report]
- iii. Audited Financial Statements consisting of:
  - (a) Balance Sheet;
  - (b) Income and Expenditure Statement;
  - (c) Statement of Cash flows
  - (d) Notes to Accounts (including Significant Accounting Policies and Disclosures) [illustrations given subsequently in this chapter]; and
- iv. Financial Performance Indicators [as given in the last section of this chapter].
- v. Action Taken Report on the qualifications and comments made by the Auditor.

27.1.06. Publishing the Annual Report: The objective of the AAR / APR is to provide easy access to financial information for the various stakeholders. The ULB is expected to publish the Annual Performance Report in one of the following ways:

- i. Publish a detailed version of the Annual Performance Report on the website of the Municipality, if the website has been hosted.
- ii. Publish a notice in vernacular newspaper, advising of the publication of the Annual Performance Report and that copies of the report are available at the office of the Municipality.
- iii. Where the ULB does not have its own website, the State Government shall facilitate to have the AAR / APR hosted centrally for the ULB.

## **27.2. City Management Report (CMR)**

- 27.2.1 The objective of the CMR is to present the ULB's activities in a simple narrative manner so that the members of the Council, the citizens, taxpayers, and the other stakeholders can appreciate the ULB's performance. It creates an environment of transparency, and accountability, all of which is aimed at improving urban governance. The CMR shall give the government officials, the council, and tax payers / citizens alike an objective and easily readable analysis of the ULB's financial activities, position and future plans.
- 27.2.2 This Report shall be prepared by the Municipal Commissioner or Executive Officer and shall be presented to the Council along with the Financial Statements. It provides a discussion and analysis of the financial performance and position of the ULB during the Financial Year. In respect of any adverse performance, the report shall explain the reason therefore, and the steps taken to improve performance in that area.
- 27.2.3 The report shall also discuss the future plans of the ULB and the projects currently in progress. It shall also respond to any comments and qualifications mentioned in the Financial Statement Auditor's report, stating the facts of the matter and the steps taken in respect of those qualifications.
- 27.2.4 The CMR shall contain the following information:
- The ULB's performance and results of operations to assist users in assessing whether the financial position has improved or deteriorated as a result of the year's activities.
  - Summary of Financial Statements comparing the current year with the past Financial Year and including an analysis of the cause for significant changes in financial performance / position.
  - Analysis of significant variance between budget and actual amounts for the various activities.
  - Description of capital assets created, and long-term loans taken during the Financial Year.
  - Performance and improvement in systems and controls.
  - Compliance with laws and regulations and actions taken or being planned to tackle potential problems.
  - Significant events, conditions, trends and contingencies that may affect future operations.



**27.2.5** A suggested format for the City Management Report is given as an Annexure-3 to this chapter.

## **27.3. Trial Balance**

27.3.1. 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.

27.3.2. The Trial Balance shall be prepared in Form AC 27.

27.3.3. The following points should be noted while preparing the Trial Balance:

- The income accounts shall generally have credit balances and the expense accounts shall generally have debit balances.
- The asset accounts shall generally have debit balances and the liability accounts and the reserve funds shall generally have credit balances.

27.3.4. The following are the steps involved in the preparation of a Trial Balance:

- All the ledger accounts shall be closed at period end and the debit or credit balance shall be calculated.
- 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.
- The posting of Ledger Accounts in the Trial Balance shall be in the same order as shown in the Chart of Accounts.
- The Cash Books shall be closed and the balances shall be posted in the Trial Balance.
- Both the Debit Column and the Credit Column of the Trial Balance shall be totalled.

27.3.5. 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. While, generally, a tallied Trial Balance will be a first test of accuracy, it is possible that the Trial Balance may tally even if the following has happened:

- Omission of an entry in the original books of entry, viz., Cash Book and Journal Book, in which case neither debit, nor credit will be recorded;
- Wrong entry in the original books of entry;
- Posting of an entry on the wrong sides in such a manner that they compensate;
- Posting of an entry in wrong account head but on the correct side;
- Double posting of an entry in a ledger account;
- Compensating errors such as salaries paid recorded as Rs.2,000 instead of actual of Rs.2,500 and Repairs and Maintenance recorded as Rs.1,500 instead of actual of Rs.1,000.

27.3.6. In case, the Trial Balance does not tally, some of the steps that should be taken for finding those errors and rectifying them are as follows:

- Check for totalling errors in the Trial Balance;
- Ensure that the cash and bank balance is not omitted from inclusion into the Trial Balance;
- Check the ledger account totals and their postings in the Trial Balance;
- Check the journal to see that the total debits and credits for each entry tally;
- Verify the postings to the ledger accounts from the books of original entries, i.e., the Cash Book and Journal to ensure that no error is made while posting entries in ledgers.

27.3.7. From the Trial Balance prepared, the ULB shall prepare Balance Sheet and Income and Expenditure Statement. While preparing the Balance Sheet and the Income and Expenditure Statement, the following shall be done:

- The balances in the asset's 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;
- The balances in the liability's 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;
- 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;

- 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;
- 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.
- No items in the trial balance are left out without carrying them either to Income and Expenditure Account or the Balance sheet.

27.3.8. Wherever a reference to Schedules has been made in the Financial Statements, the effects mentioned above shall be given in the Schedules first. From the Schedules, the balances would be transferred to the Financial Statements.

Format of Trial Balance is given below:

**AC 27**

**Name of the ULB** \_\_\_\_\_

**Trial Balance for the period from** \_\_\_\_\_ **to** \_\_\_\_\_

Code No	Particulars	Debit (Rs.)	Credit (Rs.)
	<b>Total</b>		

Note: The totals of debit and credit columns should match each other

## **27.4. Income and Expenditure Statement**

- 27.4.1 The ULB shall 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 and shows excess of income over expenditure or vice-versa for that period.
- 27.4.2 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.
- 27.4.3 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.
- 27.4.4 The Income and Expenditure Statement shall be prepared in the format AC 26.
- 27.4.5 If detailed information required to be given under any of the items or sub items cannot be conveniently shown in the format for the Income and Expenditure Statement or the Balance Sheet itself, as the case may be, such information can be furnished in a separate schedule or schedules to be annexed to and forming part of the Income and Expenditure Statement and the Balance Sheet.
- 27.4.6 Format of Income & Expenditure Account including all schedules are given below:

# UTTARAKHAND MUNICIPAL ACCOUNTING MANUAL

## AC 26

\_\_\_\_\_ Name of the ULB  
Income and Expenditure Statement for the period from \_\_\_\_\_ to \_\_\_\_\_

Code No.	Item/ Head of Account	Schedule No	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
1	2	3	4	5
	<b>INCOME</b>			
1-10	Tax Revenue	I-1		
1-20	Assigned Revenues & Compensation	I-2		
1-30	Rental Income from Municipal Properties	I-3		
1-40	Fees & User Charges	I-4		
1-50	Sale & Hire Charges	I-5		
1-60	Revenue Grants, Contributions & Subsidies	I-6		
1-70	Income from Investments	I-7		
1-71	Interest Earned	I-8		
1-80	Other Income	I-9		
1-90	Income from Commercial Projects	I-19		
<b>A</b>	<b>Total – INCOME</b>			
	<b>EXPENDITURE</b>			
2-10	Establishment Expenses	I-10		
2-20	Administrative Expenses	I-11		
2-30	Operations & Maintenance	I-12		
2-40	Interest & Finance Expenses	I-13		
2-50	Programme Expenses	I-14		
2-60	Revenue Grants, Contributions & subsidies	I-15		
2-70	Provisions & Write off	I-16		
2-71	Miscellaneous Expenses	I-17		
2-72	Depreciation			
<b>B</b>	<b>Total – EXPENDITURE</b>			
<i>A-B</i>	<i>Gross surplus/ (deficit) of income over expenditure before Prior Period Items</i>			
2-80	Add: Prior period Items (Net)	1-18		
	<i>Gross surplus/ (deficit) of income over expenditure after Prior Period Items</i>			
2-90	<b>Less:</b> Transfer to Reserve Funds			
	<b>Net balance being surplus/ deficit carried over to Municipal Fund</b>			

Notes:

1. 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.
2. Additional disclosure on the face of Income and Expenditure statement:
  - a. Share of Surplus of associates and joint ventures
  - b. Minority interest share of surplus or deficit
  - c. Surplus or deficit attributable to minority interest; and
  - d. Surplus or deficit attributable to owners of the controlling entity.
3. When items of revenue and expense are material, their nature and amount should be disclosed separately. Circumstances that would give rise to the separate disclosure of items of revenue and expense include period:
  - a. Write-downs of inventories to net realisable value or of property, plant and equipment to recoverable amount or recoverable service amount as appropriate, as well as reversals of such write-downs;
  - b. Disposals of items of property, plant and equipment;
  - c. Litigation settlements; and
  - d. Other reversals of provisions.

The various schedules to the Income & Expenditure Account have been provided below.

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## Schedules to Income and Expenditure Account

\_\_\_\_\_ Name of the ULB

### Schedule I-1: Tax Revenue [Code No 110]

Minor Code No	Particulars	Current year (Rs.)	Previous year (Rs.)
1	2	3	4
110-01	Property tax		
110-02	Water tax		
110-03	Sewerage Tax		
110-04	Conservancy Tax		
110-07	Vehicle Tax		
110-08	Tax on Animals		
110-11	Advertisement tax		
110-12	Pilgrimage Tax		
110-80	Other taxes		
	<b>Sub-total</b>		
110-90	Less Tax Remissions and Refund [Schedule 1 – 1 (a)]		
	<b>Sub-total</b>		
	<b>Total tax revenue</b>		

### Schedule I-1 (a): Remission and Refund of taxes

Code No. *	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
1	2	3	4
1100100	Property taxes		
1101100	Advertisement tax		
1108000	Others		
	<b>Total refund and remission of tax revenues</b>		

\* 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

# UTTARAKHAND MUNICIPAL ACCOUNTING MANUAL

## 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		
120-20	Compensation in lieu of Taxes / duties		
120-30	Compensations in lieu of Concessions		
<b>Total assigned revenues &amp; compensation</b>			

## 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		
130-30	Rent from Guest Houses		
130-40	Rent from lease of lands		
130-80	Other rents		
	<b>Sub-Total</b>		
130-90	Less: Rent Remission and Refunds		
	Sub-total		
	<b>Total Rental Income from Municipal Properties</b>		



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## **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		
140-11	Licensing Fees		
140-12	Fees for Grant of Permit		
140-13	Fees for Certificate or Extract		
140-14	Development Charges		
140-15	Regularisation Fees		
140-20	Penalties and Fines		
140-40	Other Fees		
140-50	User Charges		
140-60	Entry Fees		
140-70	Service / Administrative Charges		
140-80	Other Charges		
	Sub-Total		
140-90	Less: Rent Remission and Refunds		
	Sub-total		
	<b>Total income from Fees &amp; User Charges</b>		

## **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		
	<b>Total income from Sale &amp; Hire charges</b>		

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## 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		
160-20	Re-imbursement of expenses		
160-30	Contribution towards schemes		
	<b>Total Revenue Grants, Contributions &amp; Subsidies</b>		

## 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		
170-20	Dividend		
	Profit in Sale of Investments		
170-40	Others		
170-80			
	<b>Total Income from Investments</b>		

## 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		
171-30	Interest on loans to others		
171-40	Other Interest		
	<b>Total. – Interest Earned</b>		

# UTTARAKHAND MUNICIPAL ACCOUNTING MANUAL

## Schedule I-9: Other Income [Code No180]

Code No.	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
1	2	3	4
180-10	Deposits Forfeited		
180-11	Lapsed Deposits		
180-20	Insurance Claim Recovery		
180-30	Profit on Disposal of Fixed asses		
180-40	Recovery from Employees		
180-50	Unclaimed Refund/Liabilities		
180-60	Excess Provisions written back		
180-80	Miscellaneous Income		
	<b>Total. Other Income</b>		

Note: Details of profit earned on Fixed Assets disposed shall be given for each of the class of fixed assets, to the extent possible, together with the details of the gross block of the fixed asset sold, depreciation provided on that and the value realised on disposition below Schedule I-9.

## 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		
210-20	Benefits and Allowances		
210-30	Pension		
210-40	Other Terminal & Retirement Benefits		
	<b>Total establishment expenses</b>		

# UTTARAKHAND MUNICIPAL ACCOUNTING MANUAL

## **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		
220-20	Books & Periodicals		
220-21	Printing and Stationery		
220-30	Travelling & Conveyance		
220-40	Insurance		
220-50	Audit Fees		
220-51	Legal Expenses		
220-52	Professional and other Fees		
220-60	Advertisement and Publicity		
220-61	Membership & subscriptions		
220-80	Other Administrative Expenses		
	<b>Total administrative expenses</b>		

## **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		
230-20	Bulk Purchases		
230-30	Consumption of Stores		
230-40	Hire Charges		
230-50	Repairs & maintenance –Infrastructure Assets		
230-51	Repairs & maintenance - Civic Amenities		
230-52	Repairs & maintenance – Buildings		
230-53	Repairs & maintenance – Vehicles		
230-59	Repairs & maintenance – Others		
230-80	Other operating & maintenance expenses		
	<b>Total Operating &amp; Maintenance Expense</b>		

# UTTARAKHAND MUNICIPAL ACCOUNTING MANUAL

## **Schedule I-13: Interest & Finance Charges [Code No 240]**

Code No.	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
1	2	3	4
240-10	Interest on Loans from the Central Government		
240-20	Interest on Loans from the State Government		
240-30	Interest on Loans from Government Bodies & associations		
240-40	Interest on Loans from International Agencies		
240-50	Interest on Loans from Banks & Other Financial Institutions		
240-60	Other Interest		
240-70	Bank Charges		
240-80	Other Finance Expenses		
	<b>Total Interest &amp; Finance Charges</b>		

## **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		
	<b>Total Programme Expenses</b>		

## **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 Given (Give details)		
260-20	Contributions Given (Give details)		
260-30	Subsidies Given (Give details)		
	<b>Total Revenue Grants, Contributions &amp; Subsidies given</b>		

- Details of Grant/Contribution/Subsidy given to Central Govt body/ State Government body/ Others is/are to be provided as a note to this schedule.
- Details of major items (More than 5 Lacs) to be provided in separate Annexure.

## 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		
270-20	Provision for other Assets		
270-30	Revenues written off		
270-40	Assets written off		
270-50	Miscellaneous Expense written off		
	<b>Total Provisions &amp; Write off</b>		

## 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		
271-20	Loss on disposal of Investments		
271-80	Other Miscellaneous Expenses		
	<b>Total Miscellaneous expenses</b>		

## 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
	<b>Prior Period Income</b>		
	<b>Prior Period Expenses</b>		
	<b>Total Prior Period (Net) (a-b)</b>		

## Schedule I-19: Income from Projects taken on Commercial basis [Code No 190]

Code No	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
1	2	3	4
190-10	Income from commercial projects Income from Deposit works		
	<b>Total Income from Commercial projects</b>		

### 27.5. Balance Sheet

- 27.5.1 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.
- 27.5.2 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.
- 27.5.3 The Balance Sheet shall be prepared in the format AC 25.
- 27.5.4 The details of various items of Balance Sheet would be given in separate schedules attached to the Balance Sheet.
- 27.5.5 Format of Balance Sheet with schedules are given below

# UTTARAKHAND MUNICIPAL ACCOUNTING MANUAL

## AC 25

### Balance Sheet

Balance Sheet of XXXXX ULB as on XX 20XX				
Code of Accounts	Description of Items	Schedule No.	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
	<b>Liabilities</b>			
	<b>Own Fund Reserve &amp; Surplus</b>			
3-10	Corporation Fund/ Municipal Fund	B-1	XXXX	XXXX
3-11	Earmarked Funds	B-2	XXXX	XXXX
3-12	Reserves	B-3	XXXX	XXXX
	<b>Total Own Fund Reserves and Surplus</b>		<b>XXXX</b>	<b>XXXX</b>
3-20	<b>Grants, Contributions for specific purposes</b>	B-4	XXXX	XXXX
	<b>Loans</b>			
3-30	Secured loans	B-5	XXXX	XXXX
3-31	Unsecured loans	B-6	XXXX	XXXX
	<b>Total Loans</b>		<b>XXXX</b>	<b>XXXX</b>
	<b>Current Liabilities and Provisions</b>			
3-40	Deposits received	B-7	XXXX	XXXX
3-41	Deposit works	B-8	XXXX	XXXX
3-50	Other liabilities (Sundry Creditors)	B-9	XXXX	XXXX
3-60	Provisions	B-10	XXXX	XXXX
	<b>Total Current Liabilities and Provisions</b>		<b>XXXX</b>	<b>XXXX</b>
	<b>TOTAL LIABILITIES</b>		<b>XXXXXX</b>	<b>XXXXXX</b>
	<b>ASSETS</b>			
4-10	Fixed Assets	B-11		
	Gross Block		XXXX	XXXX
4-11	Less: Accumulated Depreciation		XXXX	XXXX
	Net Block		XXXX	XXXX



# UTTARAKHAND MUNICIPAL ACCOUNTING MANUAL

Balance Sheet of XXXXX ULB as on XX 20XX				
Code of Accounts	Description of Items	Schedule No.	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
4-12	Capital work-in-progress	B-12	XXXX	XXXX
	<b>Total Fixed Assets</b>		<b>XXXX</b>	<b>XXXX</b>
	<b>Investments</b>			
4-20	Investment - General Fund	B-13	XXXX	XXXX
4-21	Investment-Other Fund	B-14	XXXX	XXXX
	<b>Total Investments Current assets, Loans &amp; advances</b>		<b>XXXX</b>	<b>XXXX</b>
4-30	Stock in hand (Inventories)	B-15	XXXX	XXXX
	<b>Sundry Debtors (Receivables)</b>			
4-31	Gross amount outstanding	B-16	XXXX	XXXX
4-32	Less: Accumulated provision against bad and doubtful receivables		XXXX	XXXX
	Net amount outstanding		XXXX	XXXX
4-40	Prepaid expenses	B-17	XXXX	XXXX
4-50	Cash and Bank Balances	B-18	XXXX	XXXX
4-60	Loans, advances and deposits	B-19	XXXX	XXXX
4-61	Less: Accumulated provision against Loans		XXXX	XXXX
	Net amount outstanding		XXXX	XXXX
	<b>Total Current Assets, Loans &amp; Advances</b>		<b>XXXX</b>	<b>XXXX</b>
4-70	Other Assets	B-20	XXXX	XXXX
4-80	<b>Miscellaneous Expenditure (to the extent not written off)</b>	B-21	<b>XXXX</b>	<b>XXXX</b>
	<b>TOTAL ASSETS</b>		<b>XXXXXXX</b>	<b>XXXXXXX</b>
	Notes to the Balance Sheet	B-22		

# UTTARAKHAND MUNICIPAL ACCOUNTING MANUAL

The various schedules to the Balance Sheet have been provided below:

## **Schedule B-1: Corporation Fund / Municipal 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)
310-10 310-90	Corporation/ Municipal Fund Excess of Income & Expenditure					
	<b>Total Municipal fund (310)</b>					

\*Addition includes contributions towards the fund, Adjustments to Opening Balance Sheet and also excess of income over expenditure

\*\* Deduction includes contributions from the fund, Adjustments to Opening Balance Sheet and also excess of expenditure over the income

## **Schedule B-2: Earmarked Funds**

### **Special Funds/Sinking Fund/Trust or Agency Fund [Code No 311]**

Amount in Rs.

Particulars	Special Fund 1	Special Fund 2	Special Fund 3	Special Fund 4	Special Fund 5	Pension Fund	General Provident fund
<b>Code No.</b>							
<b>(a) Opening Balance</b>							
<b>(b) Additions to the Special Fund</b>							
(i) Transfer from Municipal Fund							
(ii) Interest/Dividend earned on Special Fund Investments							
(iii) Profit on disposal of Special Fund Investments							
(iv) Appreciation in Value of Special Fund Investments							
(v) Other addition (Specify nature)							
<b>Total (b)</b>							
<b>Total (a+b)</b>							
<b>(c) Payments out of funds</b>							
(i) Capital expenditure on							

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Particulars	Special Fund 1	Special Fund 2	Special Fund 3	Special Fund 4	Special Fund 5	Pension Fund	General Provident fund
<b>Code No.</b>							
Fixed Assets*							
Others							
<b>Sub –total</b>							
<b>(ii) Revenue Expenditure on</b>							
Salary, Wages and allowances etc.							
Rent							
Other administrative charges							
<b>Sub –total</b>							
<b>(iii) Other:</b>							
Loss on disposal of Special Fund Investments							
Diminution in Value of Special Fund Investments Transferred to Municipal Fund							
<b>Sub –total</b>							
<b>Total of (i+ii+iii) (c)</b>							
<b>Net balance at the year end – (a+b)-(c)</b>							
<b>Grant Total of Special Funds</b>							

**Note:**

All funds are to be shown as separate fund either in the schedule or in a separate schedule with the corresponding indication in the Balance Sheet under “Funds” on liability side.

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## 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					
312-11	Capital Reserve					
312-20	Borrowing Redemption Reserve					
312-40	Statutory Reserve					
312-50	General Reserve					
312-60	Revaluation Reserve					
	<b>Total Reserve funds</b>					

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**Schedule B-4: Grants & Contribution for Specific Purposes [Code No 320]** Amount in Rs.

Particulars	Grants from Central Government	Grants from State Government	Grants from Other Government Agencies	Grants from Financial Institutions	Grants from Welfare Bodies	Grants from International Organisations	Others
<b>Code No.</b>							
<b>(a) Opening Balance</b>							
<b>(b) Additions to the Grants *</b>							
(i) Grant received during the year							
(ii) Interest/Dividend earned on Grant Investments							
(iii) Profit on disposal of Grant Investments							
(iv) Appreciation in Value of Grant Investments							
(v) Other addition (Specify nature)							
<b>Total (b)</b>							
<b>Total (a+b)</b>							
<b>(c) Payments out of funds</b>							
<b>(i) Capital expenditure on</b>							
Fixed Assets*							
Others							
<b>Sub –total</b>							
<b>(ii) Revenue Expenditure on</b>							
Salary, Wages and allowances etc.							
Rent							
Other administrative charges							
<b>Sub –total</b>							
<b>(iii) Other:</b>							
Loss on disposal of Grant Investments							
Diminution in Value of Grant Investments							
Grants Refunded							
<b>Sub –total</b>							
<b>Total (c) [i+ii+iii]</b>							
<b>Net balance at the year end – (a+b)-(c)</b>							
<b>Total Grants &amp; Contribution for Specific Purposes</b>							

Note: Grant funds received from Central/ State Government are to be shown as grant funds and not to be mixed up with earmarked funds

## Schedule B-5: Secured Loans [Code No 330]

Amount in Rs.

Code No.	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
1	2	3	4
330-10	Secured Loans from Central Government		
330-20	Secured Loans from State government		
330-30	Secured Loans from Govt. bodies & Associations		
330-40	Secured Loans from international agencies		
330-50	Secured Loans from banks & other financial institutions		
330-60	Other Term Loans		
330-70	Bonds & debentures		
330-80	Other Loans		
	<b>Total Secured Loans</b>		

### Notes:

The nature of the Security shall be specified in each of these categories

- 1 Particulars of any guarantees given shall be disclosed
- 2 Terms of redemption (if any) of bonds/debentures issued shall be stated, together with the earliest date of redemption
- 3 Rate of Interest and Original Amount of loan and outstanding can be provided for every Loan under each of these categories separately;
- 4 For loans disbursed directly to an Executing Agency, please specify the name of the Project for which such loan is raised.

## 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	Unsecured Loans from Central Government		
331-20	Unsecured Loans from State government		
331-30	Unsecured Loans from Govt. bodies & Associations		
331-40	Unsecured Loans from international agencies		
331-50	Unsecured Loans from banks & other financial institutions		
331-60	Other Term Loans		
331-70	Bonds & debentures		
331-80	Other Loans		
	<b>Total Un-Secured Loans</b>		

### Note:

Rate of Interest and Original Amount of loan and outstanding can be provided for every Loan under each of these categories separately.

## 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	Deposits From Contractors and suppliers		
340-20	Refundable Deposits received for revenue connections		
340-30	Deposit From staff		
340-80	Deposit - Others		
	<b>Total deposits received</b>		

## Schedule B-8: Deposit Works [Code No 341]

Amount in Rs.

Code No.	Name of Funding agency	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)	Income earned
1	2	3	4	5	6	7
341-10-01						
341-10-02						
341-10-03						
341-10-xx						
	<b>Total of deposit works</b>					

### Note:

1. The amount received during the year from the funding agency/department on whose behalf the deposit works have been undertaken would appear in col. 4
2. Expenditure incurred including percentage (departments) charges would appear in Col 5
3. Balance as in Col. 6 would appear in the Balance Sheet as a liability

## **Schedule B-9: Other Liabilities [Code No 350]**

*Amount in Rs.*

Code No.	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
1	2	3	4
350-10	Creditors		
350-11	Employee Liabilities		
350-12	Interest Accrued and Due		
350-20	Recoveries Payable		
350-30	Government Dues Payable		
350-40	Refunds Payable		
350-41	Advance Collection of Revenues		
350-80	Others		
	<b>Total Other liabilities (Sundry Creditors)</b>		

## **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		
360-20	Provision for Interest		
360-30	Other Provisions		
	<b>Total Provisions</b>		



# UTTARAKHAND MUNICIPAL ACCOUNTING MANUAL

## Schedule B-11: Fixed Assets [Code No. 410 & 411]

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	Deductions during the period	Total at the end of the year	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										
410-20	Buildings										
410-21	Parks & Playgrounds										
	<b>Infrastructure Assets</b>										
410-30	Roads and Bridges										
410-31	Sewerage and drainage										
410-32	Water ways										
410-33	Public Lighting										
	<b>Other assets</b>										
410-40	Plants & Machinery										
410-50	Vehicles										
410-60	Office & other equipment										
410-70	Furniture, fixtures, fittings and electrical appliances										
410-22	Statues, heritage assets, antiques & other works of art										
410-80	Other fixed assets and non-current assets (includes Intangible Assets)										
	<b>Total</b>										

\$ - 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

# UTTARAKHAND MUNICIPAL ACCOUNTING MANUAL

## Additional disclosures to the Schedule

- i. Value of fixed assets under dispute or litigation shall be provided. The status of the legal case as at the reporting date of the Financial Statements shall also be mentioned.
- ii. The details & value of assets, which are not yet physically identified / traced, shall be disclosed separately.
- iii. Details and value of assets under leases and hire purchase needs to be disclosed as a note

## Note:

- 1 Gross Block means cost of acquisition of fixed asset. Opening Balance in Gross Block as on the first day of the year represents the closing balance of the previous year. For instance, the opening balance as on 1<sup>st</sup> April 2020 shall be equal to the closing asset balance as on 31<sup>st</sup> <sup>March</sup> 2020.
- 2 Land includes areas used as and for the purpose of public places such as parks, squares, gardens, lakes, museums, libraries, godowns etc.
- 3 Buildings include office and works buildings, commercial buildings, residential buildings, school and college buildings, hospital building, public buildings temporary structures and sheds, etc.
- 4 Roads and bridges include roads and streets, pavements, pathways, bridges, culverts and subways.
- 5 Sewerage and drainage include sewerage lines, storm water drainage lines and other similar drainage system.
- 6 No depreciation is to be charged on "Land" and "Capital work in Progress"

# UTTARAKHAND MUNICIPAL ACCOUNTING MANUAL

## Schedule B-12: Capital Work in Progress (CWIP) - [Code 412]

Details of Fixed Asset head*	CWIP at the beginning of FY	CWIP created during the year	CWIP capitalised during the year	CWIP at the end of FY
(A)	(B)	(C)	(D)	(E=B+C-D)
Buildings				
Parks and Playgrounds				
Roads and Bridges				
Sewerage and Drainage				
Water Ways				
Public Lighting				
Plant and Machinery				

- A list of Contract-wise CWIP at the end of the FY will be annexed to this schedule

## Schedule B-13: Investments - General Fund [Code 420]

Amount Rs.

Code No.	Particulars	With whom invested	Face value (Rs.)	Current year	Previous year
				Carrying Cost (Rs.)	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				
	<b>Total of Investments General Fund</b>				

- Insert the other Heads of Account and the corresponding Codes of Account for other investments made by the ULB
- Provide break-up of other investments as applicable
- Aggregate amount of quoted investments and also market value thereof shall be disclosed. Aggregate amount of unquoted investments shall also be disclosed.

# UTTARAKHAND MUNICIPAL ACCOUNTING MANUAL

## Schedule B-14: Investments - Other Funds [Code 421]

Amount Rs.

Code No.	Particulars	With whom invested	Face value (Rs.)	Current year	Previous year
				Carrying Cost (Rs.)	Carrying Cost (Rs.)
1	2	3	4	5	6
421-10	Central Government Securities				
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				
	<b>Total of Investments Other Funds</b>				

- 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-15: Stock in Hand (Inventories) [Code 430]

Amount Rs.

Code No.	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
1	2	3	4
430-10	Stores		
430-20	Loose Tools		
430-30	Others		
	<b>Total Stock in hand</b>		

# UTTARAKHAND MUNICIPAL ACCOUNTING MANUAL

## Schedule B-16: 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	Receivables for Property Taxes Current Year Receivables outstanding for more than 2 years but not exceeding 3 years 3 Years to 4 years More than 5 Years Sick or Closed Industries Sub – total				
350-30	Less: State Government Cess /Levies in Taxes – Control Accounts				
	<b>Net Receivables of Property Taxes</b>				
431-19	Receivable of Other Taxes Current Year Receivables outstanding for more than 2 years but not exceeding 3 years 3 Years to 4 years More than 5 Years Sick or Closed Industries Sub- total				
350-30	Less: State Government Cesses/Levies in Taxes – Control Accounts				
431-30	<b>Net Receivables of Other Taxes</b> Receivables of Cess Current Year Receivables outstanding for more than 2 years but not exceeding 3 years 3 Years to 4 years More than 5 Years Sick or Closed Industries				
	<b>Sub – total</b>				
431-40	Receivables from Other Sources Current Year Receivables outstanding for more than 2 years but not exceeding 3 years 3 Years to 4 years More than 5 Years Sick or Closed Industries <b>Total of Sundry Debtors (Receivables)</b>				

Note: The provision made against accrual items would not affect the opening/ closing balances of the Demand and Collection Ledgers for the purpose of recovery of dues from the concerned parties/ individuals \*Break up for provision for outstanding revenues are given in Column 4

# UTTARAKHAND MUNICIPAL ACCOUNTING MANUAL

## Schedule B-17: Prepaid Expenses [Code No 440]

Code No. Current year	Particulars	Amount (Rs.)	Previous year Amount (Rs)
1	2	3	
440-10	Establishment		
440-20	Administrative		
440-30	Operations & maintenance		
	<b>Total Prepaid expenses</b>		

## Schedule B-18: Cash and Bank Balances [Code No 450]

Code No. Current year	Particulars	Amount (Rs.)	Previous year Amount (Rs)
1	2	3	4
450-10	Cash		
	<b>Balance with Bank – Municipal Funds</b>		
450-21	Nationalised Banks		
450-22	Other Scheduled Banks		
450-23	Scheduled Co-operative Banks		
450-24	Post Office		
450-25	Treasury account		
	<b>Sub-total</b>		
	<b>Balance with Bank – ____ Special Funds</b>		
450-41	Nationalised Banks		
450-42	Other Scheduled Banks		
450-43	Scheduled Co-operative Banks		
450-44	Post Office		
	<b>Sub-total</b>		
	<b>Balance with Bank – ____ Grant Funds</b>		
450-61	Nationalised Banks		
450-62	Other Scheduled Banks		
450-63	Scheduled Co-operative Banks		
450-64	Post Office		
	<b>Sub-total</b>		
	<b>Total Cash and Bank balances</b>		

# UTTARAKHAND MUNICIPAL ACCOUNTING MANUAL

## Schedule B-19: 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				
460-20	Employee Provident Fund Loans				
460-30	Loans to Others				
460-40	Advance to Suppliers and Contractors				
460-50	Advance to Others				
460-60	Deposit with External Agencies				
460-80	Other Current Assets				
	<b>Sub –Total</b>				
461-	Less: Accumulated Provisions against Loans, Advances and Deposits (Schedule B – 18 (a))				
	<b>Total Loans, advances, and deposits</b>				

## Schedule B-19: 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		
461-20	Advances		
461-30	Deposits		
	<b>Total Accumulated Provision</b>		

## Schedule B-20: Other Assets [Code No 470]

Code No.	Particulars	Current Year Amount (Rs.)	Previous year Amount (Rs)
1	2	3	4
470-10	Deposit Works		
470-20	Other asset control accounts		
	<b>Total Other Assets</b>		

## Schedule B-21: Miscellaneous Expenditure (to the extent not written off) [Code No 480]

Code No.	Particulars	Current Year Amount (Rs.)	Previous year Amount (Rs)
1	2	3	4
480-10	Loan Issue Expenses Deferred		
480-20	Discount on Issue of Loans		
480-30	Deferred Revenue Expenses		
480-90	Others		
	<b>Total Miscellaneous expenditure</b>		

## Schedule B-22: Notes to the Balance Sheet

1. Contractual liabilities not provided for:
  - a. Amount of contracts entered on account of capital works but on which no works has commenced or ongoing works but yet to be completed leading to a contractual balance.
  - b. In respect of claims against the ULB, pending judicial decisions
  - c. In respect of claims made by employees
  - d. Other escalation claims made by contractors
  - e. In case of any other claims not acknowledged as debts
2. List of assets which have been handed over to the ULB, but the title deed has not been executed
3. List of assets, for which cost could not be ascertained thus has been valued at Re. 1 in the Balance Sheet
4. List of assets which are in permissive possession and no economic benefits are being derived from it
5. Receivables from taxes, etc. which is not being collected because of litigation
6. Amount of any guarantee given by the ULB on behalf of Councilors or staff:
7. Previous year's figures have been regrouped/ rearranged wherever necessary
8. Information in respect to deposit works: Particulars, Total contract value of project and Completed value of project needs to be disclosed
9. The fact of switching over to accrual basis of accounting from traditional cash basis of accounting should be disclosed as Notes in the year of switch over
10. Any merger/demerger between two or more local bodies shall be disclosed in the year in which merger/demerger takes place.



## 27.6. Cash Flow Statement

27.6.1 All ULBs shall prepare a Statement of Cash flows apart from Income & Expenditure, Balance sheet and Receipts and Payments statements.

### **STEPS IN PREPARATION OF CASH FLOW**

27.6.2 Cash flow statement of an ULB shall be prepared by in Form AC 28, ascertaining the cash flow from operating, investing and financing activities. The steps involved in determining the cash flows from each of the activity is explained in the following paras separately.

### **Cash Flows from Operating Activities**

27.6.3 Operating activities are the principal activities contributing to or utilising the cash resources of the ULB and other activities that are not investing or financing activities.

27.6.4 The steps involved in calculation of cash flow from Operating Activities are as follows:

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>In Rs. Lakh 20X2</b>	<b>In Rs. Lakh 20X1</b>
<b>Receipts</b>		
Taxation	X	X
Sales of Goods and Services	X	X
Grants related to Revenue/General Grants	X	X
Interest Received	X	X
Other Receipts	X	X
<b>Payments</b>		
Employee Costs	X	X
Superannuation	X	X
Suppliers	X	X
Interest Paid	X	X
Other Payments	X	X
<b>Net Cash Flows from Operating Activities</b>	<b>X</b>	<b>X</b>

## Cash Flows from Investing Activities

- 27.6.5 Investing activities generally involves acquisition and disposal of long-term assets and investments not included in cash equivalents.
- 27.6.6 The steps involved in calculation of cash flow from investing Activities are as follows:
- 27.6.7 All the movement of cash flows on account of the following shall be shown as separate line items under the 'Investing activities':
- Acquisition of fixed assets;
  - Purchase of investment in shares/equity or any other mode;
  - Fixed Deposits with banks and other financial institutions
  - Amounts expensed/ utilised from Fund accounts
- 27.6.8 It is to be noted that while calculating the movement of funds/grants account, any amount included by transfer from General/municipal fund shall be adjusted, as there is no real cash inflows to the fund/grant accounts.
- 27.6.9 All items of incomes and expenditures in the nature of 'investing activities', which are adjusted while calculating cash flows from operating activities shall be considered appropriately for inclusion in the calculation of cash flows from investing activities. Also, these items are to be included as separate line items.
- 27.6.10 Examples of such items are
- Interest received,
  - Dividend received,
  - proceeds from disposal of assets/investments
- The amount of cash flows from investing activities as calculated above shall be shown as 'Net cash generated from/ (used in) investing activities.'

## Additional Disclosure

- 27.6.11 The aggregate cash flows arising from acquisitions and from disposals of controlled entities or other operating units should be presented separately and classified as investing activities, and
- 27.6.12 An entity should disclose, in aggregate, in respect of both acquisitions and disposals of controlled entities or other operating units during the period, each of:

27.6.13 The total purchase or disposal consideration;

- The portion of the purchase or disposal consideration discharged by means of cash and cash equivalents;
- The amount of cash and cash equivalents in the controlled entity or operating unit acquired or disposed of; and
- The amount of the assets and liabilities, other than cash or cash equivalents, recognised by the controlled entity or operating unit acquired or disposed of, summarised by each major category.

## Cash Flows from Financing Activities

27.6.14 Financing activities are activities that result in changes in the size and composition Loans received by the ULBs.

(a) The steps involved in calculation of cash flow from Financing Activities are as follows:

- (i) The movement in loans availed by the ULBs and loans & other advances given to employees/ others shall be shown on a net basis instead of showing the amount of loans received / repaid during the year.
- (ii) Examples of such items are as follows:
  - Movement in loans from Central Government
  - Movement in Loans from State Government
  - Movement in Loans and advances to employees
  - Interest and finance expenses paid

Movements in loans are calculated as follows:      Amount (Rs)

Loan amounts received during the period	XXX
Less: Loan amounts repaid during the year	XXX
-----	
Net movement amount of loans received/(repaid)	XX/(XX)
-----	

- (iii) Funds/grants received during the period under reporting shall be shown separately as amounts received under any fund/grant are in the nature of financing activities.

Examples of such funds/grants are:

- Earmarked funds
- Special grants
- Specific grants

- (iv) All items of incomes and expenditures in the nature of 'financing activities', which are adjusted while calculating cash flows from, operating activities shall be considered appropriately for inclusion in the calculation of cash flows from investing activities

Examples of such items are as follows:

- Interest and finance charge
- Discounts

## CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD

27.6.15 The total of net cash flows generated from / (used in) each of operating, investing and financing activities, shall be shown as net increase /(decrease) in cash and cash equivalents during the period under reporting.

27.6.16 In order to arrive at the 'Cash and cash equivalents at the end of the period under reporting', the amount of cash and cash equivalents at the beginning of the period under reporting shall be added to 'net increase/(decrease) in cash and cash equivalents' during the period.

27.6.17 It should be ensured that the amount of cash and cash equivalents at the end of the period under reporting shall be tallied with the total cash and bank balances at the end of the period as disclosed in the Balance Sheet of the ULB.

27.6.18 Cash flows arising from transactions in a foreign currency should be recorded in an entity's functional currency by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of the cash flow.

# UTTARAKHAND MUNICIPAL ACCOUNTING MANUAL

AC 28

Name of the ULB \_\_\_\_\_

## Statement of Cash Flow

Particulars	Current Year (Rs.)	Previous Year (Rs.)
<b>a. Cash flows from operating activities</b>		
<b>Cash Receipt from:</b>		
• Taxation		
• Sales of Goods and Services		
• Grants related to Revenue/General Grants		
• Interest Received		
• Other Receipts		
<b>Less: Cash Payments for:</b>		
• Employee Costs		
• Superannuation		
• Suppliers		
• Interest Paid		
• Other Payments		
Net cash generated from/ (used in) operating activities (a)		
<b>b. Cash flows from investing activities</b>		
1. (Purchase) of fixed assets & CWIP		
2. (Increase) / Decrease in Special funds/grants		
3. (Increase) / Decrease in Earmarked funds		
4. (Purchase) of Investments		
<b>Add:</b>		
Proceeds from disposal of assets		
Proceeds from disposal of investments		
Investment income received		
Interest income received		
Net cash generated from/ (used in) investing activities (b)		
<b>c. Cash flows from financing activities</b>		
<b>Add:</b>		
Loans from banks/others received		
<b>Less:</b>		
Loans repaid during the period		
Loans & advances to employees		
Loans to others		
Finance expenses		
Net cash generated from (used in) financing activities (c)		
<b>Net increase/ (decrease) in cash and cash equivalents (a + b + c)</b>		
Cash and cash equivalents at beginning of period		

<b>Cash and cash equivalents at end of period</b>		
<b>Cash and Cash equivalents at the end of the year comprises of the following account balances at the end of the year:</b>		
i. Cash Balances		
ii. Bank Balances		
iii. Scheduled co-operative banks		
iv. Balances with Post offices		
v. Balances with other banks		
<b>Total</b>		

Note: items in ( ) brackets denote as that they are to be deducted

## 27.7. Receipts and Payments Account (Optional for Audit)

- 27.7.1. The Receipts and Payments Account shows the sources of funds and the applications of funds during the accounting reporting periods.
- 27.7.2. The Receipts and Payments Account shall be prepared from the Balance Sheet, Income and Expenditure Statement, Ledgers and Cash Book.
- 27.7.3. The Receipts and Payments Account shall be prepared from the receipt and payment entries in various accounts in the General Ledger. For this purpose, each account in the General Ledger shall be reviewed, and the total of the receipt entries and the total of payment entries in each account shall be listed out under the relevant account code/head in the column pertaining to the relevant Fund.
- 27.7.4. The following are the steps involved in the preparation of Receipts and Payments Account:
- The opening and closing cash and bank balances should be ascertained and entered
  - For revenue income accounted for on actual receipt basis, the amounts as appearing in the Income and Expenditure Statement should be reflected directly in the Receipts and Payments Account.
  - For revenue income accounted for on accrual basis, the following shall be done:

Receivables at the beginning of the period	Rs.XXX
Add: Bills raised/Income accounted during the period	Rs.XXX
Less: Receivables at the end of the period	Rs.XXX
Cash received during the year	Rs.XXX

27.7.5. This amount shall be reflected in the receipt side of the Receipts and Payments Account.

27.7.6. For revenue expenditure accounted for on actual payment basis, the amounts as appearing in the Income and Expenditure Statement should be reflected directly in the Receipts and Payments Account.

27.7.7. For revenue payments which are accounted for on accrual basis, the following shall be done:

Payables at the beginning of the period	Rs.XXX
Add: Bills received/Expenditure Accounted during the period	Rs.XXX
Less: Payables at the end of the period	Rs.XXX
Cash paid during the year	Rs.XXX

27.7.8. This amount shall be reflected in the payment side of the Receipts and Payments Account.

27.7.9. The Receipts and Payments Account shall be prepared Form AC 29.

27.7.10. The following shall be noted in relation to preparation of Receipts and Payments Account:

- 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.
- 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.
- 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'.

27.7.11. Format of Receipts & Payments Account is given below:

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## AC 29

Name of the ULB \_\_\_\_\_

Receipts and Payments Account for the period from \_\_\_\_\_ to \_\_\_\_\_

Head of Account	Current Period Amount (Rs.)	Corresponding Previous Period Amount (Rs.)	Head of Account	Current Period Amount (Rs.)	Corresponding Previous Period Amount (Rs.)
<i>Opening Balances#</i> Cash balances including Imprest Balances with Banks/Treasury (including balances in designated bank account)					
Operating Receipts			Operating Payments		
Tax Revenue Assigned Revenues & Compensations Rental income from Municipal Properties Fees & User Charges Sale & Hire Charges Revenue Grants, Contributions & Subsidies Income from Investments Interest Earned Other Income			Establishment Expenses Administrative Expenses Operations and Maintenance Interest & Finance Charges Programme Expenses Revenue Grants, Contributions & Subsidies Purchase of Stores Other Collections on behalf of State and Central Government		
<b>Non-Operating Receipts</b>			<b>Non-Operating Payments</b>		
Loans Received Deposits Received			Other Payables Refunds Payable		
Grants and contribution for specific purposes Sale proceeds from Assets Realisation of Investment - General Fund Realisation of Investment - Other Funds Deposit works Revenue Collected in Advance Loans & Advances to Employees (recovery) Other Loans & Advances (recovery) Deposits with External Agencies (recovery)			Repayment of Loans  Refund of Deposits Acquisition / Purchase of Fixed Assets Capital Work in Progress Deposit works Investments General Fund Investments Other Funds  Loans & Advances to Employees Prepaid Expenses		



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Other Receipts [specify]			Other Loans & Advances Deposits with External Agencies Other Payments [specify]		
			<i>Closing Balances #</i> Cash balances including Imprest Balances with Banks/Treasury (including balances in designated bank accounts)		
<b>GRAND TOTAL</b>			<b>GRAND TOTAL</b>		

*\* Details in respect of these items will be available in the corresponding asset ledger accounts*

*\*\* Details in respect of these items will be available in the corresponding liability ledger accounts*

*Account Codes as per Chart of Account is to be given in all cases*

## 27.8. Notes to Accounts

- 27.8.1 The objective of the Financial Statements is to give a true and fair view of the financial position of the ULB, as well as its financial performance during the year. In order to ensure this, explanations on the figures shown in the Financial Statements will have to be provided wherever necessary and any material fact which has a bearing on the Financial Statements has to be disclosed. For this purpose, notes on all such items shall be prepared, and attached to the Financial Statements. Such notes are known as “notes forming part of the accounts”. Items that require disclosure in the notes to accounts include contingent liabilities, if any, events occurring after the Balance Sheet which have an impact on the Financial Statements, extraordinary items, if any, legal disputes, the final disposal of which will have an effect on the Financial Statements, etc.
- 27.8.2 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’:
- Amount of Capital Contracts remaining to be executed and not provided for;
  - Amount of claim in respect of suits filed against the ULB for which the ULB may be liable, in case the ULB loses suits. Register of Suit in Form Adm 01 shall be referred to.
  - Claim against the ULB not acknowledged as debts; and
  - Other money for which the ULB is contingently liable.
- 27.8.3 Contingent Assets are generally not disclosed, except where the inflow of economic benefits or service potential is probable, but not virtually certain<sup>20</sup>
- 27.8.4 In case of merger or demerger of two or more local bodies, the fact should be disclosed in the year of such merger or demerger.
- 27.8.5 Contractual liabilities not provided for:
- Amount of contracts entered on account of capital works but on which no works has commenced, or contracts entered but part payments have been made and there is a contractual balance to be paid later upon completion of work

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<sup>20</sup> ASLB-19

- In respect of claims against the ULB, pending judicial decisions
  - In respect of claims made by employees
  - Other escalation claims made by contractors
  - In case of any other claims not acknowledged as debts
- 27.8.6 List of assets which have been handed over to the ULB, but the title deed has not been executed
- 27.8.7 List of assets, for which cost could not be ascertained thus has been valued at Re. 1 in the Balance Sheet
- 27.8.8 List of assets which are in permissive possession and no economic benefits are being derived from it
- 27.8.9 Receivables from taxes, etc. which is not being collected because of litigation
- 27.8.10 Amount of any guarantee given by the ULB on behalf of Councillors or staff:
- 27.8.11 Previous year's figures have been regrouped/ rearranged wherever necessary
- 27.8.12 Information in respect to deposit works: Particulars, Total contract value of project and Completed value of project needs to be disclosed
- 27.8.13 The fact of switching over to accrual basis of accounting from traditional cash basis of accounting should be disclosed as Notes in the year of switch over
- 27.8.14 Any merger/demerger between two or more local bodies shall be disclosed in the year in which merger/demerger takes place.

## **27.9. Statement of Significant Accounting Policies**

- 27.9.1. The Statement of Significant Accounting Policies shall state important accounting policies followed by the ULB in respect of accounting for its transactions and in the preparation and presentation of the Financial Statements.
- 27.9.2. Where any of the accounting policies adopted by the ULB while preparing its Financial Statements is not in conformity with the principles prescribed in this Accounts Manual and the effect of deviation from the accounting principles is material, the particulars of the deviation shall be disclosed together with the reasons therefor 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.

- 27.9.3. 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.
- 27.9.4. The Accounting policies are described in Chapter-3 of this Manual shall be the basis of preparation of significant accounting policies for an ULB. This is to be disclosed in the Financial Statement accordingly.
- 27.9.5. Given below an illustration on Significant Accounting Policies which can be suitably adopted by the ULBs

## **Basis of Accounting**

- The Financial Statements for the Financial Year 1<sup>st</sup> April 2019 to 31<sup>st</sup> March 2020 has been prepared on accrual basis by the [.....Municipality] as per Uttarakhand Municipal Accounting Manual.
- The financial statements have been prepared under double entry accrual system of accounting as per Uttarakhand Municipal Accounting Manual.
- All figures are in Indian Rupees.

## **Historical Cost and Going concern**

- Financial Statements have been prepared on historical cost convention.
- Financial Statements have been prepared on going concern basis and accounting policies have been consistently followed throughout the period.

## **Revenue Recognition**

- Income in respect of which demands are raised by the ULB are accounted on accrual basis as and when they become due.
- Property tax is accrued at the beginning of the year.
- Rental income is accrued as and when it becomes due as per the terms of the rental agreement.

- Interest and penalties on late collection of rental income have been reckoned in accrual basis.
- During the year, rental income from \_\_\_\_\_ market has been accounted on cash basis due to uncertainty on the amount to be demanded because of an ongoing litigation on the rental agreement.
- Provision has been maintained for doubtful receivables to the extent considered necessary as per the accounting policy consistently applied from year to year.
- Excess provision amounting to Rs. \_\_\_\_\_ (previous year \_\_\_\_\_) has been written back to the income and expenditure account.
- Where waiver scheme is allowed by GoUK, demand bills have been raised showing the gross bill and waiver amount separately.

## **Recognition of expenditure**

- Establishment expenses have been recognized on accrual basis at the end of each month. Contribution towards contributory pension fund has been accounted as and when the salary expenditure is accrued.
- Leave encashment, pension (including commuted pension), are reckoned only upon passing of bills for payment.
- Annual provision has been made for Gratuity liability on the basis of annuity premium intimation received from .....Insurance Company.
- Interest on long term loans has been accounted on annual basis as per the terms of the loan agreement. During the year an amount of Rs. \_\_\_\_\_ (previous year \_\_\_\_\_) has been paid and accounted as penal interest due to late repayment of instalments.
- Expenditure on works has been accounted on approval of running bills after certification of the work. The expenditure has been accounted under maintenance or capital work in progress depending on the nature of work undertaken.

## **Fixed assets and depreciation**

- Fixed assets are shown at cost less accumulated depreciation. Cost of fixed assets includes all expenses incurred in connection with purchase and installation of the fixed asset.
- Capital works in progress are transferred to the respective fixed asset accounts as and when the works are completed.
- During the year, a community hall donated by a Trust has been accounted at a nominal value of Re. 1.

- Depreciation is charged on fixed assets on Straight Line method on the basis of useful life of assets and as per the rates prescribed in the accounting policy of UMAM.
- Full year depreciation is provided for fixed assets capitalized in the first half of the year (before October 1). For fixed assets capitalized in the second half (on or after October 1) of the Financial Year, depreciation is provided for half a year.
- Assets costing less than Rs.5000 are written off
- No revaluation of fixed assets has been undertaken during the year.

## **Long Term liability**

- Long Term liability is made up of Borrowings directly taken by the Municipality as well as those given as part of schemes sponsored by Central/ State Government or by multilateral or any other funding agencies. Liability under direct borrowing is accounted for on the basis of actual receipt of funds.

## **Interest on borrowings**

- Interest on borrowings specifically identified with fixed assets is capitalized under the respective fixed asset accounts.
- Interest on general borrowings is charged to the income and expenditure account.

## **Grants**

- The municipality has received \_\_\_\_\_ general grants during the year (previous year Rs. \_\_\_\_\_).
- Specific grants towards revenue expenditure received prior to the incurring of expenditure has been treated as liability till such time that expenditure is incurred. Grants received and receivable in respect of specific revenue expenditure has been recognised as income in the accounting period in which the corresponding revenue expenditure is charged to Income and Expenditure Account.
- Specific Grants received towards capital expenditure has been treated as a liability till such time that the fixed asset is constructed or acquired. On construction or acquisition of assets, the extent of amount of liability has been be treated as a capital receipt and has been transferred from respective Grant Account to the Capital Contribution.
- Capital Grants received by the Municipality as a nodal agency or implementing agency for intended purpose and which does not result in creation of assets with ownership rights for the Corporation, are netted against the grant upon utilization. Only the unutilized portion of such grants, are carried over in the Balance Sheet as a liability.

## **Investments**

- Investments are carried at cost. Any permanent fall in the carrying value of the investments are provided for.
- Investment in equity share of the [.....Smart City SPV] has been carried as per Equity method.

## **Stores and Spares**

- Stores and spares are valued as on 31/03/2020 at the cost based on Weighted Average Cost method.

## **27.10. Disclosures (Illustrative)**

27.10.1. It is a good practice to make disclosures as much as possible in the Financial statements which will provide a better understanding of the Financial aspects of the ULBs to all the stakeholders. The disclosure given below are minimum (subject to their relevance and applicability to a particular ULB) and the ULB may decide to disclose additional and relevant matters. Accordingly, ULB will decide upon the extent of disclosures to be given in the Financial Statements considering the relevance and materiality of these disclosures applicable to the ULB's.

27.10.2. For example, ULB "A" had some PPP transactions during the year. As a consequence, they are to follow the minimum and relevant disclosure requirement for PPP transactions given in this manual. Other ULBs. If they do not have any PPP project, disclosure for PPP will not be applicable.

27.10.3. These shall include other important information about the ULB supporting the Financial Statements. ULBs can outline applicable disclosure from the illustrative list given below:

### **27.10.4. General:**

- A description of the nature of the relationship with related parties involved in the transactions. For example, whether the relationship was one of a controlling entity and a controlled entity
- Details of honorarium paid to Councillors and Mayor; (if paid).
- The following shall be disclosed separately in case of each of the incomes of the ULB:
  - a) amount of refunds, remissions and write-offs made during the year, and
  - b) arrears collected during the year

- c) amount of subsidy provided to citizen against each municipal service
- d) amount of property tax forgone due to tax holiday

- Percentage of properties defaulting on property tax both in terms of number and value in comparison to total properties and income earned;
- Percentage of connections, category-wise, defaulting on payment of water supply charges both in terms of number and value in comparison with the total number of connections and demand raised together with the remedial measures taken;
- Age analysis of receivables and payables;
- Such other details as the ULB may decide to give for better disclosure and governance.

**27.10.5. Disclosures as per ASLB:** The following are the key disclosures to be made by the ULBs as applicable:

**27.10.6. Disclosure of Accounting policies (ASLB-1)**

- An ULB should disclose in the summary of significant accounting policies.
  - a) The measurement basis (or bases) used in preparing the financial statements;
  - b) The other accounting policies used that are relevant to an understanding of the financial statements.

**27.10.7. Disclosure of deviation from accounting policies: (ASLB-3)**

- Deviation from accounting policies adopted by the ULB, together with the reason and financial effect thereof.
- 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.
- Any change in the Accounting policies which has no material effect in the current period, but which is reasonably expected to have a material effect in later periods should be disclosed.

**27.10.8. Disclosure of changes in accounting estimate: (ASLB-3)**

- An entity should disclose the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect on future periods, except for the disclosure of the effect on future periods when it is impracticable to estimate that effect.



- If the amount of the effect in future periods is not disclosed because estimating it is impracticable, the entity should disclose that fact.

## **27.10.9. Disclosure of Prior period items: (ASLB-3)**

- An ULB should disclose the effect of Prior period errors in the following manner:
  - a) The nature of the prior period error;
  - b) For the current period, to the extent practicable, the amount of the correction for each financial statement line item affected;
  - c) The amount of the correction at the beginning of the current period.
  - d) Financial statements of subsequent periods need not repeat these disclosures beyond.

## **27.10.10. Disclosure of Event after the reporting date: (ASLB-14)**

- If an ULB receives information after the reporting date, but before the financial statements are authorised, about conditions that existed at the reporting date, the ULB should update disclosures that relate to these conditions, in the light of the new information.
- If non-adjusting events after the reporting date are material, ULB should disclose the following for each material category of non-adjusting event after the reporting date:
  - a) The nature of the event; and
  - b) An estimate of its financial effect, or a statement that such an estimate cannot be made.

## **27.10.11. Disclosure of Related Party Transactions: (ASLB-20)**

- If there have been transactions between related parties, during the existence of related party relationship, the reporting entity should disclose the following:
  - a) The name of the transacting related party;
  - b) A description of the nature of the relationship with related parties involved in the transactions.
  - c) A description of the related party transactions within each broad class of transaction and its Financial implications.
  - d) Any other elements of the related party transactions necessary to clarify the significance of these transactions to its operations; and
  - e) Amounts or appropriate proportions of outstanding items
- ULB should disclose:

- a) The aggregate remuneration and compensation of key management personnel and the number of individuals;
- b) Loans and Advances given to Key Managerial Personnel.

## **27.10.12. Disclosure on the face of Income and Expenditure account**

- a) 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.
- b) For other relevant disclosers refer Form AC-26.

## **27.10.13. Disclosure on Fixed Assets (ASLB-17)**

- The financial statements should disclose, for each class of Fixed Assets recognised in the financial statements: (a) The measurement bases (i.e., cost model or revaluation model) used for determining the gross carrying amount; (b) The depreciation methods used; (c) The useful lives or the depreciation rates used;
- The financial statements should also disclose for each class of fixed assets recognised in the financial statements: (a) The existence and amounts of restrictions on title, and property, plant and equipment pledged as securities for liabilities; (b) The amount of expenditures recognised in the carrying amount of an item of property, plant and equipment in the course of its construction; (c) The amount of contractual commitments for the acquisition of property, plant and equipment; and (d) If it is not disclosed separately on the face of the statement of income and expenditure, the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in the statement of income and expenditure.
- If a class of fixed assets is stated at revalued amounts, the following should be disclosed:
  - a) The effective date of the revaluation
  - b) Whether an independent valuer was involved
  - c) The methods and significant assumptions applied in estimating the assets' fair values;
  - d) The revaluation surplus or deficit exhibited asset class-wise;

## **27.10.14. Disclosure on Intangible Assets (ASLB-31)**

- An ULB should disclose the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:
  - a) Useful lives and amortisation rate used;
  - b) The amortisation methods used;
  - c) The gross carrying amount and any accumulated amortisation (aggregated with accumulated impairment losses) at the beginning and end of the period;

## 27.10.15. Disclosure on Inventories (ASLB-12)

- The financial statements should disclose:
  - a) The accounting policies adopted in measuring inventories;
  - b) The total carrying amount of inventories;
  - c) The carrying amount of inventories pledged as security for liabilities; and
  - d) Value of Inventory lying with the contractors.

## 27.10.16. Disclosure on Borrowings (ASLB-5)

- The financial statements should disclose:
  - a) the accounting policy adopted for borrowing costs incurred specifically for the acquisition, construction or production of a qualifying asset; and
  - b) the amount of borrowing costs capitalised during the period; and
  - c) Loans disbursed directly to an Executing Agency, specify the name of the Project for which such loan is raised.

- A table with the following details should be disclosed:

Name of Lender	Original Amount of loan and outstanding;	Rate of Interest	Repayment period	Extent of repayment made during the year	Amount Outstanding at the end of the Year

- The details of mortgage or lien on properties and receivables and nature of Security and guarantees given;
- In case of Bonds and Debentures, indicate the earliest date of redemption

## 27.10.17. Disclosure on Provision against doubtful receivables

- For property tax and other revenues which are material in nature, ageing analysis should be provided in the Balance Sheet.
- For property tax and other revenues which are material in nature, an ULB should disclose:

Carrying amount at the beginning of the year	Additional Provisions made during the Year including decrease in existing provisions	Amounts used during the year (Incurred and charged against the provision)	Unused Amount reversed during the year
1	2	3	4

## 27.10.18. Contingent Liabilities (ASLB-19)

- An ULB should disclose for each class of contingent liability (Such as Claim against the ULB not acknowledged, Liability towards unexecuted contracts, Guarantee given by ULB, etc.) at the reporting date, a brief description of the nature of the contingent liability and, where practicable:
  - a) An estimate of its financial effect
  - b) An indication of the uncertainties relating to the amount or timing of any outflow; and
  - c) The possibility of any claim

## 27.10.19. Disclosure on Investment

- The following disclosures in financial statements in relation to investments are appropriate: — Aggregate amount of quoted investments and market value thereof
- Aggregate amount of unquoted investments
- Maturity value of investments, wherever applicable;

## 27.10.20. Disclosure on Provision for Retirement benefits (ASLB-39)

- An ULB should disclose the following information:
  - a) Detail of the pension benefit plan;

- b) Detail of the other terminal benefit plan;
- c) Detail of the actuarial valuation (where applicable); and
- d) The number of members benefited by the plan;

## 27.10.21. Disclosure on PPP Projects

- An ULB (as grantor) should disclose the following information in respect of service concession arrangements in each reporting period:

<b>Name of the Project</b>	
<b>Name of the Concessioner</b>	
<b>Concession period</b>	
<b>Type of concession (description of concession)</b>	
<b>Total concession value</b>	
<b>Amount paid during the Financial Year</b>	
<b>Amount to be paid in the next Financial Year</b>	
<b>In case of revenue sharing agreement, indicate the amount receivable for the Financial Year</b>	

## 27.10.22. Disclosure on Addition/ Merger of Local Bodies

- a) Names of the local bodies merged
- b) Authority under which the merger has taken place
- c) Effective date of merger
- d) Principles adopted for consolidation
- e) Total amount of Assets and Liabilities taken over.
- f) In case of demerger, the demerged ULB should disclose the total amount of Assets and Liabilities transferred

## 27.10.23. Disclosure on Bank Accounts

ULB should disclose the following for all Bank accounts

Bank account name	Bank account number	Nature of Bank account (Receipt/Payment/Both)	Balance as per books of account	Balance as per bank statements	BRS completed

## 27.10.24. Disclosure on the face of Balance Sheet

Refer to Schedule B-22 above for all the disclosures required on the face of Balance Sheet.

## 27.11. Financial Ratio Analysis

27.11.1 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.

27.11.2 On preparation of Financial Statements, the Accounts Department shall compute and present the following Financial Ratios.

27.11.3 The Financial Ratios shall be calculated by the Accounts Section as shown in following Table:

### Financial Ratios as on.....

S. No.	Financial Ratio	Method of Computation	Schedule to be Referred	Description of the Ratio
<b>Income Ratios</b>				
1	Tax Revenue to Total Income Ratio (%)	$\frac{\text{Tax Revenue}}{\text{Total Income}} \times 100$	I-1	These ratios depict the share of each income in the Total Income of the ULB. Higher share of an individual income in the total income shows a high dependability on that source and therefore a high risk. The ULB should try and develop other sources of income to reduce this risk
1A	Property Taxes to Total Income Ratio (%)	$\frac{\text{Property Taxes}}{\text{Total Income}} \times 100$	I-1	
1B	Other Taxes to Total Income Ratio (%)	$\frac{\text{Other Taxes}}{\text{Total Income}} \times 100$	I-1	
2	Assigned Revenues & Compensations to Total Income Ratio (%)	$\frac{\text{Assigned Revenues and Compensations}}{\text{Total Income}} \times 100$	I-2	
3	Rental income from Municipal Properties to Total Income Ratio (%)	$\frac{\text{Rental Income from Municipal Properties}}{\text{Total Income}} \times 100$	I-3	
4	Fees & User Charges to Total Income Ratio (%)	$\frac{\text{Fees & User Charges}}{\text{Total Income}} \times 100$	I-4	

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S. No.	Financial Ratio	Method of Computation	Schedule to be Referred	Description of the Ratio
5	Revenue Grants, Contributions & Subsidies to Total Income Ratio (%)	<u>Revenue Grants, Contributions &amp; Subsidies</u> X 100 Total Income	I-8	
Expense Ratios				
6	Establishment Expenses to Total Income Ratio (%)	<u>Establishment Expenses</u> X 100 Total Income	I-10	These ratios depict the share of each expense in the total income of the ULB. The ULB should try and keep these ratios as low as possible so that a higher surplus can be earned. However, this should not be at the sacrifice of service to the people.
7	Administrative Expenses to Total Income Ratio (%)	<u>Administrative Expenses</u> X 100 Total Income	I-11	
8	Operations & Maintenance to Total Income Ratio (%)	<u>Operations &amp; Maintenance</u> X 100 Total Income	I-12	
9	Interest Expense to Total Income Ratio (%)	<u>Interest Expense</u> X 100 Total Income	I-13	
Net Income Ratios				
10	Cash Surplus/Deficit to Total Income Ratio (%)	<u>Cash Surplus or Deficit</u> X 100 Total Income  Cash Surplus or Deficit is obtained from Receipts & Payments Account as difference between Operating Receipts and Operating Expenses	Receipts and Payments Account	This ratio indicates the cash surplus or deficit generated as a percentage to the total income of the ULB
Efficiency Ratios				
11	Collection efficiency	<u>Collections x100</u> <u>/Average Gross property tax receivable</u> Where average Gross Property Tax (P.T.)	B15, I-1	This ratio indicates the collection efficiency of the ULB.

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S. No.	Financial Ratio	Method of Computation	Schedule to be Referred	Description of the Ratio
		$\text{Receivable} = (\text{Opening PT Receivable} + \text{Closing PT Receivable}) / 2$		
12	Gross Property Tax Receivables Ratio (no. of Days)	<u>Average Gross Property Tax Receivable</u> X 365 Demand for Property Tax Raised during the Year	B15, I-1	These ratios indicate the average number of days for which the receivables are outstanding on an average. The ULB should try and keep these days very low.
13	Property Tax Receivable to Property Tax Income Ratio (%)	<u>Current Year Property Tax Receivable at the end of the Year</u> X 100 Current Year Demand for Property Tax Raised during the Year  Where Property Tax receivable is only in respect of the Financial Year under consideration and represents gross amount receivable at the end of the year (i.e. without deducting provision for unrealized property tax)	B-15, I-1	This ratio indicates property tax outstanding as a percentage of current year's demand of property tax. Efforts should be made to keep this ratio as low as possible
14	Inventory Ratio (No of Days Consumption)	<u>Average Stock</u> X 365 Store consumed during the Year  Where average Stock = (Opening Stock +	B-14	The ratio shall be calculated in respect of major stores of the ULB. For example, engineering store, water supply stores, electricity stores etc.



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S. No.	Financial Ratio	Method of Computation	Schedule to be Referred	Description of the Ratio
		Closing Stock)/2		The ratio indicates the average number of days stock lying with the ULB. High number of days would indicate that the ULB buys a lot of stock in advance, which if avoided can result in less blockage of money in stock. The number of days should be decided based on the emergency nature of the item and the time it would take to procure items from the suppliers.
15	Operations & Maintenance to Gross Fixed Asset Ratio (%)	<u>Operations &amp; Maintenance</u> X 100 Gross Block of Fixed Assets (as at the end of the year)	I-12, B-11	This ratio indicates expenses incurred towards repairs and maintenance as a % of gross block of fixed assets. Although this is an essential expense to keep the assets in good working condition, higher ratio could indicate either bad maintenance or inefficient usage of the asset or frequent usage of the asset or frequent repairs to the same asset, both of which needs to be investigated
16	Interest Expense to Loans Ratio (%)	Total interest payable for the year x 100 / average loan at the beginning and end of	B-5	This ratio indicates the range of interest expenditure on loans availed by the ULB. The

# UTTARAKHAND MUNICIPAL ACCOUNTING MANUAL

S. No.	Financial Ratio	Method of Computation	Schedule to be Referred	Description of the Ratio
		the year.		ULB should compare this with other ULBs and Government bodies to ensure that loans are availed at competitive rates
Leverage Ratios				
17	Loans to Own funds Ratio or Debt-Equity Ratio (times)	<u>Loans</u> Reserves & Surplus + Municipal fund	B-1,2,3,4	This ratio measures the use of debt finance as a percentage to own funds of the ULB
18	Interest Coverage Ratio (times)	<u>Surplus+ Depreciation+ Interest (Including interest capitalized) /</u> Interest (including interest capitalized)	B-9, I-13	This ratio indicates the comfort level with which the ULB can meet its interest burden. The ratio is very important from the lender's point of view.
19	Debt Service Coverage Ratio (times)	<u>Surplus+ Depreciation+ Interest (Including interest capitalized) /</u> Debt instalments (instalments include principal and interest) to be serviced (paid) during the next year	Register of Loans	This ratio indicates the comfort level with which the ULB can service (pay) its debt instalments and meets its interest burden. This ratio is very important from the lender's point of view also.
Investment Ratios				
20	Earmarked Fund Investments to Earmarked Funds Ratio (%)	<u>Earmarked Fund Investments</u> X 100 Earmarked Funds	B-2, 11	This ratio indicates the percentage of earmarked funds invested by the ULB
21	Interest on Investments Ratio (%)	<u>Interest earned</u> X 100 Total investments	B-10	This ratio indicates the range of interest earned on investments made by the ULB. The ULB should compare this with other

# UTTARAKHAND MUNICIPAL ACCOUNTING MANUAL

S. No.	Financial Ratio	Method of Computation	Schedule to be Referred	Description of the Ratio
				ULBs and Government bodies to ensure that investments are made at best rates.
Liquidity Ratio				
22	Current Assets to Current Liabilities Ratio (times)	<u>Current Assets</u> / Current Liabilities	B-5 to 8 & 12, 15	This ratio indicates the ability of the ULB to meet its obligations in the short run (usually one year)
Asset Ratios				
23	Fixed Assets to Total Assets Ratio (%) Performance Ratios	<u>Fixed Assets</u> X100 Total Assets	B-11	This ratio indicates the share of fixed assets in the total assets of the ULB
24	Income per Employee (Rs)	<u>Total Income as per Income &amp; Expenditure Account</u> / No. of Employees of the ULB	-	These ratios indicate average income earned and average expenditure incurred per employee and per person of the ULB.
25	Expenditure per Employee (Rs)	<u>Total Expenditure as per Income &amp; Expenditure Account</u> / No. of Employees of the ULB	-	These ratios should be compared with other ULBs and Government Bodies to benchmark the performance of the ULB with others
26	Income per citizen (Rs)	<u>Total income as per income &amp; expenditure account</u> / Population in the Municipal Area	-	
27	Expenditure per citizen (Rs)	<u>Total Expenditure as per Income &amp; Expenditure Account</u> / Population of the Municipal Area	-	

## Annexure-3: Format of City Management Report (illustrative)

### CITY MANAGEMENT Report of \_\_\_\_\_(Name of the ULB)

This report is an overview of the performance of the (Name of ULB) during the Financial Year Financial Year \_\_\_\_\_. This report forms part of the Annual Performance Report of the ULB.

#### Significant Activities During the Year

*<Here, some of the significant achievements during the year should be highlighted services wise. They could be in the areas of governance, service delivery, access or quality of services. Illustrations such as charts and graphs may be used to present the activities in a visual manner.>*

#### Future Plans

*<The significant future plans of the ULB including changes / improvements in services as well as governance should be mentioned in this section.>*

Compliance with laws and regulations and actions taken or being planned to tackle potential problems.

<Detail if required otherwise this section can be deleted>

Significant events, conditions, trends and contingencies that may affect future operations

<Detail if required otherwise this section can be deleted>

#### Financial Trend

*<In this section, bring out the financial trend over the last 3-5 years highlighting the changes in major revenue items (e.g. forming 10% or more of fund income) and major expenditure items (e.g. constituting 10% or more of fund expense). Major changes in assets and liabilities, receivables and payables should also be explained. Illustrations such as charts and graphs may be used in order to present it visually.>*

#### Financial Highlights

The ULB's assets have increased / decreased by \_\_\_\_\_ lakhs, primarily due to \_\_\_\_\_. Of this, a significant investment has been made in (Function, for example Roads). This is expected to lead to \_\_\_\_\_

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The ULB's liabilities have increased / decreased by \_\_\_\_\_ lakhs, primarily due to \_\_\_\_\_. Of this, significant liability has been incurred in (Function, for example Roads), due to \_\_\_\_\_.

The summarized Balance Sheet as on\_(date) and three previous years is given below:

Summarised Balance Sheet of <Name of ULB> (Rs. In Lakhs)

Particulars	Current Year	Previous Year	Previous Year-1	Previous Year-2
<b>ASSETS</b>				
1. Fixed Assets (Net)	xxxx.xx	xxxx.xx	xxxx.xx	xxxx.xx
2. Investments	xxxx.xx	xxxx.xx	xxxx.xx	xxxx.xx
3. Net Current Assets(Current Assets - Current Liabilities)	xxxx.xx	xxxx.xx	xxxx.xx	xxxx.xx
4. Other Assets	xxxx.xx	xxxx.xx	xxxx.xx	xxxx.xx
5. <b>TOTAL (1+2+3+4)</b>	xxxx.xx	xxxx.xx	xxxx.xx	xxxx.xx
Particulars	Current Year	Previous Year	Previous Year-1	Previous Year-2
<b>LIABILITIES</b>				
6. Fund Balance	xxxx.xx	xxxx.xx	xxxx.xx	xxxx.xx
7. Earmarked Funds and Reserves	xxxx.xx	xxxx.xx	xxxx.xx	xxxx.xx
8. Contributions & Grants for Specific Purpose	xxxx.xx	xxxx.xx	xxxx.xx	xxxx.xx
9.Loans and Borrowing	xxxx.xx	xxxx.xx	xxxx.xx	xxxx.xx
<b>10.TOTAL (6+7+8+9)</b>	xxxx.xx	xxxx.xx	xxxx.xx	xxxx.xx

- During the year, the ULB has made revenue expense of \_\_\_\_\_ lakhs and capital expense of \_\_\_\_\_ lakhs. This is \_\_\_\_\_ (in Rs. lakhs & percentage change) more / less than expenditure incurred during the previous year.
- Own Source revenue of the ULBs was Rs. \_\_\_\_\_ lakhs, an increase / decrease of \_\_\_\_\_ percent over the previous year. Own source revenue made up \_\_\_\_\_ percent of revenue receipts during the year, compared to \_\_\_\_\_ percent in the previous year.
- As per the Income & Expenditure Account, the ULB had a surplus / deficit on revenue account amounting to Rs. \_\_\_\_\_ lakhs. The performance trend over the last 3 years is as follows:

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Particulars	Current Year	Previous Year	Previous Year-1	Previous Year-2
<b>INCOME</b>				
1.Tax Income (% of Own revenues)	XXXX.XX (xx.x%)	XXXX.XX (xx.x%)	XXXX.XX (xx.x%)	XXXX.XX (xx.x%)
2. Non-Tax Income (% of Own revenues)	XXXX.XX (xx.x%)	XXXX.XX (xx.x%)	XXXX.XX (xx.x%)	XXXX.XX (xx.x%)
3.Own Source Income (1+2) (% of Total Income)	XXXX.XX (xx.x%)	XXXX.XX (xx.x%)	XXXX.XX (xx.x%)	XXXX.XX (xx.x%)
4. Assigned Revenues from the State	XXXX.XX	XXXX.XX	XXXX.XX	XXXX.XX
5.State Transfers / Grants	XXXX.XX	XXXX.XX	XXXX.XX	XXXX.XX
<b>6.Total Income (3+4+5)</b>	XXXX.XX	XXXX.XX	XXXX.XX	XXXX.XX
<b>EXPENDITURE</b>				
7. Salaries & Establishment	XXXX.XX	XXXX.XX	XXXX.XX	XXXX.XX
8. Operations & Maintenance	XXXX.XX	XXXX.XX	XXXX.XX	XXXX.XX
9. Depreciation	XXXX.XX	XXXX.XX	XXXX.XX	XXXX.XX
10. Others	XXXX.XX	XXXX.XX	XXXX.XX	XXXX.XX
<b>11. Total Revenue Expenditure (7+8+9+10)</b>	XXXX.XX	XXXX.XX	XXXX.XX	XXXX.XX
<b>12. Revenue Surplus / (Deficit) (6-11)</b>	XXXX.XX	XXXX.XX	XXXX.XX	XXXX.XX

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## Budget Variations

<This section should bring out the reasons for variation between the budget and actual incomes and expenditure for the year under review for key items.> This shall be in the form of a statement as below:

Code No.	Head of Account	Budget Estimate (Rs.)	Actual during the FY (Rs.)	Variance (%) Rs.	Remark
1	2	3	4	5=(4-3)/3	6
	<b>REVENUE RECEIPTS (Put Sub Ledger in which variance is more than 25%)</b>				
110	Tax revenue				
120	Assigned Revenues & Compensation				
130	Rental income from Municipal Properties				
140	Fees & User charges				
150	Sale & Hire charges				
160	Revenue Grants, contribution & subsidies				
170	Income from Investments – General Fund				
171	Interest earned				
180	Other income				
	<b>Sub-total</b>				
	<b>REVENUE EXPENDITURE (Put Sub Ledger in which variance is more than 25%)</b>				
210	Establishment Expenses				
220	Administrative Expenses				
230	Operations & Maintenance				
240	Interest & Finance charges				
250	Programme Expenses				
260	Revenue Grants, contribution & subsidies				
271	Miscellaneous Expenses				
	<b>Sub-total</b>				

## Response to Major Audit Qualifications

*<In this section, the ULB shall respond to any comments and qualifications mentioned in the Financial Statement Auditor's report, stating the facts of the matter and the steps taken in respect of those qualifications.*

## Further Information to the Public

This report is designed to provide our citizens, taxpayers and creditors with a general overview of the city's finances and to show the city's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact

*<Name and Designation>, at\_<Contact details including Phone / Fax and email, if available>.*

Municipal Commissioner / Executive Officer \_\_\_\_\_



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A report card on the status of important civic services and certain cost and performance indicators of \_\_\_\_\_ <name of City> for the year \_\_\_\_\_ is given below:

Sl. No	Particulars	Current Year*	Previous Year
Basic City Statistics			
1.	Area of City (sq. km)		
2.	Population <mention census year> Estimated No. of Households		
3.	SC / ST Population <mention year> BPL Population <mention year> Slum Population <mention year>		
4.	Literacy rate % (Men, Women) <mention year>		
5.	No. of Properties in the city (as per property tax records) Residential Commercial Industrial Vacant Land TOTAL		
ULB Details			
6.	Year of establishment of ULB		
7.	No. of Wards		
8.	Council Members Men Women Total SC/ST Council Members (out of total)		
9.	No. of employees of the ULB		
Service Status (report only on services provided by ULB)			
10	Water Supply (LPCD) <u>Normal Season</u> Surface Water Underground Water <u>Scarcity Season</u> Surface Water Underground Water	Current Year	Previous Year

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11.	Water Supply Connections (as per ULB records) Residential Commercial Industrial		
12.	Length of Roads (km) Metalled Asphalt Concrete Others		
13.	Streetlights (No) High-mast Sodium Vapour Mercury Vapour Tube lights Others		
14.	Solid Waste Management (MT per day) Generated Collected Disposed in Landfills		
15.	Sewerage / Drainage (km) Surface drains (Road side drains) Underground Sewerage / Drainage Others		
16.	Sewerage Connections (as per ULB records) Residential Commercial Industrial Others		
17.	Other facilities (No.)  Municipal Hospitals and Number of Beds Municipal Dispensaries		

# UTTARAKHAND MUNICIPAL ACCOUNTING MANUAL

	<p>Ambulances Municipal Schools</p> <p>Students in municipal schools Municipal Markets</p> <p>Area of Municipal Markets (Sq. metres) Electrical crematoria</p> <p>Public burial ground</p> <p>Public burning ground</p>		
<b>Cost of Services</b>			
18.	<p>Supply of Water (per litre)</p> <p><i>&lt;Expense under Water Supply Function/water supplied during the year&gt;</i></p>		
19.	<p>Maintenance of Roads (per km)</p> <p><i>&lt;Expenses under Road function / road length&gt;</i></p>		
20.	<p>Maintenance of streetlights (per unit)</p> <p><i>&lt;Expenses under streetlight function / no. of units&gt;</i></p>		
21.	<p>Solid Waste Management (per MT)</p> <p><i>&lt;Expenses under SWM function / Generation of solid waste&gt;</i></p>		
22.	<p>Sewerage / Drainage maintenance (per km)</p> <p><i>&lt;Expenses under Sewerage / Drainage function / Length of drains/ sewers&gt;</i></p>		
23.	<p>Recovery of water cost (per litre)</p> <p><i>&lt;Revenue under Water Supply Function / water supplied during the year&gt;</i></p>		
24.	<p>Recovery of Solid Waste Management (per MT)</p> <p><i>&lt;Revenue under SWM function / Generation of solid waste&gt;</i></p>		
<b>Financial Indicators</b>			
	Performance		
25.	<p>Surplus / (Deficit) to Total Income Ratio... (%)</p> <p><i>&lt;Surplus or Deficit / Total Income&gt;%</i></p>		
26.	<p>Income per Employee... (Rs.)</p> <p><i>&lt;Total Income / No. of Employees&gt;</i></p>		

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27.	Expense per Employee... (Rs.) <Total Expenditure / No. of Employees>		
28.	Income per Citizen... (Rs.) <Total Income / Population >		
29.	Expense per Citizen... (Rs.) <Total Expense / Population >		
	Efficiency Ratios		
30.	Current Year Property Tax Collection Ratio...(%) (Property Tax collected for Current year/ Property Tax demand for Current Year)x100		
31.	Arrears Property Tax Collection Ratio ... (%) <(Opening Balance of Arrear Property tax Receivable - Closing Balance of Arrear Property Tax Receivable) / Opening Balance of Arrear Property Tax Receivable)>%		
32.	Maintenance of Assets ratio ... (%) <Operations & Maintenance expense / Fixed Assets>%		
33.	Loans to Reserves Ratio ... (times) <Total Loans / (Fund Balance +Reserves& Surplus)>		
34.	Debt Service Coverage Ratio...(times) <(Surplus + Depreciation + Interest expense+ Interest capitalised)/Debt instalments to be serviced (paid) + Interest to be paid in the next year)>		
	Asset Ratio		
35.	Fixed Assets to Total Assets Ratio... (%) <Net Fixed Assets / Total Assets>%		

## Chapter 28: Audit

*This chapter of the manual covers an overview of the audit procedures that the auditor appointed may adopt and follow at the time of auditing the financial statements of each ULB.*

### 28.1. Statutory Audit

- 28.1.1. Statutory Audit refers to an audit carried out under a statute. The audit of ULB will be carried out as per the Municipalities Act and Corporations Act. The Act prescribes that state will decide the manner in which accounts shall be audited and published and the power of auditors in respect of disallowance and surcharge. Currently the State has vested the power of audit to Directorate of Audit Uttarakhand.
- 28.1.2. Directorate of Audit conducts two types of audit for ULB: (a) Financial Attest Audit and (b) Detailed Compliance Audit.

### 28.1. Financial Attest Audit by the Director, Audit

- 28.1.3. The Directorate of Audit either through its staff or CA firms would carry out annual audit of the Financial Statements of the ULB and will issue an audit report. The audit of the Financial Statements shall be carried out primarily to establish that they represent a true and fair view of the affairs of the ULB.
- 28.1.4. ULB should submit their annual accounts by 30<sup>th</sup> June every year to the auditors. The ULB shall at the time of audit produce all accounts, registers, documents and subsidiary papers which may be required by the auditors to assist them in their audit.
- 28.1.5. The Financial Statements submitted for audit would include the following:
- Balance Sheet
  - Income and Expenditure Statement
  - Receipts and Payments Account (Optional for Audit)
  - Notes to Accounts (containing Significant Accounting Policies and Disclosures)
  - Cash flow statement
- 28.1.6. The auditor shall perform the audit in such manner, as defined in the Audit manual, Government of Uttarakhand. The format of the report would be as per the audit manual. The major types of audit reports are: Unqualified Audit Report (Clean Audit Report),

Qualified Audit Report, Disclaimer Audit Report and Adverse Audit Report. Format of Unqualified Audit Report is given in Annexure-6.

- 28.1.7. The Director, Audit shall upon completion of audit, issue the Audit Report along with the certified Financial Statement and annexures to the authorities of ULBs. The audit is expected to be completed and the report is to be issued on or before December 31 of every year to the ULB.
- 28.1.8. The Commissioner/ Executive Officer shall prepare a report on the qualifications and comments made by the Auditor. This report shall be an integral part of the Annual Report. The Commissioner/Executive officer shall in his report include his comments on the audit report of the Director, Audit stating clearly the facts of the matter and steps taken in respect of the qualifications mentioned in the audit report.
- 28.1.9. Management representation to the auditor: A Management representation letter should be signed by the Head of the ULB, where the Audit will be conducted. If management refuses to provide representation on any matter that the Auditor considers necessary, this will constitute a limitation to the scope of preparation of the Financial Statements. Format of Management representation letter is given in Annexure-4.
- 28.1.10. The Annual Financial Statements shall be approved by the Commissioner/ Executive Officer and shall be placed along with the report of the Auditor before the Executive Committee latest by one month from receipt of Audit report.
- 28.1.11. The Executive Committee shall prepare an Action Taken Report on the Annual Financial Statements submitted taking into consideration the qualification and comments made in the report of the Auditor.
- 28.1.12. The ULB shall consider the audit report at a special meeting, held within one month from the receipt of the report, together with an explanation on the part of the ULB staff on each of the points raised in the report. The ULB should also pass a resolution or resolutions expressing its opinion on each of the points and the action to be taken.
- 28.1.13. The action taken report shall be submitted to Director, Audit, and Director, Urban Development, Uttarakhand within a month of the meeting. A copy of the report shall be kept in the ULB office and shall be placed before the inspecting officers.
- 28.1.14. Subsequent correspondence in respect of settlement audit objections shall be conducted directly between the ULB and the Director, Audit, Uttarakhand.

28.1.15. The Executive Committee shall approve the Annual Financial Statements and Report and place them before the General Body on or such date as may be specified. The General Body shall adopt the Annual Report not later than such date as may be specified in the Acts.

28.1.16. The final audit report would be hosted by the ULB in their website.

28.1.17. Additional matters to be reported: Currently additional areas/matters are not prescribed in the Act or Rules. The key areas to be reported by the Auditor as part of the Financial Attest Audit is given in Annexure – 7. If they are prescribed in future by the state, the audit report should include them.

## Detailed Transaction Audit by the Director, Audit

28.1.18. In addition to the Financial Attest audit, certain ULBs will be selected for conducting detailed audit of transactions. Such audit shall include Propriety, Compliance and Performance aspects. The period and scope of Audit coverage will be decided by the Directorate of Audit in consultation with Urban Development Directorate.

28.1.19. Detailed Audit is normally conducted by the Directorate of Audit, Uttarakhand in cases as deemed required by the Directorate of Audit. The scope and timing of the audit is decided by the Directorate of Audit.

28.1.20. The primary objective of detailed audit is to verify the transactions and whether these transactions conforms to the concept of Regularity, Propriety and Value for Money Audit (VFM) and internal control mechanism. The basic principle of detailed audit is to ensure:

- ▶ expenditure are incurred in compliance with relevant rules, regulations and orders etc.
- ▶ professional due care is taken while incurring expenditure from public money
- ▶ activity and programme or an organisation operates economically, efficiently and effectively
- ▶ internal control mechanism of the auditee designed and operated effectively to prevent the risk of fraud, embezzlement and serious category errors or irregularity throughout the year
- ▶ maintenance of books of accounts.

- 28.1.21. A comprehensive report on auditee's financial data, non-financial data, regularity and propriety of the expenditure, assessment internal controls mechanism and performance of the schemes and projects. Further details are provided in the audit manual.

## **28.2. Internal Audit of Municipal Corporations by the Chief Municipal Auditor (CMA)**

28.2.1. Internal Audit of Municipal Corporation: As per section 142 of the Municipal Corporation Act 1959, the inspection and audit of accounts of Municipal Corporation will be conducted by Chief Municipal Auditor (Mukhya Nagar Lekha Parikshak).

28.2.2. CMA duties are as follows:

- The audit of all payments shall be conducted as soon as the payment is made.
- The audit of all receipts shall be made as soon as it is entered in the municipal general Cash Book/Bank Book.
- The audit will cover all operational areas of the corporation and include review of the internal control framework
- The audit of subsidiary records shall be made daily or at the end of the month, as it may be convenient.
- The irregularities found during the course of audit shall be incorporated in the objection statements which shall be issued to the departmental officer for compliance. The departmental officers will return the objection statements together with their comments about the action taken for the settlement of the objection. If any serious irregularity is detected the CMA will bring it immediately in the notice of the Commissioner.

28.2.3. CMA reporting

- The CMA shall put up monthly audit report containing the serious irregularities and other related important matters, before the Executive Committee of the Municipal Corporation. The Executive Committee will consider on the above report within 15 days of its receipt and take appropriate action on it.
- The CMA shall also prepare an annual audit report in two parts:-
  - Audit Note dealing with the matters of such general and important nature which were brought into the notice of the concerned official through monthly audit report, the actions taken by the officers will also be mentioned in the report.
  - The objection statement containing outstanding objections relating to the technical irregularities, omission and defects.



- The executive committee shall consider upon the explanations furnished by the concerned officials on each and every point raised in the audit report within two months from the date of its receipt. The Executive Committee shall pass a resolution in which it will express its opinion. Audit report together with opinion and comments of the Executive Committee will be placed before the ensuing meeting of the general body of the municipal corporation for taking such actions which the corporation may think proper and essential. The CMA will be informed about the action taken on audit report within a week of the meeting of the municipal corporation.
- If there is a difference of opinion between the Municipal Corporation and CMA, the matter will be referred by Commissioner to the State Government whose decision will be final.

28.2.4. Audit verification by CMA should include at least the following:

- Whether all the expenditure incurred by the ULB are authorised by appropriate provision in the sanctioned budget, whether made originally or subsequently?
- Whether all sums due to and received by the ULB have been brought to account within the prescribed time limits?
- Whether the ULB carried out reconciliations as mentioned in UMAM?
- In case of any material discrepancies have been noticed on physical verification of stores / fixed assets, whether the same have been properly dealt with in the books of account?
- Whether the valuation of stores is in accordance with the accounting principles laid down in the Account Manual?
- Whether there exists an adequate internal control procedure for the purchase of stores, including components, plant and machinery, equipment and other assets?
- Whether proper procedures are in place to identify any unserviceable or damaged stores/ fixed assets and whether provision for the loss in this respect, if any, has been made in the accounts?
- Whether any personal expenses have been charged to revenue account; if so, the details thereof.
- Recommendation to ULB on best practices in respect of presentation and disclosure of annual accounts

## **28.3. Internal Audit for Nagar Palika Parishad and Nagar Panchayat**

28.3.1. Any Nagar Palika Parishad or Nagar Panchayat may decide to either appoint audit staff or appoint external CA Firms to conduct Internal Audit of their ULB. In such cases, the

procedure will be similar as given in Para 27.2.2 above. Further, ULB may decide the scope of Audit for each audit period.

28.3.2. A sample format of Internal Audit Report is given in Annexure-5.

## **28.4. Technical Guidance and Supervision (TGS) Audit**

28.4.1. The State has entrusted test audit of ULBs to C&AG under technical guidance and supervision arrangement. C&AG carries out sample audits annually and submits the consolidated ATIR (Annual Technical and Inspection Report), which is placed before State Legislature.

## **28.6. Special Audit**

The State Government may at any time direct special examination and audit of ULBs accounts for such period as they think fit by auditors appointed by the State Government in that behalf and a report of such examination and audit shall be submitted by the said auditors to the State Government.

## **28.7. Information Systems Audit**

Information Systems Audit is an examination of management controls within an information technology infrastructure. The key objective is to verify whether IT system and control is adequate and effective, Robustness of security control, effective monitoring and evaluation system is in place, Integration with other software and modules are working effectively, etc. The State Government may from time to time appoint auditor for this purpose.

## Annexure-4: Management Representation Letter

(Entity Letterhead)

(To Auditor)

(Date)

This representation letter is provided in connection with your audit of the Financial Statements of ..... for the year ended ....., for the purpose of expressing an opinion on whether the Financial Statements exhibit a true and fair view in accordance with the applicable financial reporting framework in Uttarakhand

We confirm that (to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves):

### Financial Statements

- ▶ We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated [insert date], for the preparation of the Financial Statements in accordance with (applicable financial reporting framework); in particular, the Financial Statements are fairly presented (or give a true and fair view) or prepared in all material respects in accordance therewith.
- ▶ Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- ▶ All events subsequent to the date of the Financial Statements and for which (the applicable financial reporting framework) requires adjustment or disclosure have been adjusted or disclosed.
- ▶ The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the Financial Statements as a whole. A list of the uncorrected misstatements is attached to the representation letter.
- ▶ [Any other matters that the auditor may consider appropriate]

### Information Provided

- ▶ We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the Financial Statements, such as records, documentation and other matters;
  - Additional information that you have requested from us for the purpose of the audit; and

- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- ▶ All transactions have been recorded in the accounting records and are reflected in the Financial Statements.
- ▶ We have disclosed to you the results of our assessment of the risk that the Financial Statements may be materially misstated as a result of fraud.
- ▶ We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
  - Management;
  - Employees who have significant roles in internal control; or
  - Others where the fraud could have a material effect on the Financial Statements.
- ▶ We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's Financial Statements and communicated by employees, former employees, analysts, regulators or others.
- ▶ We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations, the effects of which should be considered when preparing Financial Statements.
- ▶ [Any other matters that the auditor may consider necessary]

**Name & Signature of authorised official**

## **Annexure-5: Internal Audit Report structure and format (Illustrative)**

1	Executive Summary
1.1	Introduction
1.1.1	Name of the Municipality
1.1.2	Period covered under current audit
1.1.3	Name of the Mayor/ Chairman of the ULB for the period under Audit
1.1.4	Name of Commissioner/EO for the period under Audit
1.2	Results and Findings
1.2.1	Strengths observed during the audit engagement.
1.2.2	Weaknesses observed in the functioning of office, maintenance of records etc. observed during the audit engagement.
1.3	Opinion
1.4	Audit Recommendations
1.5	Comments from Management
1.6	Acknowledgement
1.7	Management Discussion with Probable risk
2	Scope of Audit- Mention the coverage of Scope
3	Auditee Profile
3.1	Introduction
3.2	Administration/organizational Structure of ULB
3.3	Review of outstanding audit paras/status of previous open audit observations
3.4	Finance
3.4.1	Analysis of budgeted expenditure with Actual Expenditures
3.4.2	Analysis of Volume of current period transactions with previous period transactions in respect of receipt and expenditure
3.4.3	Bank reconciliation
3.4.4	Analysis of head wise Revenue & Capital Receipts of current period with previous period
3.4.5	Analysis of head wise Revenue & Capital expenditure of current period with previous period
3.4.6	Status of implementation of Double Entry Accounting System as per updated UMAM
3.4.7	Status of Municipal Accounts Committee meetings
4	Summary Audit Observations
4.1	Part – A (Monetary Implications)
4.2	Part-B (Non-Monetary Implication)
4.3	Part-C (Other)
	Each Audit Observation should be in brief and supporting evidence or list or statement should be attached as annexure with reference. In addition, observations should be structured as described: - Criteria, Condition, Consequence/Effect/Impact & Cause

## Sample Observations and Reporting

### Introduction

1. Municipality details
  - a. Municipality details [About the Municipality, Demographics, Organisation hierarchy. Details to be provided in Annexure]
  - b. Audit Period [ period covered in this Audit, brief of last Audit periods]
  - c. Manpower strength in Accounts department and Deployed manpower [brief here, details in Annexure]
  - d. Revenue of the Municipality [Summary of major head-wise revenue and variation with Budget. Detailed variance analysis is to be provided in Annexure]
  - e. Expenditure of the Municipality [Summary of major head-wise revenue and variation with Budget. Detailed variance analysis is to be provided in Annexure]
2. Scope of this Audit [as Scope of Internal Audit might vary from one Audit period to another, scope is to be provided here]
3. Methodology adopted to conduct the Audit [Discussion with Management, Department-wise Audit programme, Sampling technique, Extracting reports/ documents from Computerised/ manual system, Review of last Audit reports and compliance thereof, Observations and discussions, Final Audit paras, Discussion with Management, Finalisation of Report]
4. Observations and Recommendations
5. Acknowledgement

## Audit Observations

### 1. Objective of Audit during Audit period [Period]-

Heads	Assertions	Remarks
Occurrence, rights and obligations	Events for recorded transactions have been occurred and pertains to the Municipality	Yes/No/ Observations
Completeness	All transactions which should have been recorded, have been recorded	Yes/No/ Observations
Accuracy	Accounting data have been recorded appropriately	Yes/No/ Observations
Cut-off	Transactions and Events have been recorded in correct accounting period	Yes/No/ Observations
Classification	Transactions and Events have been recorded in correct account	Yes/No/ Observations
Existence	Assets and Liabilities exist as recorded	Yes/No/ Observations
Rights and Obligations	Municipality holds or controls right over Assets, and obligation on liabilities	Yes/No/ Observations
Valuation and allocation	Assets, Liabilities, Equity interests are recorded in appropriate value or allocation adjustments are appropriately recorded	Yes/No/ Observations
Disclosure	All necessary disclosures have been disclosed in Financial Statements	Yes/No/ Observations
Classification and understandability	Financial information is appropriately presented and described, and disclosures are clearly recorded	Yes/No/ Observations

### 2. Observations on maintenance of Books and Registers:

- i. During the course of our audit we have encountered such position where the authenticity of the accounts maintained in the designated software (Payroll software procured during the year) are questionable such as the balance as shown in respective schedules are not matching with the closing Financial Statements. It has already been brought to the notice of the concerned authority for such type of irregularities.
- ii. Complete migration of single entry to double entry system of accounting- At present both the systems of accounting i.e. single entry system of accounting and double entry system of accounting (partly) are in place. However, day-to-day entries are being made

- in Receipt/Payment mode. At period-end, accrual entries are being made to make the Accounts in somehow ABDEAS. It is improper method of accounting, and it is advised to commence making entries in ABDEAS mode with immediate effect.
- iii. It is observed that the Municipality has not updated some of the prescribed registers & records as per UMAM-2019 and is in the process of updating the same. Further the ULB needs to regularize and update the following registers;
    - Fixed Assets Registers with respect to Land, Immovable property, Public Lighting System & other assets.
    - Cheque Issue/Receipt Registers & Stale Cheque Registers.
    - Investment Register,
    - TDS Register, GST register, etc.
  - iv. Wherever the Books of Accounts are maintained manually, the Books of Accounts, Registers, Receipts, Bill books and other Accounting Records and Registers shall be affixed with the Seal of the Municipality and each of the pages of the aforesaid records shall be serially numbered and the number of pages of each Book or Register shall be certified in writing on the last page, after actual verification, by the proper authority or any other person duly authorized by him. Such authentication is missing in substantial number of cases.
  - v. It has been observed that the [Municipality] has maintained its books of account in multiple places in the premises of Municipality office which results in lack of timely proper co-ordination amongst the departments, which leads to failure in furnishing various Statutory Returns & payments on due date and also failure to maintain records as per UMAM.
  - vi. It is being found that at present the Municipality is maintaining separate register for each department w.r.t grant, utilization, advance, etc. However, if the Municipality maintains the consolidated register consisting under a single head of each department, timely reconciliation can be done.

**Recommendation:** We recommend that the [Municipality] should maintain registers and records in strict adherence of UMAM for enabling better compliance, accounting and reporting in time-bound manner [Municipality]. Further it is being advised that the [Municipality] should implement robust co-ordination mechanism across all departments of the Municipality to enable better control over the accounts and timely compliance.



### 3. Observations on Internal Control system:

- i. As the Municipality has only one Staff in Accounts department, fundamental of Maker-Checker concept fails and quality of accounts preparation is compromised. It is advised to depute/recruit appropriate accounting staffs on urgent basis.
- ii. The Municipality did not maintain registers as prescribed in UMAM. Accordingly, reconciliation is almost all major accounts could not be performed.
- iii. The Municipality has not conducted any physical verification procedure on Fixed Assets and Stores since last ..... years. Accordingly, the year-end quantity and value of such items are highly doubtful.
- iv. There is no structured mechanism to safeguard Municipal properties.
- v. It has been observed that the Municipality could earn more revenue from Property Tax, Trade Licence, Rent, etc. Due to lack of appropriate data, Analysis and absence of thrust on revenue enhancement procedures, the Municipality has been losing revenue year after year.

**Recommendation:** We recommend the [Municipality] should follow and implement internal control mechanism as per UMAM and take appropriate measures to narrow down the control weaknesses.

### 4. Observations on Financial Accounting:

Topic	Observations
Secured Loans	[Municipality] has taken loans from ...., .... and .... Bank without proper security. However, the same has been shown under Secured Loans.
Current Liabilities - Security Deposit from contractors	[Municipality] deducts the security from the contractor bills at the time of payment and the same is deposited into the bank account (account separately maintained for the security deposits) and payments are made from the same account after completion of the contract. However, in case of .....[Contractor, Work reference] the Security deposit has been adjusted with Running Bills
Current Liabilities- Contractors Liabilities	There is no mechanism of booking of contractor's liabilities as and when the Works department submits the completion certificate (Running Account Bill or Final Bill) but the same is accounted for only at the time when the payment is made. We suggest that whenever the Invoice raised by the contractor /supplier or the bill is prepared by the Works/ concerned department, the same must be informed to the accounts department immediately so that the same is accounted for as per accrual system of accounting so that expense/depreciation is accounted for accordingly.

# UTTARAKHAND MUNICIPAL ACCOUNTING MANUAL

Topic	Observations															
	<p>Payables It has been observed that there is some debit balances lying in various payable head, which needs to be rectified or reconciled with Books and records. The detail lists are provided in the below table.</p> <table><tr><th>Account Code</th><th>Name of Account</th><th>Opening Balance (Rs)</th><th>Closing Balance (Rs)</th><th>Unreconciled Amount (Rs)</th></tr><tr><td></td><td></td><td></td><td></td><td></td></tr><tr><td></td><td></td><td></td><td></td><td></td></tr></table>	Account Code	Name of Account	Opening Balance (Rs)	Closing Balance (Rs)	Unreconciled Amount (Rs)										
Account Code	Name of Account	Opening Balance (Rs)	Closing Balance (Rs)	Unreconciled Amount (Rs)												
Current Liabilities Gratuity to Staff	Gratuity is accounted for on payment basis. No fund has been created to set aside the gratuity liability. We suggest that Accrual entry is booked once the liability is determined.															
Fixed Assets and Intangible Assets	<p>In the following cases, it is observed that the expenditure incurred to make the new assets usable, has been booked in Income &amp; Expenditure Account instead of adding to the Value of Asset.</p> <p>.....</p> <p>In the following cases, it is observed that the borrowing expenditure post-capitalisation of Fixed Asset have been added to Fixed Assets, instead of taking the expenditure to Income &amp; Expenditure Account.</p> <p>.....</p> <p>Software purchased for maintaining Payroll for Rs..... has been charged off to Income &amp; Expenditure account, instead amortising during next .....years.</p>															
Sundry Debtors	<p>Sundry Debtors on account of Property Tax receivable, are subject to reconciliation with the Tax department.</p> <p>Receivable on account of rent from .....Market could not be reconciled due to non-updation of Rent register</p>															
Stores	There is no Balance shown in Accounts as on 31-03-xxxx on account of Stores, though there are items in approved Stores ledger. Accordingly, it is evident that, year-end Stores have not been valued as per UMAM.															
Bank Balance	Bank balances are subject to confirmation as opening bank reconciliation statement is not available as bank balances [of.....Bank] remains unreconciled for many years.															

# UTTARAKHAND MUNICIPAL ACCOUNTING MANUAL

Topic	Observations
	Though the PLA Account (No.....) has been reconciled regularly, the withdrawal on account of disbursement of Salary has been taken to another Bank account (No.....). In almost all cases, such withdrawals are more than the amount required. No reconciliation has been carried out on this account.
Revenue Recognition	Property tax has been recognized on receipt basis. Also, there is no system to recognise revenue in cases of "Self-Assessment". Rental income has been recognised on receipt of Rent. No provision has been made for doubtful receivables We suggest that revenue recognition is to be made as per UMAM.
Expenses	Expenses have been recognized on accrual basis, except the following cases: .....  Bills received after cut-off date 15 <sup>th</sup> April, has been recognised in previous year in following cases: .....
Depreciation	In following cases, depreciation has been provided either at lower rate or nil rate, which should have been provided as per rates provided in UMAM: .....  Depreciation on following depreciable Asset (created out of grant fund) has not been accounted for as per UMAM .....
Grant	i. As per UMAM, a Grant Register in Form [xxxx] is being maintained by the [Municipality] in respect of grants, to record receipts and utilization of grants thereof. However, the Municipality is advised to properly maintain the updated registers w.r.t. specific contributions received & utilization thereof for the purpose specified.  ii. It has been seen that the [Municipality] has multiple departments & each department has maintained their respective registers, but it will be proper if there is timely reconciliation should be made of grant receipt & utilised by them with the accounts department. In the absence of this, there is some amount of debit balances lying in the various grant fund of the

# UTTARAKHAND MUNICIPAL ACCOUNTING MANUAL

Topic	Observations																												
	<p>[Municipality]. A detail list grant showing debit balances in accounts of ULB are provided here under.</p> <table><tr><th>Account Code</th><th>Name of Account</th><th>Opening Balance (Rs)</th><th>Closing Balance (Rs)</th><th>Unreconciled Amount (Rs)</th></tr><tr><td></td><td></td><td></td><td></td><td></td></tr><tr><td></td><td></td><td></td><td></td><td></td></tr><tr><td></td><td></td><td></td><td></td><td></td></tr></table> <p>Therefore, we recommend to the [Municipality] to reconcile the grant details of respective department with the accounts department. Also recommend that maintain detailed register.</p>	Account Code	Name of Account	Opening Balance (Rs)	Closing Balance (Rs)	Unreconciled Amount (Rs)																							
Account Code	Name of Account	Opening Balance (Rs)	Closing Balance (Rs)	Unreconciled Amount (Rs)																									
Trade Licence	<p>The ULB had a total consumer of around [number] out of which trade license fees is being collected from around [number] consumers till date. The ULB is advised to collect the balance amount from the concerned consumers within this Financial Year. Also, thrust may be given to use alternative procedures to bring in more trades under net.</p>																												
Fee from Advertisement	<p>i.The tendering for advertisement are made each year by the ULB, however no party is interested to participate in the tendering process, as a result of which the ULB has collected the advertisement fee as per the rate fixed in this regard previously.</p> <p>ii.During the Financial Year xxxx-xx, the details list of advertisement collection on which the ULB should collect and deposit with the Authority the GST which is provided below. Details of Advertisement collection on which the ULB has not charged GST during the [Financial Year]</p> <table><tr><th>Month</th><th>Due Date</th><th>Bill Amount</th><th>GST</th><th>Delay in Month</th><th>Interest and Penalty</th><th>Total Tax</th></tr><tr><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr><tr><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr><tr><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr></table>	Month	Due Date	Bill Amount	GST	Delay in Month	Interest and Penalty	Total Tax																					
Month	Due Date	Bill Amount	GST	Delay in Month	Interest and Penalty	Total Tax																							
Parking Fee	<p>The ULB has leased out to third parties the parking area for the collection of parking fees. As per the lease agreement between the ULB with the</p>																												

Topic	Observations																												
	<p>concerned third party, the third party should pay the lease collection to the ULB on or before xxth day of following month and also there is a penal clause for the default. However, in most of the cases the 3rd party has failed to pay the fees on due date, but the ULB has not collect the pena amount from the lessee.</p> <p>Hence, we advise to the ULB to take necessary actions to collect penalty from such defaulter parties in this regard. Also, proper tender mechanism should be followed for selection of vendors.</p> <p>A detailed of such failure by the concerned parties is annexed here under.</p> <table><tr><th colspan="7">Delay in receipt of Parking Fees from Lessee</th></tr><tr><th>Month</th><th>Amount</th><th>Due date</th><th>Collection date</th><th>Receipt no.</th><th>Delay in days</th><th>Financial Impact</th></tr><tr><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr><tr><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr></table> <p>The ULB should bring in proper contract management process.</p>	Delay in receipt of Parking Fees from Lessee							Month	Amount	Due date	Collection date	Receipt no.	Delay in days	Financial Impact														
Delay in receipt of Parking Fees from Lessee																													
Month	Amount	Due date	Collection date	Receipt no.	Delay in days	Financial Impact																							
Advance	<p>Advance ledger was not maintained properly. As a result, the category wise break up of actual outstanding advance till 31.3.20xx is not worked out. The ULB is required to maintain the register of outstanding advance properly. Further, an amount of Rs.xx crore is lying unadjusted in the head Advance to other, but the detail of which are not properly explained to us by the concerned officer. A detailed workout of old outstanding advances still pending unadjusted needs to be write-off in the books of account with proper procedure.</p>																												

## 5. Statutory Compliance

### a. Income Tax Deducted at Source (TDS)

It has been observed that the Municipality is irregular to pay the tax deducted by it from the different parties on or before due date to the credit of Central Government. A detail list of which is provided here under.

Statement showing the detail on which the ULB has failed to deposit the TDS with in due date for the [Financial Year]

Vendor	PAN	Deduction date	Bill Amount	Rate of Tax	Tax Amount	Due Date	Payment Date	Challan No.

*Recommendation:*

- i. It is being advised that the ULB should pay the statutory liability on or before due date.*
- ii. Reconcile periodically i.e. monthly or yearly all types of statutory due with the registers.*

- b. GST TDS deducted, lying with Municipality as on [date].....Statement as above
- c. Similar audit for Provident Fund, GST collected, Cess collected, etc

## 6. Audit of Departments of the Municipality

[Internal Audit is to cover audit of each of following Departments of the ULB. Typical topics to cover are, fulfilment of departmental obligations, Inter-departmental co-ordination wrt flow of records/information, maintenance of departmental records as per UMAM, reconciliation with accounts Department, procurement process, etc]

- a) Tax and Assessment
  - b) Public Works Department
  - c) Licence
  - d) Establishment
  - e) Collection
  - f) Stores
  - g) Health and Education
  - h) Birth and Death registration
  - i) Solid waste Management, etc
7. Annexures

## Annexure-6: Independent Auditor's Report

### 1) Unmodified Opinion

#### Independent Auditor's Report

To,

The Members of Governing Body of ULB

Full address of the ULB

#### Opinion:

We have audited the accompanying Financial Statements of the **{insert name of ULB}**, which comprise Balance Sheet as at 31 March 20....., and Income and Expenditure Statement and Cash Flow Statement for the year then ended, and Notes to Financial Statements, including a summary of Significant Accounting Policies.

In our opinion, the accompanying Financial Statements give a true and fair view, in all material respects, of the financial position of the **{insert name of ULB}** as at 31 March 20....., and its incomes and expenditures and its cash flows for the year then ended in accordance with Uttarakhand Municipal Accounting Manual, XXX (UMAM).

#### Basis for Unmodified Opinion

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of .....**{insert name of the ULB}** in accordance with our Code of Ethics together with ethical requirements that are relevant to our audit of the Financial Statements in India and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Emphasis of Matter

**To be reported wherever applicable.** *{The auditor should describe the matters on which they wish to draw emphasis}*

Our opinion is not modified in respect of this matter.

#### Responsibility of Management of **{insert name of the ULB}** for the Financial Statements

Management of **{insert name of the ULB}** is responsible for the preparation of Financial Statements that give a true and fair view in accordance with Uttarakhand Municipal Accounting Manual, XXX. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act and the Rules and

thereunder and the Uttarakhand Municipal Accounting Manual for safeguarding of the assets of the **{insert name of the ULB}** and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error. The Management of **{insert name of the ULB}** is responsible for overseeing the financial reporting process.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

## **Report on Legal, Regulatory and Other Requirements**

**To be reported wherever applicable.** *(A checklist has been provided in the annexure which will be updated on regular basis and notified by the state.)*

**Signature of the Auditor**

**Date:**

**Place:**



## Appendix to Independent Auditor's Report

As part of an audit in accordance with ISSAIs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risk of material misstatement of the financial statements, whether due to fraud and error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide basis for our opinion. The risk of not detecting material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on effectiveness of the organization's internal control.
- Evaluate the appropriateness of accounting policies used and reasonableness of accounting estimates and related disclosure made by the management.
- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves true and fair view.

We communicate to Management of ..... **{insert name of ULB}** regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide to Management of .....**{insert name of ULB}** a statement we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationship and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

## **Annexure – 7: ULB special reporting by the auditors**

### **I Fixed Assets**

- a) Whether the ULB is maintaining Fixed Asset Register showing full, including quantitative details and situation of all Fixed Assets?
- b) Whether these Assets have been physically verified by the management at reasonable intervals; whether any material discrepancies were noticed on such verification and if so, whether the same have been properly dealt with in the books of account?
- c) Whether the title deeds of all the immovable properties (other than properties where the ULB is the lessee and the lease agreements are duly executed in favour of the lessee) disclosed in the financial statements are held in the name of the ULB?
- d) Whether the ULB has revalued its Fixed Assets, if so, whether the revaluation is based on the valuation by a Registered Valuer; specify the amount of change?

### **II Inventories**

- a) Whether ULB has reasonable system of recording receipts issues and usage of inventories?
- b) Whether physical verification of inventory has been conducted at reasonable intervals by the management and whether, in the opinion of the auditor, the coverage and procedure of such verification by the management is appropriate?

### **III Debtors**

- a) Whether the ULB has updated DCB register for all receivables due to the ULB?
- b) Whether the receivables amount as per the DCB registers and the receivables amount as per financial statements are matching or is there any variance?

### **IV Bank balances and reconciliation**

- a) Whether all bank balances have been reconciled by the ULB?
- b) Whether confirmation of bank balances, have been received from all bank accounts and Fixed Deposits?

### **V Statutory dues**

- a) Whether the ULB is regular in depositing Provident Fund dues and other employee dues deducted with the appropriate authorities and if not, the extent of arrears?
- b) Whether the ULB is regular in depositing tax deducted at source (income tax and GST) and other statutory dues, and if not, the amount not deposited?

### **VI Grants to be received**

- a) Whether any grants from government are due and if so, please provide the year wise break up?

- b) Whether the amounts received as specific grants have been utilized for the purposes as stated in the grant sanction order?

## **VII Internal audit**

- a) Whether the ULB has an internal audit system commensurate with the size and nature of its business?

## **VIII Loans Taken (Only if applicable)**

- a) Whether ULB has taken any loans? Whether ULB has defaulted in repayment of loans if yes, the period and the amount of default to be reported?
- b) Whether the ULB has taken any loans to meet the obligations of its subsidiaries/associates/joint ventures, if so, details thereof with nature of such transactions and amount in each case?

## **XI Investments in SPVs (Only if applicable)**

- a) Whether ULB has invested in equity of any SPV? If so, what is the invested amount and the current value of such investments?

## **X Municipal Bonds (Only if applicable)**

- a) Whether the ULB has issued municipal bonds. If yes what is the outstanding amount and when it is maturing? Is a suitable escrow/sinking fund created for repayment of bonds?
- b) Is there any default in repayment of bonds?
- c) Whether moneys raised by Bonds during the year were applied for the purposes for which those are raised, if not, it may be reported?

## **XI Related Party Transactions**

- a) Whether there are any related party transactions to be reported for the year?

## **XII Other Matters**

- a) Whether in respect of all bills for works, proper M-books and bills have been maintained and that no deviation has been made without the sanction of the competent authority?
- b) Whether the parties to whom the loans, or advances in the nature of loans, have been given by the ULB are repaying the principal amounts as stipulated and are also regular in payment of the interest and if not, whether reasonable steps have been taken by the ULB for recovery of the principal and interest?
- c) Whether ULB follows e-procurement and all purchases above a defined threshold is carried out using e-procurement?
- d) Whether books and records as mandated by Act/Rules/UMAM maintained?

**Appendix – I: Budget, MIS and Costing**

**Appendix – II: Chart of Accounts, Opening Balance Sheet and Forms & Format**