

**STRUCTURED TRAINING MODULE**  
**ON**  
**CERTIFICATION AUDIT**  
**OF**  
**URBAN LOCAL BODIES**  
*(Municipalities)*



**Regional Training Institute, Kolkata**  
**Indian Audit and Accounts Department**  
**June 2010**



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**Course Design for Training Programme on Certification Audit  
of Urban Local Bodies (Municipalities)**

Day	Pre – Lunch Session	Post Lunch Session
	10.30 hrs. to 11.45 hrs. – Tea Break for 15 mnts.- 12.00 hrs. to 13.15 hrs.	14.15 hrs. to 15.30 hrs.-Tea Break for 15 mnts.- 15.45 hrs. to 17.00 hrs.
1 <sup>st</sup> day	<p><b>SESSION 1:</b></p> <ul style="list-style-type: none"> <li>• Certification Audit – An Introduction</li> <li>• Accounting Concepts and Principle.</li> </ul> <p>Introduction to Accrual Based Accounting System</p>	<p><b>SESSION 2:</b></p> <ul style="list-style-type: none"> <li>• Understanding Guidelines for preparation of Opening Balance Sheet</li> <li>• Understanding Guidelines for preparation of the Assets and Liabilities, Immovable and Movable Assets</li> <li>• Understanding Guidelines for determination of value of Current Assets and of Loans / Borrowings</li> <li>• Accounting Entry for incorporation of Balance in the Opening Balance Sheet</li> <li>• Familiarisation with Format of Opening Balance Sheet</li> </ul> <p>Exercise</p>
2 <sup>nd</sup> day	<p><b>SESSION 3:</b></p> <ul style="list-style-type: none"> <li>• Understanding Charts of Accounts</li> <li>• Familiarisation with Formats of Financial Statements</li> </ul> <p>Exercise</p>	<p><b>SESSION 4:</b></p> <p>Points to be seen during Certification Audit of Financial Statements.</p>
3 <sup>rd</sup> day	<p><b>SESSION 5:</b></p> <p>Familiarisation with ‘PURO-HISAB’ – Accounting Software of ULBs</p>	<p><b>SESSION 6:</b></p> <p>Case Studies</p> <p>Valediction</p>

# **SESSION 1**

## **SESSION TITLE:**

- **INTRODUCTION TO CERTIFICATION  
AUDIT;**
- **ACCOUNTING CONCEPTS  
AND**
- **ACCRUAL BASED  
ACCOUNTING SYSTEM**

<b>SESSION TITLE: Introduction to Certification Audit; Accounting Concepts and Accrual Based Accounting System</b>		<b>Session Guide</b>
<b>INSTRUCTOR'S GUIDE</b>	<b>Reference</b>	<b>Participants' Response</b>
<b>SESSION OVERVIEW</b>		
<p><b>Welcome participants</b> to the session and remind them that their active participation is critical for the success of each session.</p> <p><b>Tell them</b> that this session is an introductory session where Certification Audit; Accounting Concepts and Accrual Based Accounting System in respect of ULBs will be discussed briefly.</p>	Lecture	
<b>BASIC CONCEPT</b>		
<p><b>Introduce participants</b> to the Accounting Concept, Entity Concept, Money Measurement Concept, Cost Concept, Accrual Concept, Capital and Revenue Expenditure Concept, Income and Expenditure Concept, Accounting Principles, Principle of Materiality, Principle of Consistency, Accrual, Double Entry System of Accounting.</p> <p><b>Introduce participants</b> to the Benefits of Accrual System of Accounting, difference between Single Entry Cash Basis and Double Entry Accrual Basis of Accounting, basic rules of Accounting.</p> <p><b>Introduce participants</b> to the Accounting Principles of Accrual Based Accounting System.</p>	<ul style="list-style-type: none"> <li>• Lecture</li> <li>• SESSION 1 PowerPoint Presentation</li> </ul>	
<b>APPLICATION</b>		
<p><b>Distribute Exercise – Session 1</b> among participants;</p> <p><b>Issue instruction</b> for time allowed writing answer with individually effort;</p> <p><b>Discuss</b> the answers after expiry of allowed time.</p> <p>Distribute Participants' Note</p>	<ul style="list-style-type: none"> <li>• Exercise – Session 1</li> </ul>	
<b>SUMMARISE</b>		
Summarise the session with the mention of topics discussed during the session.		

**SESSION TITLE**

**Title: Certification Audit – an introduction; Accounting Concepts and Principle; Introduction to Accrual Based Accounting System**

**LEARNING OBJECTIVE:**

At the end of the session the participants will be able to:

Understand the meaning of Accounting Concepts and Principles and basic rules of Accounting.

Understand the meaning as well as benefits of Accrual Based Accounting System.

**SESSION OVERVIEW**

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

**CERTIFICATION AUDIT**

Certification Audit refers to an independent Auditor's opinion on the reliability of some assertions made by the audited entity (here Municipality). The opinion given by the Auditor could be on the financial statements prepared by the entity or part of a financial statement like certifying certain expenditure figure alone. In the present context, 'Certification Audit' means an Auditor's opinion on the financial statements i.e. Balance Sheets, Income and Expenditure Account etc.

During the course of certification audit of financial statements, the Auditor would check whether the statements present a true and fair view of the financial position of the auditee entity on the Balance Sheet date, results of its working during the period ending with Balance Sheet date and also ensure that requirements as stated in local or national laws, legislative requirements etc. have been followed while preparing and presenting the financial statements. This implies that the auditors should be well conversant with the accounting procedures involved in preparation of financial statements. So, in this training we will discuss the present accounting system followed by the municipalities of West Bengal, accounting principles, understanding Balance Sheet and audit of financial statements.

## BACKGROUND

The Eleventh Finance Commission (EFC) had expressed concern over the maintenance of accounts of local bodies and their audit. The Commission recommended that in view of an unsatisfactory system of accounts and audit with accounting formats not reflecting the changing realities and the lack of trained staff, the system of accounting and auditing needed improvement under the close supervision of the CAG. This was considered necessary in view of the far-reaching Constitutional amendment that empowered local governments both administratively and fiscally requiring the question of accountability of these institutions to be addressed on priority.

Based on the EFC recommendations and after issue of Ministry of Finance, Guidelines on utilization of EFC grants of 2001, CAG was entrusted with Technical Guidance & Supervision/Support (TGS) over the maintenance of accounts of local bodies and their audit, including providing technical guidance to the Director of Local Fund Audit (DLFA) in a majority of the States where 73rd and 74th amendments are applicable. However, the primary Audit of PRIs and ULBs are conducted by the Comptroller & Auditor General of India in states of West Bengal, Bihar and Jharkhand.

### States which have entrusted Audit/Technical Guidance and Support to C&AG:

Sl. No.	Name of state	Sl. No.	Name of state	Sl. No.	Name of state
1	Andhra Pradesh	9	Maharashtra	17	West Bengal
2	Assam	10	Manipur	18	Gujarat
3	Bihar	11	Orissa	19	Goa
4	Himachal Pradesh	12	Rajasthan*		
5	Jharkhand	13	Sikkim		
6.	Karnataka#	14	Tripura		
7	Kerala	15	Uttar Pradesh		
8	Madhya Pradesh	16	Uttaranchal		

\*Rajasthan Act provides for test check of PRI by AG.

#In Karnataka the 1<sup>st</sup> and 2<sup>nd</sup> tiers of PRIs are entrusted for audit to CAG u/s 19(3) of DPC Act

### States which have partially entrusted Audit/ Technical guidance and Support to C&AG:

Sl.NO	Name of the States
1	Chhattisgarh
2	Haryana
3	Tamil Nadu

### States which have not entrusted Audit/ technical guidance and Support to C&AG:

Sl No.	Name of the States
1	Arunachal Pradesh
2	Punjab

\* 73<sup>rd</sup> and 74<sup>th</sup> Amendments are not applicable in J&K, Meghalaya, Nagaland & Mizoram



The parameters of TGS to the DLFA include assistance by CAG in adopting the auditing standards, audit planning, improved audit methodologies and professional training; besides supplementing the audit done by the Local Fund Audit Department to ensure proper certification of accounts and, thereby enhance its quality. To fulfil the TGS mandate, the CAG has prescribed accounts and budget formats for PRIs, accrual accounting system for ULBs, auditing standards, guidelines for certification audit, a list of codes for programmes, functions and activities to facilitate classification of accounts.

While providing Technical Guidance and Support to the DLFA, CAG's audit expected to reflect qualitatively higher concerns for cost, efficiency and performance in respect of the schemes that the Panchayats manage, in contrast to the DLFA's concerns, which generally legalistic and focus more on observance of financial rules or government orders. CAG's audit, besides touching on these issues by way of a supplementary check of the work of DLFA, would essentially focus on performance issues. However, taking cognisance of the large scale devolution of finances and functions to institutions of local self governance without an adequate institutional mechanism and the concomitant risks flowing there from, CAG's audit has also retained audit checks necessary to focus on the more traditional audit concerns relating to fraud and corruption. Subversion of internal controls in the local bodies leading fraud, corruption, misappropriation and mismanagement of funds has been reported in CAG's audit. Strengthening internal controls aimed at institutionalising financial management and accounting best practices and systems as also capacity building within these institutions has been recommended.

CAG's audit provides the necessary audit assurance on the accounting of public funds, absence of fraud, as also efficiency in usage of funds and fulfillment of the larger objectives of decentralisation. The system of TGS strengthens the quality of accounts of local bodies besides improving the credibility of the accounts and audit of local bodies, leading ultimately to greater accountability of these institutions. The training programmes and supervision by CAG as part of TGS help in capacity building and improving the expertise of the Examiner Local Fund Audit.

A Task Force was constituted in February, 2002 by Comptroller and Auditor General of India (CAG) to recommend budget and accounting formats for Urban Local Bodies (ULBs) in India, as per 11<sup>th</sup> Finance Commission recommendation. The CAG Task Force issued a 'Report on Accounting and Budget Formats for ULBs' (report was submitted in

December, 2002). The Task Force report covered Budget and Accounting Formats and Significant Accounting Principles, Cost of important utilities and services and MIS reports. Government of India accepted the Task Force Report and forwarded the same to the State Governments for implementation in April 2003. The CAG of India with USAID - FIRE (D) support, prepared a model National Accounting Manual which has been provided to the state governments by Ministry of Urban Development. Based on this, various states along with Government of West Bengal have developed state municipal accounting manual according to their specific requirements.

Based on the National Accounting Manual prepared by the C&AG of India, Government of West Bengal has introduced Accrual Based Accounting System in all ULBs in the State. Prior to this, the ULBs were following single entry cash basis accounting. The cash basis of accounting records transactions only on receipt and payment of cash during a particular period. The cash basis method thus focuses exclusively of the most liquid and tangible asset, namely cash. The cash basis method fails the matching principle i.e. expenses must be recorded in the same period as the revenue it helped to earn. The cash basis method also allows the entities to shift expenses from one period to the next by delaying the payments. The system neither explains what the outcomes of receipt and payment were nor indicates any receivables accrued and payables incurred out of the operation during the period when such income and expenses accrue to ULBs. As a result, an analysis of the true and fair view of the activities of the ULBs is not possible.

## **ACCOUNTING CONCEPTS**

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

Accounting Concepts are as follows:

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

**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 separate legislation and the regulations formed by it. The various stakeholders of the ULB, including citizens, State Government, environmentalists, etc., do not own the ULB. Thus, a separate Balance Sheet and Income & Expenditure Statement is prepared in respect of the operations of the ULB. This concept is applicable to all forms of organisations.

**DUAL ASPECT OR ACCOUNTING EQUIVALENCE CONCEPT**

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 contributions of owners the surpluses of the entity or loans or payables. In a sense, such providers of funds are claimants to the assets. At any point in time, the assets will be equal to the claims. Since the claims on the assets could be those of “outsiders” (i.e. liabilities) or “owners” (i.e. capital, reserves, etc.), it results in the accounting equation:

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

**GOING CONCERN CONCEPT**

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

**MONEY MEASUREMENT CONCEPT**

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

**COST CONCEPT**

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

**ACCOUNTING PERIOD CONCEPT**

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.

**ACCRUALS AND DEFERRALS CONCEPT**

Under the cash system of accounting, the revenues and expenses are recorded only if they are actually received or paid in cash, irrespective of the accounting period to which they belong. But under the accrual concept, occurrence of claims and obligations in respect of incomes or expenditures, assets or liabilities based on happening of any event, passage of time, rendering of services, fulfillment (partially or fully) of contracts, diminution in values, etc., are recorded even though actual receipts or payments of money may not have taken place. In respect of an accounting period, the outstanding expenses and the prepaid expenses and similarly the income receivable and the income received in advance are shown separately in the books of accounts under the accrual method.

For example; the ULB did not receive the water charges for water supplied to customer during the year. It must be recorded as income in the income and expenditure statement and accounts receivable in the balance sheet. Similarly, say, salaries earned by employee have not been paid. It must be recorded with the amount to be paid, as salaries expenses in the income and expenditure statement and salaries payable to balance sheet.

Deferrals means something has already been entered in the accounting records, but the amount needs to be divided up between two or more accounting periods. Deferrals or deferral-type adjusting entries can pertain to both expenses and revenues.

**Deferral of Expenses:** Say, one company may have paid on March 1 the entire bill for the insurance coverage for the six-month period of March 1 through August 31. However, as of March 31 only one month of the insurance is used up. Hence the cost of the remaining five months is deferred to the balance sheet account Prepaid Insurance until it is moved to Insurance Expense during the months of March through August. If the company prepares monthly financial statements, a deferral-type adjusting entry may be needed each month in order to move one-sixth of the six-month cost from the asset account Prepaid Insurance to the income statement account Insurance Expense.

**Deferral of Revenues:** Deferrals also involve revenues. For example if a company receives Rs.6000 on March 1 in exchange for providing a monthly service from March 1 through August 31, the accountant should "defer" Rs.5000 of the amount to a liability account **Unearned Revenues** and allow Rs.1000 to be recorded as March service revenues. The Rs.5000 in 'Unearned Revenues' will be deferred until April through August when it will be moved with a deferral-type adjusting entry from Unearned Revenues to **Service Revenues** at a rate of Rs.1000 per month.

#### **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.

#### **CAPITAL AND REVENUE EXPENDITURE CONCEPT**

The accounts under the accrual system are prepared by dividing the expenditures into capital or revenue expenditure. A *capital expenditure* is an amount spent to acquire or improve a long-term asset such as equipment or buildings. Usually the cost is recorded in an account classified as Property, Plant and Equipment. The cost (except for the cost of land) will then be charged to depreciation expense over the useful life of the asset.

A *revenue expenditure* is an amount that is expensed immediately—thereby being matched with revenues of the current accounting period. Routine repairs are revenue expenditures because they are charged directly to an account such as Repairs and Maintenance Expense. Even significant repairs that do not extend the life of the asset or do not improve the asset (the repairs merely return the asset back to its previous condition) are

revenue expenditures. It is the operational expenditure of a going concern which results in profit or surplus of income.

### **INCOME AND EXPENDITURE CONCEPT**

This concept is quite different from receipts and payments of cash. Income connotes receipts and / or receivables {for certain in a manner} with element of regularity and / or by virtue of legal / constitutional / contractual status of the entity arising out of its activities in a given period and the expenditure connotes expenses and charges (cash or non-cash) for continuing the activities in the same period including the payables incurred and all possible charges for diminution anticipated and/ or as per rule / policy regarding the value of working fixed assets, receivables (doubtful, erosion in investment, exchange fluctuation etc.), stores (always valued at cost or marked price whichever is less) and unusable / impaired assets.

### **ACCOUNTING PRINCIPLE**

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

- a. Principle of Disclosure;
- b. Principle of Materiality;
- c. Principle of Consistency; and

### **PRINCIPLE OF DISCLOSURE**

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

### **PRINCIPLE 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 informed creditors, lenders, investors, citizen and other stakeholders. The accounts and the financial statements should impart importance to all material information so that true and fair view of the state of affairs of the entity is given to its beneficiaries. Hence, keeping the Principle of materiality in view, unimportant items are not disclosed separately and are merged with other items. For example, the

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

### **PRINCIPLE OF CONSISTENCY**

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

### **DOUBLE ENTRY SYSTEM OF ACCOUNTING**

In the Double Entry system of accounting each and every transaction involves two heads of accounts. All the heads of accounts are categorised under three groups i.e.

1) Real Account – the accounts relating to the property of the entity are called real accounts. The real account may be sub-divided as, (a) Tangible real accounts: these are the accounts of the properties which can be touched and seen *e.g.* land, building, plant furniture vehicles etc. (b) Intangible real accounts: the accounts of the properties which can not be touched or seen but can be used as right *e.g.* goodwill, patent, copyright etc. While recording receiving (increase) is debited and giving away (decrease) is credited.

2) Personal Account – the accounts of the persons with whom various transactions are entered into are known as personal accounts. The personal accounts are further classified as, (a) Natural Personal Accounts: the accounts of persons made of flesh and bone are called as natural person's account *e.g.* Abhishek's account, Lata's account, Sujoy's account etc. Here the receiver is debited and giver is credited. (b) Artificial Personal Account: the persons are not made of flesh and bones but treated as persons in the eye of law. They can sue and be sued for their omissions and commissions *e.g.* companies, banks, cooperative societies, trusts etc. (c) Representative Personal Account: the accounts prepared to represent natural or artificial persons are called representative personal accounts. These are prepared for the convenience of recording of transactions. One particular account may represent hundreds or thousands of persons *e.g.* any expense outstanding, expenses prepaid, income accrued etc. Salary due account will represent the salary amount still payable to the staff members.

3) Nominal Account - the accounts of expenses, losses, incomes or gains are known as nominal accounts e.g. rent account, loss by theft account, interest received account, profit on sale of machinery account. Here expense and charges are debited and receipts are credited.

Accounting heads falling under 1&2 above form part of Balance Sheet. The accounting heads falling under 3 above form part of Income & Expenditure Statement.

Double entry system is extended to include accrual accounting in which transactions that involve accrued (not actually received) income and / or obligation payable (not actually paid), are also accounted for. Entry of such transactions is possible only in the Double entry system of accounting. Under the system following three principal reports are generated:

<b>Statement</b>	<b>Purpose</b>
Receipts & Expenditure <i>Payment Statement</i>	It is in the nature of annual Cash Bank Book showing major accounts head-wise cash receipt and expenditure payment.
Income & Expenditure Statement or Profit & Loss Statement	Account for revenue receipts and expenses to determine the performance of the entity at the end of a period.
Balance Sheet	It is the list of sources and applications of funds i.e. list of Liabilities and Reserves & Surplus and list of Assets and Revenue Losses. It helps to assess the financial strength of the entity.

### **BENEFITS OF ACCRUAL SYSTEM OF ACCOUNTING**

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

➤ Revenue is recognised as it is earned and thus “Income” constitutes both revenue received and receivable. The accrual basis not only records the actual income but also highlights the level and efficacy of revenue collection, thereby assisting decision makers in taking financial decisions.

➤ Expenditure is recognised as and when the liability for payment arises and thus it constitutes both amount paid and payable. In accrual basis of accounting, expenditure incurred on repairs and maintenance shall be recognised as expense of the period in which they are incurred and, if not paid for during the year, shall be treated as a liability (payable) and be disclosed as such in the Balance Sheet.



➤ Expenses are matched with the income earned in that year. Thus, it provides a very effective basis to understand the true performance of the organisation for the operations that is conducted in that year.

➤ A distinct difference is maintained between items of revenue nature and capital nature. This helps in correct presentation of financial statements, viz., the Income and Expenditure Statement and the Balance Sheet.

➤ Costs which are not charged to Income & Expenditure Account are carried forward and kept under continuous review. Any cost that appears to have lost its utility or its power to generate future revenue is written-off.

➤ The surplus or deficit as shown at the year-end represents the correct financial position of the organisation arising out of the various transactions during that year.

➤ It facilitates proper financial analysis and reporting.

➤ It captures “full” cost of servicing and helps in identifying financial viability of rendering services.

➤ It helps in providing timely, right quality and nature of information for planning, decision-making and control at each level of management.

➤ It assists in effective follow-up of receivables by the municipal body and proper ascertainment of payables by the municipal body.

➤ One of the distinct advantages of adopting accrual accounting system is ease in financial appraisals by the financial institutions. It also facilitates credit rating through approved Credit Rating Agencies, which is a pre-requisite for mobilising funds in the financial markets through debt instruments.

➤ It presents a true picture of the financial position of an organisation and helps in better financial management.

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

### **DIFFERENCE BETWEEN SINGLE ENTRY CASH BASIS AND DOUBLE ENTRY ACCRUAL BASIS OF ACCOUNTING**

The major difference between single entry cash basis of accounting and double entry Accrual basis of accounting is summarised in the following table:

<b>Basis of Distinction</b>	<b>Single entry cash basis of accounting</b>	<b>Double entry Accrual basis of accounting</b>
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Nature of transaction	All receipts and all payments in cash during a particular Accounting Period are recorded irrespective of the fact whether the transactions actually belong to that period or not.	All income and expenses relating only to a particular Accounting Period are recorded, whether these have been actually received or paid in cash or no.
Accounts	Only personal accounts and Cash Book are opened	Personal, Real and Nominal accounts are opened
Accuracy of results	Accuracy of transactions cannot be verified since all entries are on single entry basis and also no trial balance can be prepared.	Since all transactions have a double effect and are on double entry basis, a trial balance can be prepared to check the arithmetical accuracy of the transactions.
Financial Performance	Financial performance of an entity cannot be ascertained, as no Income and Expenditure Statement can be prepared.	Financial performance of an entity can be ascertained by preparing the Income and Expenditure Statement.
Financial position	A Balance Sheet cannot be prepared; only a Statement of Affairs can be prepared which does not give the true and fair view of the entity.	The correct financial position of an entity can be ascertained by preparing a Balance Sheet which gives a true and fair view of the entity.
Authenticity		

Through this Accrual Based System the following reports are generated:

- Trial Balance
- Income and Expenditure Statement
- Balance Sheet
- Receipt and Payments Accounts and
- Cash Flow Statement.

## RULES OF ACCOUNTING

The basic rules of accounting flow from the accounting equation:

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

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

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

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

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

It is customary to use the term “Debit” and “Credit” to communicate the above phenomenon.

The rules of debits and credits are as follows:

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

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

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

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

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

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

- It is a payment and not expense. Therefore it does not pass through I&E a/c

## ACCOUNTING PRINCIPLES AS PER ACCOUNTING MANUAL FOR URBAN LOCAL BODIES OF WEST BENGAL

The Financial Statements of the Urban Local Body shall contain a Statement of Significant Accounting Principles as Notes to accounts in respect of important Accounting Principles adopted in preparing and presenting such information. The following Accounting Principles shall govern the recording, accounting and treatment of transactions relating to various activities as given below:

### INCOME

#### PROPERTY AND OTHER TAXES

a. Revenue in respect of Property and Other Taxes including surcharge shall be recognised in the period in which they become due and demands are ascertainable. In case of Property Tax, accounting entries on a quarterly basis shall be recorded in the books of

accounting either on an entry in the Assessment Register or raising of the bill, whichever is earlier. In case of new or changes in assessments, it should be accrued in the month in which the demand is served. Interest element and Penalties, if any, in demand shall be reckoned only on receipt.

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

c. Revenue in respect of Advertisement tax shall be accrued either based on Demand or based on the contract. The premium amount or the lump sum amount received shall be recognized over the period of agreement.

### **WATER SUPPLY**

a. 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.

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

c. Revenue in respect of Water Tanker Charges and Road Damage Recovery Charges, Penalties shall be recognised on actual receipt.

### **RENTALS, FEES AND OTHER SOURCES OF INCOME**

a. Revenue in respect of Trade License Fees shall be recognized on cash basis.

b. Revenues in respect of rents from properties shall be accrued based on terms of agreement.

c. 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.

d. The Other Incomes, which are of an uncertain nature or for which the amount is not ascertainable or where demand is not raised in regular course of operations of the ULB, shall be recognised on actual receipt e.g. toll.

e. Interest on investment, loan and interest bearing advances is recognised on due basis.

f. Revenues from fines are recognised on cash basis, except 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. In such case, fine will be recognised after expiry of the due date.

g. In case of Public Private Partnership where the ULB along with a private concern enters into an agreement of operation or business, revenue shall be recognised on due basis.

In case of revenues generated from commercial ventures undertaken by the ULB without any private partnership, it shall also be accounted for on due basis.

h. Salami received against property shall be accounted for on receipt basis and transferred to Municipal Fund.

**COMMON ACCOUNTING PRINCIPLES OF PROPERTY AND OTHER TAXES, WATER SUPPLY AND RENTALS, FEES AND OTHER SOURCES OF INCOME**

a. Interest element and Penalties, if any, in demand shall be reckoned only on receipt.

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

c. Revenue in respect of rent of equipment provided to the contractors, deducted from their bills, shall be recognised as and when the deductions are made.

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

Sick/Closed Industries - 100% of the due

The age-wise analysis of Receivables of Property Tax shall be made a regular exercise and shown in Notes to Accounts. The age-wise analysis for receivables of arrear tax shall show separately past years' tax as under:

For the last three years	During 3-5 years	During 5-10 years	During 10-15 years	During 15 years
(a)	(b)	(c)	(d)	(e)

e. 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.

f. Refunds, remissions of incomes for the current year shall be adjusted against the income and if pertaining to previous years then it shall be treated as prior period item, wherever applicable (except where the income is recognized on cash basis).

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

h. Any subsequent collection or recovery of 'Receivables for Property & Other Taxes', 'Receivables of Water Supply Income' or 'Receivables of Rental, Fees and Other Incomes' which were already written off shall be recognised as a 'Prior Period Income'.

i. Demands raised with retrospective effect will be treated as prior period income to the extent it pertains to earlier years, wherever applicable, (except where the income is recognized on cash basis).

**ASSIGNED REVENUES**

Assigned revenues passed on by the Central/State Government Agencies to the ULB like Entertainment Tax, Duty / Surcharge on transfer of Immovable properties, shall be accounted during the year only upon actual collection.

**HEALTH AND SANITATION**

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

- i) Hospital fees, maternity homes' fees, diagnostic centre fees and dispensaries fees
- ii) Hospital training fees
- iii) Rent and/or hire charges in respect of ambulance, hearse, suction unit, meat van and road roller
- iv) Sale of fertilisers and waste, sale of animals and sale of scrap.

**EXPENDITURE****EMPLOYEE RELATED TRANSACTIONS**

- a. Expenses on Salaries and other allowances shall be recognised as and when they are due for payment (i.e. at the month end).
- b. Statutory deductions from salaries including those for income tax, profession tax, provident fund contribution, etc., shall be recognised as liability in the same period in which the corresponding salary is recognised as expense.
- c. Gratuity shall be calculated upon retirement of the employee and will be due then.
- d. Leave encashment will be recognised on actual payment basis.
- e. Pension is recognised on actual payment basis.
- f. Interest receivable on loans given to employees shall be recognised as revenue at the end of the period in which these have accrued.
- g. 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.
- h. 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.
- i. Employer's contribution to Contributory Provident Fund is recognised on due basis.

**HEALTH AND SANITATION**

- a) All revenue expenditures incurred shall be recognised on admission of the bills for payment by the ULB.
- b) Provision shall be made at the year-end for all bills received upto 31<sup>st</sup> May of next financial year or till finalisation of accounts, whichever is earlier.

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**OTHER REVENUE EXPENDITURES**

a) Other Revenue Expenditures shall be treated as expenditures in the period in which they are incurred.

b) Provisions shall be made at the year-end for all bills received upto 31<sup>st</sup> May of next financial year or till finalisation of accounts, whichever is earlier.

c) Any expenditure for which the payment has been made in the current period but the benefit and/or service is likely to arise in a future period shall be treated as an expenditure for the period in which its benefit arises and/or services are received.

d) The expenditure for the current period shall include the proportionate value of the benefits and/or services arising in the current period even if the payment therefore has been made in the previous period.

**ASSETS****PUBLIC WORKS**

a) The cost of fixed assets shall include cost incurred/money spent in acquiring or installing or constructing fixed asset, interest on borrowings attributable to acquisition or construction of qualifying fixed assets up to the date of commissioning of the assets and other incidental expenses incurred up to that date.

b) Any addition to or improvement to the fixed asset that results in increasing the utility or capacity or useful life of the asset shall be capitalised and included in the cost of asset. 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. 5000/- will be treated as Capital Expenditure and thus capitalised.

c) Assets under erection/installation on existing projects and capital expenditures on new projects (including advances for capital works and project stores) shall be shown as "Capital Work-in-Progress".

d) 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.

e) Security deposit or retention money 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.

f) Deposit received under Deposit works shall be treated as a liability till such time the projects for which money is received is completed. Upon completion of the projects, the cost incurred against it shall be reduced from the liability.

## **STORES**

a) 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. freight inward, duties and taxes, etc.

b) Accounting of 'goods received & accepted but no bills received' as at the cut off date shall be accounted based on purchase orders. The cut-off date shall be 31<sup>st</sup> May of the next financial year or till finalisation of accounts, whichever is earlier.

c) The stock lying at the period-end shall be valued at cost in accordance with the First in First out (FIFO) Method.

d) Agricultural products are valued on the basis of Net Realisable Value.

e) Inventories of consumable supplies such as stationery, fuel shall be charged to revenue at the time of purchase.

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

## **INVESTMENTS**

a) Investments shall be recognised at cost. The cost shall include other incidental expenses incurred for its acquisition e.g. brokerage.

b) All long-term investments shall be carried / stated in the books of accounts at their cost.

c) Interest on investments shall be recognised as and when due. At period ends, interest shall be accrued proportionately.

d) Dividend on investments shall be recognised on actual receipt.

e) Profit/loss, if any, arising on disposal of investment (net of selling expense such as commission, brokerage, etc) from the Municipal Fund shall be recognised in the year when such disposal takes place.

f) Income on investments made from Special Fund and Grants under specific Scheme shall be recognised and credited to Special Fund and Grants under Specific Scheme respectively, whenever accrued. Profit/loss, if any, arising on disposal of investments (net of selling expense such as commission, brokerage, etc) made from the Special Fund and Grants



under specific Scheme shall be recognised and credited/debited to Special Fund Account and Grant under specific scheme Account respectively.

### **FIXED ASSETS**

a) All Fixed Assets shall be carried at cost less accumulated depreciation. The cost of fixed assets shall include cost incurred/money spent in acquiring or installing or constructing 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.

b) 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. 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. 5000/- will be treated as Capital Expenditure and thus capitalised.

c) Any Fixed Asset, which has been acquired free of cost or in respect of which no payment has been made, shall be recorded at nominal value of Re.1/-.

d) Land acquired through purchase is recorded on the basis of aggregate of purchase price paid/ payable and other costs incidental to acquisition.

e) 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.

f) Lands that are acquired free of cost from the government or provided by individuals or institutions under endowment for specific purposes are priced at Re. 1/-. Where the ownership of the lands has not been transferred in favour of the ULB, but the land is in the permissive possession of the ULB, such lands should be included in the Register of Land with Re 1/- as its value. However their should be a clear mention in the Register that in case the Govt. takes back the land at any point of time in future, reversal of entry shall be made in the Register of Lands. Cost of developing such vested lands, if any, should be booked under the subhead 'land'.

g) Cost of land improvements such as leveling, filling or any other developmental activity is capitalised as a part of the cost of land.

h) Statues and Heritage Assets - Statues and valuable works of art will be valued at the original cost and no depreciation shall be charged thereon. In case, however, the original cost

is not available or the items have been gifted to the ULB by some other person, authorities, the value should be taken at Re 1/-. Heritage buildings declared through Gazette Notification should be booked under this head and should be valued at book value/cost of the material date. No depreciation should be charged on such buildings. However, in case of capital improvements after the building has been so notified, depreciation at the normal rate of buildings shall be charged. In case, however the book value /cost of the material date is not available or the items have been gifted to the ULB by some other person/ authorities, the value should be taken at Re 1/-. Material date in this case would be the date of Gazette Notification.

- i) Parks and Playgrounds should be capitalized under two categories, viz,
  - i. Land pertaining to Parks and Playgrounds including the cost of development of land that should be booked under 'Land'.
  - ii. Other amenities to Parks and Playgrounds that should be capitalized under the sub-head 'Parks and Playgrounds' under the head 'Infrastructure assets'.

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.

j) All lands that are under encroachment and belonging to the ULB and where it is not possible to have the land evacuated; the Board of Councillors would decide about the % of provision to be made on the cost of land. If the encroachment is for more than 2 years, provision equal to ninety percent (90%) of the carrying amount should be made.

k) Method adopted for depreciation of assets is straight-line method of depreciation, except for leasehold lands, which is amortised over its leased life. Depreciation method adopted is same for assets acquired on finance lease.

l) Useful life concept has to be applied on arriving at the rate of depreciation. Useful life has to be determined either for individual assets or for a class of assets and rate of depreciation thus arrived.

m) All assets which have fully depreciated shall carry a book value of at least Re. 1/-

n) All individual assets, whose cost is below Rs. 5,000/- (Rupees Five Thousand Only) shall be depreciated at 100% rate.

o) Assets identified and evaluated technically as obsolete and held for disposal are to be stated at their net book value or estimated net realizable value, whichever is lower.

p) Intangible assets of the ULB include computer software, which shall be valued at cost plus cost of staff time and consultants costs incurred, in implementing the software, if any. It shall be capitalized, only when the intangible asset is developed, and which can be used by ULBs' over a period of time to derive economic benefits from it. In case it is not so, the entire amount will be charged to revenue, in the year in which it is incurred. The intangible assets acquired shall be depreciated over a period of five years or useful life, whichever is earlier.

q) If the ULB has taken a loan, or other borrowings for the construction of an asset or a group of assets, then the interest would be capitalised to that particular asset or the group of assets. If a particular loan cannot be identified for a specific asset, then capitalisation would be made at weighted average rate. The weighted average rate will be applicable after taking into consideration the period of completion building of assets and the amount invested in relation thereto.

r) Borrowing cost includes -

- i. Interest and commitment charges on the bank borrowings and other short term and long term borrowings,
- ii. Amortisation of discounts or premiums related to the borrowings.

s) Capitalisation will take place when all the following conditions are satisfied.

- i. Expenditure for the construction or acquisition of the asset has been incurred.
- ii. Borrowing costs are being incurred during construction.
- iii. The activities that are necessary to prepare the asset for its intended use or sale are in progress.

t) 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.

u) Depreciation on assets on which government grant has been received, is calculated on the gross value of fixed asset i.e. without deducting the grant amount from assets value. The grant so received is charged to the income and expenditure statement in the same proportion as the depreciation charged on such assets.

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

w) 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.

## **GRANTS, BORROWINGS AND SPECIAL FUNDS**

### **GRANTS**

a) General Grants, which are of a revenue nature, shall be recognised as incomes on actual receipt.

b) Grants towards revenue expenditure, received prior to the incurrance of the expenditure, shall be treated as a liability till such time that the expenditure is incurred.

c) Grants received or receivable in respect of specific revenue expenditure shall be recognised as income in the accounting period in which the corresponding revenue expenditure is charged to the Income and Expenditure Account.

d) Grants received towards capital expenditure shall be treated as a liability till such time that the fixed asset is constructed or acquired. On construction! acquisition of a fixed asset out of the grants so received, the extent of liability corresponding to the value of the asset so constructed acquired shall stand reduced and the amount shall be treated as a capital receipt and shall be transferred from the respective Specific Grant Account to the Grant Against Asset Account. Amount proportionate to depreciation of the asset shall be credited to the Income and Expenditure Account every year. Grants received for non-depreciable assets shall be credited to Capital Reserve.

e) Capital Grants received as a nodal agency or as implementing agency for an intended purpose i.e. Deposit Works, which does not result in creation of assets with ownership rights for the ULB shall be treated as a liability till such time it is used for the intended purpose. Upon utilization for the intended purpose, the extent of liability shall stand reduced with the value of such utilisation and no further treatment, as a capital receipt shall be required.

f) Grants in the form of non-monetary assets (such as fixed assets given at a concessional rate) shall be accounted for on the basis of the acquisition cost. In case a non-monetary asset is received free of cost, it shall be recorded at a nominal value (e.g. Rupee One). Where the assets are compulsorily acquired for non-payment of taxes or duties, the

unpaid amount as appearing in the books constitutes the consideration for the acquisition and the asset acquired should accordingly be recorded at such amount.

g) 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 transfer of the asset.

### **BORROWINGS OR LOANS RECEIVED**

- a) Interest expenditure on loan shall be recognised on accrual basis.
- b) Interest on borrowings directly attributable to acquisition or construction of qualifying fixed assets up to the date of commissioning of the assets shall be capitalised.
- c) A provision shall be made for the interest accrued between the date of last payment of interest and the date of financial statements and shall be charged to the current period's Income and Expenditure Statement i.e. interest accrued but not due.

### **BORROWINGS AND LOANS AKEN BY ULBS**

On sanction by the State Government, the ULB may borrow Funds, either by issuing debentures, or other wise, for the purposes specified in the approval. These borrowings are generally secured by movable and immovable properties vested in the ULB. Unless specifically approved by the State Government, the loans cannot be used for any purpose other than that specified in the approval.

Where the terms of sanction provide for the establishment of a Sinking Fund for the repayment of loan, the ULB shall establish it and credit to it, funds from the Municipal Fund. Similarly, if the terms provide for a creation of an Escrow Account for repayment of loans, the ULB shall create it and credit to it, the income earmarked for this. The purpose of establishment of a Sinking Fund or an Escrow Account is to accumulate money, including interest, adequate to repay the loan as per the repayment schedule.

When Loans are received / Debentures / Bonds are raised, the accounting entries should be as follow:

<b>Debit / Credit</b>	<b>Code</b>	<b>Details</b>
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
<i>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 date etc. need to be maintained I 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.</i>		

When Interest on Loan becomes due, the accounting entries should be as follows:

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 for Interest accrued and not due shall be credited to a Provision for Interest Account

When Interest is paid the accounting entries should be as follows:

Debit / Credit	Code	Details
Debit	350-12-02	Interest accrued and due
Credit	4500-21-01	To Bank Account

**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.

## SPECIAL FUNDS

- a) Special Funds shall be treated as a liability on their creation.
- b) Income on investments made from Special Fund shall be recognised and credited to Special Fund, whenever accrued. Profit/loss, if any, arising on disposal of investments made from the Special Fund shall be recognised and credited/debited to Special Fund Account.
- c) Any expenditure of a revenue nature, which is incurred specifically on scheme / project, for which a Special Fund has been created, shall be charged to that Special Fund. Any special fund utilised for the purpose for which it was created should be transferred to special funds (Utilised) Account.
- d) On completion of the construction of a fixed asset and/or on acquisition of a fixed asset out of a Special Fund, the amount equivalent to the cost of such fixed asset shall be transferred from the respective Special Fund to the Grant Against Asset Account. Amount proportionate to depreciation of the asset shall be credited to the Income and Expenditure Account every year.

**PUBLIC PRIVATE PARTNERSHIP (PPP)**

Since PPP means creation of infrastructure and services without government or public sector entities having to increase the borrowings or raise taxation, this type of governance reforms also entails dilution of traditional legislative financial control on taxation and borrowing. PPP is quasi-fiscal activity that is typically not fully captured in the budget documents presented to legislature. Hence an important issue arising out of PPP is that of fiscal transparency. The disclosure of contractual and quasi-contractual liabilities/commitments assumed by the ULB under PPP should be estimated by the ULB in financial terms. There is no comprehensive fiscal accounting and reporting standard for PPPs at present. However, existing standards cover a number of PPP operations that should be disclosed in a straightforward manner.”

**OTHERS****LEASE AND HIRE PURCHASE**a) Finance lease in the books of lessee

- i. At the commencement of the lease term, finance leases shall be recorded as an asset and a liability. Such recognition shall be at an amount equal to the cost.
- ii. Finance lease payments shall be apportioned between the finance charge and the reduction of the outstanding liability. The finance charge shall be allocated as to produce a constant periodic rate of interest on the remaining balance of the liability for each of the period.
- iii. Depreciation on such assets shall be provided at the same rates as in case of owned assets.

b) Operating lease in the books of Lessor

- i. Assets given under operating lease shall be accounted as own assets in the same manner similar to any other fixed assets owned and used by the ULB.
- ii. Lease income from operating leases shall be recognised as income on a straight-line basis over the lease term. Lease income shall be accrued on the respective due dates.
- iii. Any amount incurred that results in improvement or increase of the useful life of the assets under operating lease shall be capitalised as like any other asset used by the ULB for its own operations.
- iv. Depreciation on such assets shall be provided at the same rates as in case of owned assets.
- v. The contract for parking fees, market space for stalls, ponds and other assets given on lease shall be accounted for on the basis of lease agreement.

c) Hire purchase in the books of buyer

- i. The purchase price shall be capitalised as the cost of fixed assets.
  - ii. Hire Purchase (HP) installments 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.
  - iii. The total amount of interest portion out of the 'HP Payable' shall be accounted by debiting to a control account under current assets. This amount will be adjusted on accounting of finance charges.
- iv) The depreciation principle for assets purchased under HP should be consistent with that for owned assets.

d) Hire purchase in the books of seller

- i. The sale price (including the interest portion) shall be accounted as receivable from HP agreement;
- ii. HP installments 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);
- iii. The total amount of interest portion out of the 'HP Receivable' shall be accounted by crediting to a control account under current assets. This amount will be adjusted while accounting for finance charges.

**LOANS**

- a) Interest/penal interest on loans shall be recognised as and when due. At period-ends, interest shall be accrued up to the date of the period-end.
- b) Interest / penal interest earned on loans given out of specific fund/grant shall be directly credited to the specific fund / grant account.

**MUNICIPAL SCHOOL BOARD**

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



**Exercise****1. State whether the following statements are 'True' or 'False'.**

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

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

- a. The system of recording transactions based on dual aspect concept is called:
  - i. Double entry system
  - ii. Double account system
  - iii. Single entry system.
- b. Cost concept requires the recording of the following in the books of account:
  - i. Skills and knowledge acquired by business manager.
  - ii. An asset at its cost.
  - iii. Free training provided
- c. Market value of investments is shown as a footnote according to:
  - i. Consistency concept
  - ii. Disclosure concept
  - iii. Conservatism concept
- d. Provision for bad and doubtful debts is created in anticipation of actual bad debts on the basis of :
  - i. Conservatism concept
  - ii. Going concern concept
  - iii. Disclosure concept
- e. Income is measured and financial position is assessed on the basis of:
  - i. Matching concept
  - ii. Consistency concept
  - iii. Money measurement concept
  - iv. Time period concept.
- f. A fact or happening which cannot be expressed in terms of money is not recorded in accounting according to:
  - i. Cost concept
  - ii. Money measurement concept
  - iii. Materiality concept

- iv. Consistency concept.
  - g. The policy of ‘anticipate no profit and provide for all possible losses’, arises due to:
    - i. Conservatism concept
    - ii. Consistency concept.
    - iii. Materiality concept
    - iv. Disclosure concept
  - h. Dual aspect concept results in the accounting equation
    - i. Capital + Liabilities = Assets
    - ii. Capital = Assets
    - iii. Revenue = Expenses
    - iv. (iv) Capital + Profit = Assets + Expenses.
  - i. Purchase of Government securities for cash would:
    - i. Reduce assets,
    - ii. Increase assets, or
    - iii. Keep assets unchanged.
  - j. Purchase of equipment for cash:
    - i. Increases total assets,
    - ii. Keeps total assets unchanged, or
    - iii. Decreases total assets.
3. Explain with accounting entries as to how the following transactions would be accounted under *cash based accounting* and *accrual based accounting system*.
- a. Property tax demand for the first half year of 2007-08 amounts to Rs.4,50,000.
  - b. Opening Balance of Property tax receivable amounts to Rs 50,000; Demand raised – Rs.2,00,000; Collections made during the year – Rs 20,000 (arrears), Rs 1,30,000 (current year demand).
  - c. Expenditure relating to insurance premium on machinery amounting to Rs 1,00,000 for the period January 2007-2008 was paid in the month of December 2006.
  - d. Salary Payable for the month of September 2007 amounting to Rs.10,00,000/- paid in October 2007
  - e. A sum of Rs 10,00,000 is payable to supplier “Z” for supply of hardware stores.

# **SESSION 2**

**SESSION TITLE:**

**PREPARATION OF OPENING BALANCE  
SHEET**

<b>SESSION TITLE: Preparation of Opening Balance Sheet</b>		<b>Session Guide</b>
<b>INSTRUCTOR'S GUIDE</b>	<b>Reference</b>	<b>Participants' Response</b>
<b>SESSION OVERVIEW</b>		
<p><b>Welcome participants</b> to the session and remind them that their active participation is critical for the success of each session.</p> <p>Remind them that in the 1<sup>st</sup> Session participants were introduced to Accounting Concept, basic principles of Accounting and the Double Entry Accrual Base Accounting System.</p> <p><b>Tell them</b> that in this session preparation of Opening Balance Sheet of the ULBs will be discussed.</p>	Lecture	
<b>BASIC CONCEPT</b>		
<p><b>Introduce participants</b> to the Guidelines for preparation of Opening Balance Sheet and <b>discuss</b> three steps to Balance Sheet, the guidelines for preparation of the Assets and Liabilities, Immovable and Movable Assets, determining the Value of Current Assets, determining the Value of Loans / Borrowings and Accounting Entry for incorporation of balances in the Opening Balance Sheet in detail.</p> <p><b>Show them and Discuss</b> the Format for Opening Balance Sheet.</p>	<ul style="list-style-type: none"> <li>• Lecture</li> <li>• SESSION 2 PowerPoint Presentation</li> </ul>	
<b>APPLICATION</b>		
<p><b>Distribute Exercise – Session 2</b> among participants;</p> <p><b>Issue instruction</b> for time allowed writing answer with individually effort;</p> <p><b>Discuss</b> the answers after expiry of allowed time.</p> <p>Distribute Participants' Note</p>	<ul style="list-style-type: none"> <li>• Exercise – Session 2</li> </ul>	
<b>SUMMARISE</b>		
Summarise the session with the mention of topics discussed during the session.		

**SESSION TITLE****Preparation of Opening Balance Sheet****LEARNING OBJECTIVE**

At the end of this Session, the participants will-

- Understand the general guideline for preparation of Opening Balance Sheet
- Be familiar with the items of Assets and Liabilities that are required by the ULB to prepare it.
- Understand the method of identification of items of Assets and Liabilities.

**SESSION OVERVIEW**

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

**GUIDELINES FOR PREPARATION OF OPENING BALANCE SHEET**

On the basis of National Municipal Accounting Manual, Govt. of West Bengal introduced Accounting System in all Urban Local Bodies.

Following are few key terms in respect of Balance Sheet:

- a. Fixed Assets comprise assets, which are meant for use by the ULB over an extended period of time. It includes Immovable Property such as Land, Buildings, Bridges etc. and Movable Property such as Vehicles, Plant and Machinery, Furniture & Fixture etc.
- b. Immovable Properties consist of properties, which cannot be relocated.
- c. Movable Properties consist of properties, which can be relocated.
- d. Current Assets are comprised of items of a short-term nature (normally less than one year). Such items are usually used up in less than one year or converted into cash (or its equivalent) within a year. For instance, Property Tax Receivables, Water Charges Receivables, Inventory of medicines, consumables etc.
- e. Investments comprise of financial assets resulting from investments of cash surpluses.
- f. Current Liabilities comprise of the claims of external parties on ULB on account of any dues or other payables.

g. Reserve Fund in the ULB represents amounts set aside and earmarked for meeting specific obligations and commitments. For instance, Pension Fund represents the amount set aside for meeting future pension liability.

In the first instance it has been decided by the Government of West Bengal that this system of accounting would be introduced in the 40 ULBs of Kolkata Metropolitan Area (except Kolkata Municipal Corporation), with support from the DFID assisted Kolkata Urban Services for the Poor programme. Gradually the accrual based accounting system shall be introduced in all ULBs of West Bengal.

First step for switching over to the Double Entry System of Accounting is to prepare Opening Balance Sheet as on 1st April, 2004

### THREE STEPS TO BALANCE SHEET

<b>Updating</b>	<b>Verification</b>	<b>Compilation</b>
<ul style="list-style-type: none"> <li>• Updating of records and registers</li> <li>• Preparation of records and registers</li> <li>• Complete list of assets and liabilities</li> </ul>	<ul style="list-style-type: none"> <li>• Physical verification</li> <li>• Cross-checking</li> <li>• Checking with originals</li> <li>• Valuation/costing</li> </ul>	<ul style="list-style-type: none"> <li>• Filling in the formats</li> <li>• Compilation of figures from various records and registers</li> <li>• Certificate</li> <li>• Approval by Board of councilors</li> </ul>

### ACCEPTANCE OF BALANCE SHEET

- Preparation of opening balance sheet is to be monitored by the authority as may be decided by the government. The balance sheet will be first approved by the authority and any comments of any such authority are suitably incorporated.
- The approved balance sheet is placed before the Board of Councillors of the ULB for their approval.
- It will also be submitted to the Accountant General/Local Bodies Audit/West Bengal.

### GENERAL GUIDELINES FOR PREPARATION OF THE ASSETS AND LIABILITIES

- All assets which are under the ownership and permissive possession of the ULB will be accounted for. Similarly all liabilities to be paid will also be brought in the books. In case of Hospitals and schools, if the asset is under a separate legal entity, then it would not form a part of the ULB's balance sheet.
- The separate legal entity includes hospitals, dispensaries, schools, maternity centres, nursing home formed as a society, trust, co-operative society, or a company formed under section 25 of the Companies Act, 1956.

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- The mere maintenance of a register should not be taken as sufficient for the purpose of arriving at the balance. The Executing agency will have to check the authenticity of all the entries. All entries shall be cross-checked with source documents before its compilation in the balance sheet.

- Assets constructed/purchased by some other agency/ Government and handed over to the ULB shall be accounted for on the basis of the ownership of the asset. If the ownership remains with the other agency, then it will not be recognised as an asset in the books of the ULB. If there has been a transfer of ownership without any consideration, then the asset shall be valued at Re. 1/- and recognised in the opening balance sheet. The balance sheet shall contain disclosure in the form of Notes with respect to following:-

- Assets, which are in ULB's possession and derive economic benefits, but the ownership of which does not vest in it e.g. market constructed by Urban Development Department and handed over to the ULB with a right to collect rent, title deed not being executed.
  - The assets which are handed over to the ULB, but the title deed has not been handed over e.g. assets purchased/constructed by KMDA and handed over to the ULB for use and maintenance.
  - Receivables from taxes, etc. not collected due to litigation.
  - In case Demand and Collection Register is not updated or prepared, the ULB will have to prepare it and assess the amount of arrears.
- Revenue shall be recognised only when it is measurable and there is reasonable certainty of collection. If the levy of any income or user charge is in dispute and any legal case is pending against it, it shall not be taken as the income of the ULBs.
  - The details of such Court cases and the amount if measurable shall be disclosed in the Notes to Accounts.
  - Revaluation of assets is not intended in this exercise. The Executing agency shall not go in for a revaluation mode and valuation shall be done on the basis of actual price paid/ payable.
  - Principle of conservatism shall be followed while preparing the opening balance sheet.
  - All the figures shall be in Rupees Thousands with decimals upto two places.
  - In the case of building/construction 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 transfer of the asset.

### **GENERAL GUIDELINES FOR FIXED ASSETS**

Fixed assets in the case of ULBs can broadly be classified into the following categories:

#### **Land and Buildings**

- Land
- Buildings

#### **Statues and heritage assets**

- Statues and valuable works of art and antiquities
- Heritage Buildings

#### **Infrastructure assets**

- Roads and Pavements
- Bridges, culverts and flyovers
- Subways and causeways
- Sewerage and Drainage
- Waterways
- Water supply and reservoirs
- Deep tube wells
- Parks and playgrounds
- Street light posts and Public Lighting

#### **Equipments**

- Plant and Machinery
- Vehicles
- Office and other equipments
- Furniture and fixtures

#### **Livestock**

#### **Intangibles**

- Software license fees

### **GENERAL GUIDELINES FOR IMMOVABLE ASSETS**

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

- a. Conduct physical verification of the immovable assets.
- b. The information collated during physical verification should be cross verified with the existing records maintained for the said fixed assets, if any.
- c. Only such assets, whose ownership vests with the ULB, shall be considered for arriving at the list of assets of the ULB.
- d. Details of the assets, whether freehold or leasehold should be specified separately for each of the assets.
- e. Cost of acquisition / construction:
  - The cost of acquisition / construction should also include, in addition to the cost incurred in acquiring / constructing the said asset, the cost incidental to the



acquisition / construction such as registration charges, stamp duty, consultancy charges (including legal charges) etc.

- In case the cost of acquisition / construction is not ascertainable, an estimate of cost that would have been incurred for the acquisition / construction should be provided.
- For assets funded out of grants, the cost of acquisition of the assets would be net of the grant proceeds utilised for the purchase of the asset.
- In case an asset has been acquired / created free of cost, the asset should be recorded at a nominal value.

f. Cost of improvement: Any cost incurred for improvement of assets, which results in increasing the life or the utility of the asset, should be considered as an improvement cost. Expenses of a normal and routine nature incurred for the repairs and maintenance of assets should not be considered as an improvement cost.

g. Date of Acquisition: The date of acquisition is the date on which the property was legally vested with the ULB. In case of acquisition of fully constructed civil property, the estimated date of the construction of the structure is to be specified. The date of acquisition of the said structure by the ULB is also to be specified.

h. Mode of Acquisition: whether the fixed assets have been purchased, constructed, transferred or gifted to the ULB or has been attached under any Act is to be specified.

i. From whom acquired: The person / institution from whom the assets have been acquired is to be specified.

j. Reference of available title documents: It has to be ensured that all the relevant documents like title deeds, contracts, invoices etc. are available with the ULB. A reference of the same has to be provided in the formats provided. In case the original documents are not available, a duplicate set should be made.

k. The following should be specified in the Remarks Column:

- Source of finance for the acquisition / construction of the assets.
- Any restriction/covenants on the transfer of assets.
- Pending litigations in respect of the fixed assets
- Any unauthorised use or encroachment on the fixed assets

l. The Accounts Department shall provide appropriate depreciation for assets held by the ULB to arrive at the book values of the assets. Depreciation shall be provided at the rates and calculated up to the date of opening balance sheet from the date of acquisition / installation as the case may be as per the principles laid down on Fixed assets.

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**THE GENERAL GUIDELINES FOR MOVABLE ASSETS:**

a. Conduct physical verification of the movable assets. Allot an asset reference number to all categories of plant and machinery, vehicle, furniture, fixture and equipment (including office equipment).

b. The information collated during physical verification should be cross-verified with the existing records maintained for the said fixed assets, if any.

c. Cost of acquisition / construction is same as for immovable assets.

d. Cost of improvement: Any cost incurred for improvement of vehicles such as building of body for buses, hearse vans, ambulances, fire brigades, etc. should be considered as an improvement cost.

e. Date of Acquisition: The date of acquisition is the date on which the property was legally acquired.

f. Mode of Acquisition is same for immovable assets.

g. From whom acquired is same for immovable assets.

h. Reference of available title documents. It has to be ensured that all the relevant documents like title deeds, contracts, invoices etc. are available with the ULB. A reference of the same has to be provided as per the formats. In case the original documents are not available, a duplicate set should be made.

i. The following should be specified in the Remarks Column:

- Source of finance for the acquisition / construction of the assets.
- Any restriction/covenants on the transfer of assets.
- Pending litigations in respect of the fixed assets.
- Any unauthorised use of the fixed assets.

**GUIDELINE FOR DETERMINATION OF VALUE OF CURRENT ASSETS**

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

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

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

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

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

#### **GUIDELINES FOR DETERMINATION OF VALUE OF LOANS / BORROWINGS**

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

#### **MUNICIPAL FUND**

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

**ACCOUNTING ENTRY FOR INCORPORATION OF BALANCES IN THE  
OPENING BALANCE SHEET**

The entry to be passed for incorporating the opening balances is given below:

Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.) Illustrative figures	Credit Amount (Rs.) Illustrative figures	Books to be entered into
410-(b)	Fixed Assets (Specify the name of the assets for e.g. Buildings)	Dr.	500,000		Journal Book, Ledgers
412- (b)	Capital Work in progress	Dr.	300,000		
420/ 42-(b)	Investments (Specify the name of the relevant fund also)	Dr.	100,000		
460-40-(a)	Advance to Suppliers	Dr.	50,000		
460-(b)	Loans and advances	Dr.	30,000		
430-(b)	Stock in hand	Dr.	25,000		
431- (b)	Sundry Debtors	Dr.	100,000		
440- (b)	Prepaid expenses	Dr.	10,000		
450-(b)	Cash and Bank Accounts	Dr.	60,000		
310-10-(a)	To Municipal fund (General fund)	Cr.		454,000	
311-(b)	To Earmarked funds	Cr.		80,000	
312- (b)	To Reserves	Cr.		120,000	
330/331 – (b)	To Loans payable	Cr.		150,000	
340-(b)	To Deposits (specify the nature of deposits)	Cr.		25,000	
411- (b)	To Accumulated depreciation – Fixed assets (Specify the name of the asset for e.g. Buildings)	Cr.		300,000	
432- (b)	To Provision for Sundry Debtors	Cr.		15,000	
461- (b)	To Provision for Loans & advances	Cr.		2,000	
360-10-(a)	To Provision for expenses	Cr.		8,000	
350-(b)	To Other liabilities	Cr.		21,000	

(a) Insert Detailed Head Codes of Account as applicable

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

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

**FORMAT OF OPENING BALANCE SHEET**

**OPENING BALANCE SHEET OF THE MUNICIPALITY OF ..... AS ON 1ST APRIL 2004**

**NAME OF THE ULB: \_\_\_\_\_**  
*(Prepared by the CMU, KUSP, Govt. of West Bengal)*

<b>OPENING BALANCE SHEET AS ON 1<sup>ST</sup> APRIL 2004</b>				
<b>Description of items</b>	<b>Schedule No.</b>	<b>Amount</b>	<b>Amount</b>	<b>Amount</b>
<b>SOURCES OF FUNDS</b>				
<b>Reserves and Surplus</b>				
Municipal (General) Fund	B-1			XXXX
Earmarked Fund	B-2			XXXX
Reserves	B-3			XXXX
<b>Grants, Contributions for specific purposes</b>	B-4			XXXX
<b>Loans</b>				
Secured loans	B-5		xxx	
Unsecured loans	b-6		xxx	XXXX
<b>TOTAL</b>				XXXX
<b>APPLICATION OF FUNDS</b>				
<b>Fixed Assets including Status &amp; Heritage Assets</b>	B-11			
Gross Block		xx		
Less: Accumulated Depreciation		xx		
Net Block			xxx	
Capital work-in-progress			xxx	
<b>Investments</b>				
Investment-General Fund	B-12		xxx	
Investment-Other Funds	B-13		xxx	
<b>Working Capital</b>				
<b>Current assets, loans &amp; advances</b>				
Stock in hand (inventories)	B-14		xxx	
Sundry Debtors (Receivables)	B-15			
Gross amount outstanding		xx		
Less: Accumulated provision against bad and doubtful receivables		xx	xxx	
Prepaid expenses	B-16		xxx	
Cash and Bank Balances	B-17		xxx	
Loans, advances and deposits	B-18	xx		
Less:				
<b>Current Liabilities and Provisions</b>				
Deposit Received	B-7		xxx	
Deposit works	B-8		xxx	
Other Liabilities (Sundry Creditors)	B-9		xxx	
Provisions	B-10		xxx	XXXX
<b>Other Assets</b>	B-19			XXXX
<b>Miscellaneous Expenditure (to the extent not written off)</b>	B-20			XXXX
<b>Capital Deficit</b>				XXXX
<b>TOTAL</b>				XXXX
Notes to the Balance Sheet				

The Opening Balance Sheet should be accompanied with the following certificate on the letterhead of the Executing agency:

*We have prepared / verified the Opening Balance Sheet as on 1<sup>st</sup> April ..... of ..... (Name of the ULB) and examined all relevant documents, supporting and records. The balance sheet has been prepared based on accrual based accounting system. All items that could have been included have been included and it is certified that no items have been left out in preparation of the opening balance sheet.*

*We have obtained all information and explanations, which to the best of our knowledge and belief were necessary for the assignment. In cases where information was not available, a certificate from the Board of Councillors has been obtained. These certificates are attached herewith. The Board of Councillors have approved and adopted the opening balance sheet at their meeting held on ..... (Date of meeting).*

*We have prepared / verified the opening balance sheet in accordance with Guidelines for preparation of opening balance sheet and approved by the Government of West Bengal. In cases where there were doubts, explanations were taken from the competent authorities.*

Date:

Signature and Seal of the

Place:

Executing agency

## SUMMARY

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

**EXERCISE****Answer the following questions:**

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





# **SESSION 3**

**SESSION TITLE:**

**CHART OF ACCOUNTS & FINANCIAL  
STATEMENTS**

<b>SESSION TITLE: Chart of Accounts &amp; Financial Statements</b>		<b>Session Guide</b>
<b>INSTRUCTOR'S GUIDE</b>	<b>Reference</b>	<b>Participants' Response</b>
<b>SESSION OVERVIEW</b>		
<p><b>Welcome</b> participants to the session and remind them that their active participation is critical for the success of each session.</p> <p><b>Remind</b> them that in the 1<sup>st</sup> Session participants were introduced to the Accrual Base Accounting System and in the 2nd session to the Opening Balance Sheet</p> <p>Tell them that in this session Codification Structure of ULB Accounts and Financial Statements of ULBs will be discussed.</p>	Lecture	
<b>BASIC CONCEPT</b>		
<p><b>Introduce participants</b> to the Codification Structure followed by the ULBs.</p> <p><b>Discuss</b> the Coding Logic and Procedure. Cover Primary Head Account Codes in detail.</p> <p><b>Explain</b> the Coding Logic with illustration.</p> <p><b>Introduce</b> the participants to the Financial Statements prepared by the ULBs.</p> <p><b>Discuss</b> in detail the Trial Balance Sheet, Income and Expenditure Statement, Balance Sheet, Cash Flow Statement and Receipts and Payments Account in detail with illustration cited in this module or of your own.</p>	<ul style="list-style-type: none"> <li>• Lecture</li> <li>• SESSION 3 PowerPoint Presentation</li> </ul>	
<b>APPLICATION</b>		
<p><b>Distribute Exercise 1 – Session 3</b> among participants;</p> <p><b>Issue instruction</b> for time allowed writing answer with individually effort;</p> <p><b>Discuss</b> the answers after expiry of allowed time.</p> <p><b>Distribute Exercise 2 – Session 3</b> among participants;</p> <p><b>Issue instruction</b> for time allowed writing answer with individually effort;</p> <p><b>Discuss</b> the answers after expiry of allowed time.</p> <p>Distribute Participants' Note</p>	<ul style="list-style-type: none"> <li>• Exercise 1 – Session 3</li> <li>• Exercise 2 – Session 3</li> </ul>	
<b>SUMMARISE</b>		
Summarise the session with the mention of topics discussed during the session.		

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**SESSION TITLE: Chart of Accounts & Financial Statements****LEARNING OBJECTIVE:**

At the end of this Chapter, the participants will

- Understand the meaning of Chart of Accounts followed in the ULBs.
- Be familiar with the coding logic and how to define a coding structure.
- Be familiar with the mandatory and optional groups under coding structure.
- Be familiar with the structure of function code, account code and fund code.
- Be familiar with the statements that form part of annual financial statements.
- Be familiar with the method of preparation of Trial Balance, Income & Expenditure account, Balance Sheet, Cash flow and Receipts & Payments account.

**SESSION OVERVIEW:**

This session covers the Codification Structure and the Chart of Accounts (COA) followed by the Municipalities. Chart of Accounts provides the structure for recording and reporting financial transactions in a uniform manner by all the ULBs. This session focuses on the codification structure that is followed by all ULBs and for accounting of transactions.

This session also covers the financial statements that indicate the state of affairs and the performance of the ULB for a stated period usually a year. This session covers the method of preparation of Trial Balance, Income & Expenditure, Balance sheet, Cash Flow and Receipts & Payments account. All Statements are explained with illustrations that have been taken from the National Municipal Accounting Training Manual.

## INTRODUCTION

### CODIFICATION STRUCTURE & CHART OF ACCOUNTS (COA)

COA defines the heads under which the income, expenditure, assets and liabilities of local bodies are classified and facilitates maintenance of accounts and preparation of financial statements. A well designed COA shall not only fulfill accounting requirements but also the Budgeting and MIS requirements and shall be flexible enough to consolidate and collapse to facilitate generation of various information reports.

The COA is divided into the following Heads:

- Function
- Functionary (Responsibility centre / Department)
- Field (Geographical centre)
- Funds
- Accounting code

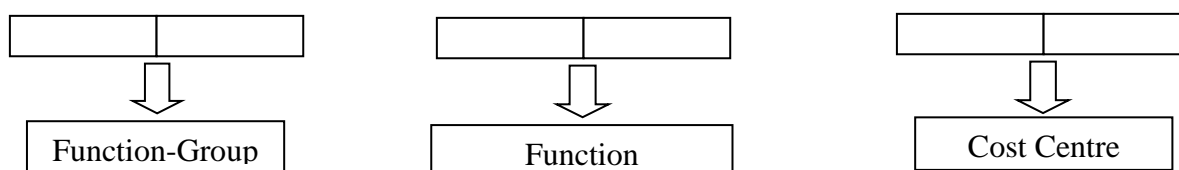
The ULBs are not permitted to change the codes, except where permission has been provided, and it is compulsory to follow the prescribed coding structure.

Objective of preparing a chart of accounts are:

- To achieve uniformity in the operations of ULBs across West Bengal.
- 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.

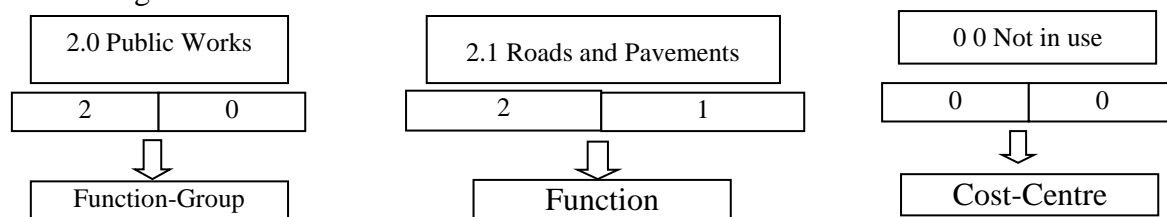
### STRUCTURE OF FUNCTION CODE

The function code of the ULBs shall have three levels within it. First level under this group represents various functions both obligatory and discretionary as per the concerned Municipal Act and known as '**Function Group**'. Second Level in function would represent the particular type of service under a function and known as '**Function Description**' and third level will represent a particular cost centre and known as '**Cost Centre**', which provides the service. Each level has a 2-digit code. The present function code has function group and function description. The structure of the function code can be explained with the help of the following diagram:



Any transaction for Income / Expenditure / Asset / Liability shall be first passed through the function code, i.e. before entering the Accounting code. Example- Expenditure on Repair and Maintenance – Roads and Pavements shall be shown under Roads and

Pavements – Public works, which is one of the obligatory functions of the ULBs. The accounting code for the function code will be entered as follows:



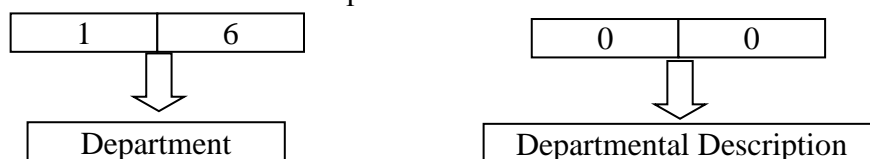
### STRUCTURE OF THE FUNCTIONARY CODE

The functionary accounting code will be a four-digit accounting code, with two levels of two-digit each. The first two digits would represent the various ‘departments’ and the next two-digits shall represent the organisational structure within the department known as ‘Departmental Description’.

The structure of the functionary code can be explained with the help of the following diagram:

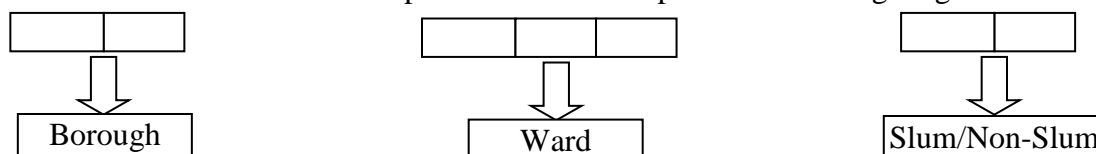


The functionary codes for the departmental description are not being used at present and they carry a zero code. For example, Expenditure on Repair and Maintenance – Bridges and Flyovers shall be shown under the department ‘Public Works’.



### STRUCTURE OF THE FIELD CODE

The field code will be a seven digit accounting code, with three levels. The First level of two digits shall represent ‘Boroughs’, the second level of three digits shall represent ‘Wards’ and the third level of two digits shall represent the slum and non-slum areas. The structure of the field code can be explained with the help of the following diagram:



The digits from 01-99 are used for different Boroughs and digits from 01- 999 are used for different wards within the same borough. The digits 10 shall be used for slum-areas and digit 20 shall be used for non-slum areas. The ULB allots the number of its boroughs and wards as it is done under the law and maintains the same number. In case a ULB has no boroughs/wards/slums/non-slums, then the code 00 is used.

## STRUCTURE OF THE FUND CODE

The fund accounting code will be a four-digit Accounting code, with two levels of two-digits each. The Major Fund would represent the broad categorisation of Funds and Minor Fund within it represents a particular fund.

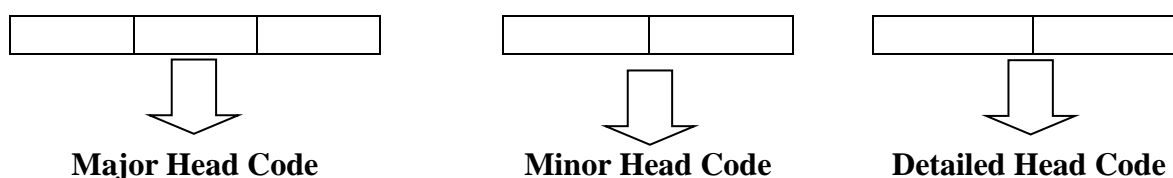


Municipal Fund is used as Major Fund with code 01. No Minor Fund is being used at present. The accounting code from 02-99 are used by ULBs for different funds being maintained by ULBs, after approval from Department of Municipal Affairs, Government of West Bengal.

## STRUCTURE OF ACCOUNTING CODE

### Primary Accounting Code

Each accounting code consists of seven digits. The Accounting code depicts **Major Head code, Minor head code and Detailed Head code**. Though a Sub Head code between the Minor Head and Detailed Head is prescribed by the NMAM, it is not being used currently.



### Major Head code

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 Revenue Income.
- If the first digit is "2", it would represent Revenue Expenditure.
- If the first digit is "3", it would represent Capital Receipts and Liabilities.
- If the first digit is "4", it would represent Capital Expenditure and Assets.

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

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:

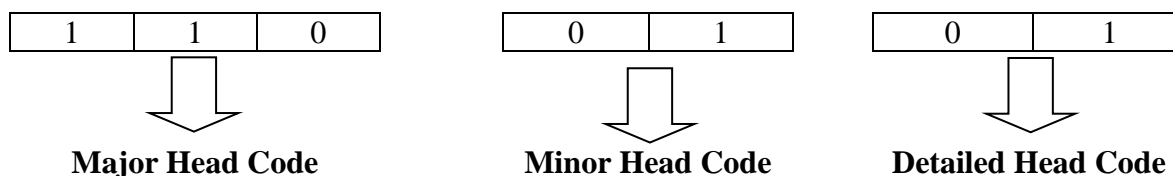
1	Major Head	(Identification ID digit) Revenue Income
10	Major Head	Tax Revenue
01	Minor Head	Property Tax

### Detailed Head Code

The Detailed - Head code gives details of the Minor Head code. The Detailed -Head code is a two digits code starting from 0 1. 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".

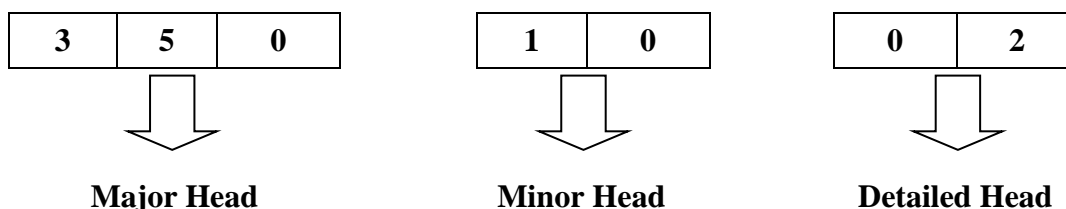


### Secondary Accounting Code

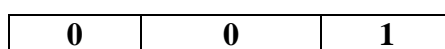
Secondary accounting code reflects the subsidiary ledgers and other analysis ledgers. This enables the ULBs to do party-wise accounting. For example, the Contractors and Suppliers account is maintained contractor wise at this level. A three digit code is followed for the subsidiary ledger of each control 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



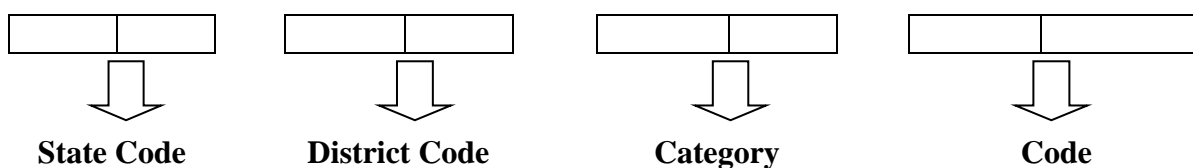
**Secondary accounting code**



The secondary accounting code 001 can be used for payable to a particular contractor, say Mr.X

### IDENTIFICATION CODE FOR ULB

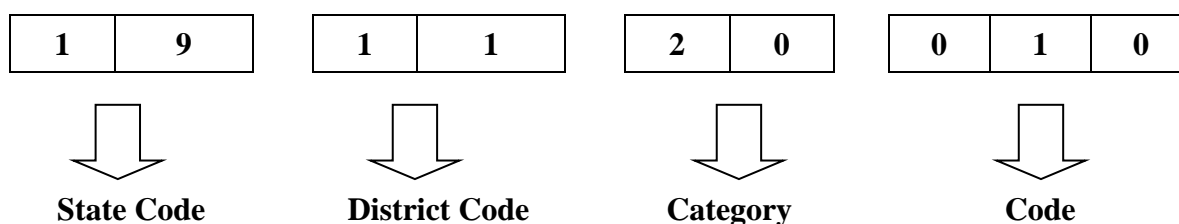
The chart of Accounts is same for all ULB's across West Bengal. Thus, each ULB has a unique identification code for itself, which is in the following format.



The state code will be same for all ULBs i.e. 19, State code for West Bengal. The district code would denote the district in which the ULBs are located. The category code would denote whether it is a Municipal Corporation, Municipality or a Notified Area Authority. The Code would denote the code for each ULB. The category codes will be 10, 20 and 30 respectively for Municipal Corporation, Municipality and Notified Area Authority.

The use of the identification code (for example: in case of Bidhannagar Municipality) is illustrated by the following illustration.

19	State Code	West Bengal
11	District Code	North 24 Parganas
20	Category Code	Municipality
010	Code	Bidhannagar Municipality





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**PROCEDURE FOR THE CHANGE IN THE CHART OF ACCOUNTS****Function Code**

The function group codes can be changed / added only at the National level. Any requirement for an addition to Function Group head shall be requested by the States to the Ministry of Urban Development. The committee set up by the Ministry in this regard can add new heads under Function Group.

State government can add functional description code. All additions made shall be intimated to the committee. The ULBs may send in their requests for additions in the Function code to the concerned Municipal Affairs Department.

**Functionary code**

The Department codes prescribed in the chart of accounts are mandatory for all ULBs. The ULBs can use the codes for departmental description code, after approval from Municipal Affairs Department. The Municipal Affairs Department or any other authority as may be authorised by the Municipal Affairs Department, shall prescribe the uniform codes for ULBs, after taking into account request from ULBs.

**Field Code**

The ULBs shall prepare a coding structure for their Boroughs and Wards, based on the current numbering pattern and intimate the same to the Municipal Affairs Department or any other authority as may be authorised by the Municipal Affairs Department.

**Fund Code**

The ULBs presently have a single Fund concept i.e. Municipal Fund. The accounting code from 02-99 are used by ULBs for different funds being maintained by ULBs , after approval from Department of Municipal Affairs, Government of West Bengal. The Municipal Affairs Department or any other authority as may be authorised by the Municipal Affairs Department, prescribe the uniform codes for ULBs, after taking into account request from ULBs.

**Primary Accounting Code**

The Major codes can be changed/ added only at the National Level. Any requirement for an addition to Major Head shall be requested by the States to the Ministry of Urban Development. The committee set up by the Ministry in this regard can add new heads under Major Head Code. Any addition to the Minor heads can be done by the State government. The State Government shall intimate all additions to the committee. If the ULBs want to make any change in the Minor Heads, they should request the same to the Municipal Affairs

Department or any other authority as may be authorised by Municipal Affairs Department and only with prior approval they can be changed. The detailed heads prescribed are mandatory for all ULBs. The ULBs can add the new detailed heads (From 51-99) after pre-approval of the Municipal Affairs Department. The Municipal Affairs Department or any other authority as may be authorised by the Municipal Affairs Department, will review the requests from various ULBs and if consider appropriate, may prescribe it uniformly across all ULBs (Detailed codes 01-50).

### Secondary Accounting Code

The ULBs develop their own secondary accounting codes and, use it for party-wise accounting.

### An illustration to understand Coding Logic:

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

### Debit: Cash / Bank

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

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

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

### Credit: Income

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

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

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

Accounting Entry to be passed is shown below:

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

## SUMMARY

1. Chart of Accounts (COA) defines the heads under which the income, expenditure, assets and liabilities of local bodies are classified and facilitates maintenance of accounts and preparation of financial statements.

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

3. The mandatory groups for all local bodies are

- Functions
- Account Heads

Optional Groups are

- Functionary (Responsibility center/department)
- Field (Geographical center)
- Funds

4. Function represents the various functions or services carried out by the local body.

5. Account heads represent the nature of the income or expenditure.

6. Functions are provided through various responsibility/cost centres called departments (Functionary).

7. Funds: ULB set up various funds for meeting certain objectives. Income and expenditure under these funds are to be identified and disclosed separately.

### Coding Logic

8. Functions of the ULB can have three levels within it. First level represents various functions both obligatory and discretionary. Second Level represents the particular type of service under a function, known as “Function Description” and third level will represent a particular cost center, Known as “Cost Centre”, which provides the service.

9. Accounting subjects can be divided into two levels: Primary and Secondary.

10. Primary account represents the subject of Income and expenditure. This code shall have 7 digits and it is structured in to Major, Manor and Detailed Account code.

## FAMILIARISATION WITH FINANCIAL STATEMENT

The provisions and rules of the Act governing the ULB stipulate for preparation of the Annual Administration Report and a Statement of Accounts by the ULB. The report shall be in prescribed form and shall contain such information as the concerned authority may from time to time direct. Preparation of Financial Statements comprising of various reports as stated below are the responsibility of the Head of the Accounts Department.

The Annual Report of the ULB shall include the following:

**a. Financial Statements** consisting of:

- i. Balance Sheet;
- ii. Income and Expenditure Statement;
- iii. Statement of Cash flows (a summary of an enterprise's cash flow over a given period of time);
- iv. Receipts and Payments Account (detailed as per the account heads);
- v. Notes to Accounts; and
- vi. Financial Performance Indicators.

**b. Report of the Municipal Chief Auditor;**

**c. Municipal commissioner's Report** on the Annual Financial Statements and the qualifications and comments made in the Report of the Municipal Chief Auditor; and

**d. Standing Committee's Action Taken Report** on the qualifications and comments made in the Report of the Municipal Chief Auditor and the Report of the Municipal commissioner.

- The ULBs prepare the financial statements like the Balance Sheet, Income and Expenditure Statement, Statement of Cash flows and Receipts and Payments Account, at the prescribed intervals.
- Balance Sheet discloses figures as on a date for the current year and the previous year. Income and Expenditure Statement, Statement of Cash flows and the Receipts and Payments Account disclose progressive year-to-date totals and the figures of the previous year and the movements in various accounts. In addition, the Income and Expenditure Statement also disclose the annual budget figures.
- In respect of the accounting year, the ULB shall prepare all the statements and reports specified in this paragraph.

**TRIAL BALANCE**

Trial Balance is a list of closing balances in all the accounts in the Ledger and the Cash Books. The process of preparation of the Financial Statements is preceded by preparation of a Trial Balance. 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.**

While preparing the Trial Balance the following points are taken care of:

- 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.

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 prescribed 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.
- 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.
- The balances of income and expenditure accounts of Trial Balance are posted to Income and Expenditure Statement.
- The balances of assets, liabilities and reserve accounts of Trial Balance are posted to Balance Sheet.
- No item in Trial Balance should be left out without being credited either to Income and Expenditure Statement or Balance Sheet.

An illustrated sample of Trial Balance is given in the next page -

**MODEL MUNICIPAL CORPORATION (MMC)**

**Trial balance for the period from 01.04.06 to 31.03.07**

<b>Code No</b>	<b>Particulars</b>	<b>Debit(Rs)</b>	<b>Credit(Rs)</b>
	<b>Fixed Assets</b>		
410-10-(a)	Land	3,00,000	
410-20(a)	Building	1,30,000	
410-30-(a)	Roads & Bridges	65,000	
410-40-(a)	Plant & Machinery	45,000	
410-50-(a)	Vehicles	12,500	
410-30-(a)	Fixed assets – foot bridge	25,500	
	<b>Accumulated Depreciation</b>		
411-20-(a)	Accumulated depreciation – Building		31,500
411-30-(a)	Accumulated depreciation - Roads & Bridges		19,875
411-40-(a)	Accumulated depreciation - Plant & Machinery		12,000
411-50-(a)	Accumulated depreciation – Vehicles		5,000
	<b>Depreciation</b>		
272-20-(a)	Depreciation – Building	6,500	
272-30-(a)	Depreciation - Roads & Bridges	4,875	
272-40-(a)	Depreciation - Plant & Machinery	5,000	
272-50-(a)	Depreciation – Vehicles	2,500	
	<b>Capital work in progress</b>		
412-10-(a)	Capital work in progress - School buildings	16,500	
412-10-(a)	Capital work in progress - Parks & Plays ground	25,000	
	<b>Investments</b>		
420-90-(a)	Municipal fund investment - treasury bills	5,000	
421-80-(a)	Investment - other funds- Indian bank	5,000	
421-10-(a)	Family welfare grant investment - central Government securities	6,000	
	<b>Loans to others</b>		
460-30-(a)	Loans to others - MTU1	6,000	
460-30-(a)	Loans to others – MSB	0	
460-30-(a)	Loans to others - MTU2	8,350	
460-10-(a)	Loan to employees	4,700	
460-20-(a)	Employee provident fund - loan account	2,250	
	<b>Stock in hand</b>		
430-10-(a)	Stock in hand - Water supply stores	5,000	
430-10-(a)	Stock in hand – Electrical stores	10,000	
430-10-(a)	Stock in hand - Engineering stores	1,000	
430-10-(a)	Stock in hand - purchase of medical stores	14,800	
	<b>Advances</b>		
460-40-(a)	Advance to suppliers & contractors – School building	4,000	
460-40-(a)	Advance to suppliers & contractors - Machinery stores	2,500	
	<b>Prepaid expenses</b>		
440-30-(a)	Prepaid expense others - AMC computers	1,800	
	<b>Miscellaneous expenditure not written off</b>		
480-10-(a)	Loan issue expense – deferred	2,400	
	<b>Incomes</b>		
180-30-(a)	Profit on sale of asset - Plant & Machinery		1,000
171-30-(a)	Interest on loan to others - MTU2		1,000
160-20-(a)	Re imbursement of Government grant		16,000
160-10-(a)	Motor tax - Revenue Grant		12,000
120-10-(a)	Tax and duties collected by others - Entertainment tax		75,000

Code No	Particulars	Debit(Rs)	Credit(Rs)
120-10-(a)	Tax and duties collected by others - duty on Transfer of Property		75,000
110-51-(a)	Octroi & toll – Octroi		18,000
110-51-(a)	Octroi & toll - Account current importers		4,000
140-12-(a)	Fees for grant of permit - Transit fees		2,000
140-10-(a)	Empanelment registration charges – Cess		10,000
110-52-(a)	Cess - net income		45,000
160-10-(a)	Grant income - revenue grant		17,500
140-50-(a)	Parking fees -fees & user charges		7,500
130-90-(a)	Rental income from municipal properties		3,000
140-11-(a)	Licensing fees - shops & bazaars		4,000
140-(b)	Fees & User charges - Medical fees		15,000
170-10-(a)	Income from investment -interest (treasury bills)		550
170-40-(a)	Profit on sale of investment		1,500
140-50-(a)	User charges - water supply		7,000
140-50-(a)	User charges – sewerage		4,000
140-50-(a)	User charges - meter charges		3,000
140-50-(a)	User charges - water tankers		15,000
140-(b)	Fees & User charges - water supply		5,500
110-01-(a)	Property tax – residential		3,00,000
110-01-(a)	Property tax commercial		4,00,000
110-02-(a)	Water tax		3,50,000
110-03-(a)	Sewerage tax		150,000
170-10-(a)	Investment income - interest from Municipal fund investment		138
280-10-(a)	Prior period income property tax - residential - 2005		2,000
280-10-(a)	Prior period income property tax - commercial - 2005		4,000
140-40-(a)	Other fees - property transfer charges		5,000
140-70-(a)	Service and administration charges		4,000
171-20-(a)	Interest on loans advanced to employees		135
	<b>Provision for receivable</b>		
270-10-(a)	Provision for doubtful receivable Cess – 2004	3,000	
270-10-(a)	Provision for doubtful receivable –Cess 2005	2,000	
270-10-(a)	Provision for doubtful receivables – fees & user charges – 2005	4,000	
270-10-(a)	Provision for doubtful receivables – fees & user charges – 2004	3,000	
270-10-(a)	Provision for doubtful receivable - property tax - 2005	2,500	
270-10-(a)	Provision for doubtful receivable - property tax - 2004	1,750	
270-10-(a)	Provision for doubtful receivable - property tax - 2003	750	
270-20-(a)	Provision for other assets - Loan to MTU1	6,000	
	<b>Other liabilities</b>		
340-20-(a)	Deposit revenues –rent		1,000
350-10-(a)	Other liabilities - Sundry Creditors – Suppliers		44,000
350-20-(a)	Recoveries payable from TDS contractors		4,000
340-10-(a)	Deposit received from contractors/suppliers security deposit		1,500
350-20-(a)	Recoveries payable from contractors – TDS		1,000
340-10-(a)	Contractors/suppliers - Security deposit		5,000
350-20-(a)	Recoveries payable – works contract tax – park		250
350-20-(a)	Recoveries payable from contractors – TDS		1,250
340-10-(a)	Contractors/suppliers - Security deposit - School building		1,800

Code No	Particulars	Debit(Rs)	Credit(Rs)
340-10-(a)	Contractors/suppliers - Security deposit - Parks & Play ground		1,000
340-20-(a)	Deposit revenues water supply		3,000
340-10-(a)	From contractors/suppliers - security deposit stores		1,000
360-10-(a)	Provision for expense – Communication expenses		1,500
360-20-(a)	Interest & Financial charges payable		2,500
340-80-(a)	Other security deposits –opening		17,200
350-10-(a)	Other liabilities - Sundry Creditors - Contractors		43,000
360-10-(a)	Provision for other expenses		34,050
350-11-(a)	Employees liabilities - unpaid salaries		1,000
340-80-(a)	Rental deposit – others		15,000
	<b>Special fund</b>		
311-10-(a)	Special funds - Tree authority fund		625
320-(b)	Grant for specific purpose - family welfare project		7,860
	<b>Receivables</b>		
431-20-(a)	Receivable for Cess -2006	4,500	
431-20-(a)	Receivable for Cess -2005	4,000	
431-20-(a)	Receivable for Cess -2004	6,000	
431-20-(a)	Receivable for Cess -2003	0	
431-30-(a)	Receivables for fees & user charges - water supply 2006	14,000	
431-30-(a)	Receivables for fees & user charges - water supply 2005	8,000	
431-30-(a)	Receivables for fees & user charges - water supply 2004	6,000	
431-10-(a)	Property tax receivable on residential buildings - 2005	12,000	
431-10-(a)	Property tax receivable on commercial buildings - 2005	4,000	
431-10-(a)	Property tax receivable on commercial buildings - 2004	7,000	
431-10-(a)	Property tax receivable on residential buildings - 2003	3,000	
431-10-(a)	Property tax receivable on residential buildings - 2002	0	
431-40-(a)	Receivable from other sources - interest on Loan to MSB	0	
431-40-(a)	Receivable from other sources - interest accrued on Loan MTU 2	0	
431-50-(a)	Receivable from Government – Entertainment tax	25,000	
431-19-(a)	Receivable for other taxes - Octroi from Account current holders	3,000	
431-40-(a)	Receivable from other source - interest accrued and not due -Municipal fund investment	138	
431-40-(a)	Receivable from other source - interest accrued and not due -Special fund investment	125	
431-40-(a)	Receivable from other source - interest accrued and not due – Grant fund investment	120	
431-40-(a)	Receivables from other sources-interest accrued and not due on employee loans	135	
	<b>Borrowings</b>		
331-50-(a)	Loans from bank and financial institution for art gallery - S bank		93,700
331-70-(a)	11% debentures		50,000
	<b>Accumulated Provision on outstanding receivables</b>		
432-30-(a)	Provision for outstanding fees & user charges - water supply – 2005		4,000
432-30-(a)	Provision for outstanding fees & user charges - water supply – 2004		6,000
432-10-(a)	Provision for outstanding property tax – 2005		2,500
432-10-(a)	Provision for outstanding property tax – 2004		3,500



Code No	Particulars	Debit(Rs)	Credit(Rs)
432-10-(a)	Provision for outstanding property tax – 2003		2,250
432-20-(a)	Provision for outstanding Cess – 2004		6,000
432-20-(a)	Provision for outstanding Cess – 2005		2,000
461-10-(a)	Provision for outstanding loans to others(MTU1)		6,000
	<b>Expenditures</b>		
130-90-(a)	Rent, refund and remission	2,500	
280-60-(a)	Prior period expenses Refund of other revenues rent	500	
240-50-(a)	Interest & Financial charges (Loan)	10,000	
240-60-(a)	Interest & Financial charges (Debentures)	5,500	
270-50-(a)	Miscellaneous exp written off	600	
230-59-(a)	Repairs & Maintenance others - AMC computers	600	
220-12-(a)	Communication expense	1,500	
220-21-(a)	Printing & stationery expense	700	
140-90-(a)	Fees remission & refund - water supply	2,000	
280-60-(a)	Prior period expenses refund of other revenues - water supply	500	
110-90-(a)	Tax remission & refund - property tax	3,000	
280-50-(a)	Prior period expenses- refund of taxes - property taxes	2,000	
230-30-(a)	Consumption of medical stores	7,200	
271-10-(a)	Loss on sale of stores	2,000	
230-50-(a)	Repairs & maintenance infrastructure assets	25,000	
260-10-(a)	Family welfare grant expenditure	17,500	
	<b>Cash &amp; Bank</b>		
450-10-(a)	Cash in hand	1,000	
450-21-(a)	Bank balance	13,99,100	
450-(b)	Designated loan bank account	1,50,000	
450-41-(a)	Provident fund bank account	50,050	
450-42-(a)	Pension fund bank account	38,000	
450-41-(a)	Water supply bank account	14,000	
450-41-(a)	Designated bank account - Tree Authority Fund	500	
450-41-(a)	Designated bank account - Family Welfare Grant	6,740	
	<b>Earmarked fund</b>		
311-71-(a)	Provident Fund		52,300
311-70-(a)	Pension Fund		38,000
311-13-(a)	Water supply Fund		14,000
311-(b)	Gratuity & Leave encashment Fund		20,000
310-10-(a)	Municipal Fund 1,		95,500
312-50-(a)	Reserves		96,700
312-10-(a)	Capital contribution		2,00,000
	<b>Salary</b>		
210-20-(a)	Basic salary	4,500	
210-20-(a)	Dearness allowance	4,000	
210-20-(a)	House rent allowance	2,000	
210-20-(a)	Conveyance allowance	1,500	
210-20-(a)	Medical allowance	1,000	
210-10-(a)	Establishment expense –bonus	1,500	
210-10-(a)	Establishment expense - overtime allowance	1,000	
210-30-(a)	Pension/family pension expense	3,000	
210-40-(a)	Other terminal expenses - leave encashment	7,500	
210-40-(a)	Other terminal expenses - Gratuity	12,500	
	<b>Total</b>	<b>26,16,183</b>	<b>26,16,183</b>

**INCOME AND EXPENDITURE STATEMENT**

The ULBs also prepare an Income and Expenditure Statement for every accounting period. The Income and Expenditure Statement discloses the results of the working of the ULB during the period covered by the statement. It shows incomes and expenditures of the ULB for an accounting period and the excess of income over expenditure or vice-versa for that period.

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.

The Income and Expenditure Statement is drawn from the Trial Balance. The various heads of incomes and expenditures are posted from the Trial Balance to the Income and Expenditure Statement.

While preparing Income and Expenditure Statement, following should be kept in mind:

- 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.

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, are shown separately in the Schedules annexed to the Income and Expenditure Statement.

An example of the Income & Expenditure Statement of the Model Municipal Corporation prepared from the Trail balance is cited in the next page:

**MODEL MUNICIPAL CORPORATION (MMC)**  
**Income & Expenditure Statement for the period 01.04.06 to 31.03.07**

Code No.	Item/ Head of Account	Schedule No	Current Year	Previous Year
			Amount (Rs.)	Amount (Rs.)
1	2	3	4	5
	<b>INCOME</b>			
1-10	Tax Revenue	I-1	12,64,000	
1-20	Assigned Revenues & Compensation	I-2	1,50,000	
1-30	Rental Income from Municipal Properties	I-3	500	
1-40	Fees & User Charges	I-4	80,000	
1-50	Sale & Hire Charges	I-5	0	
1-60	Revenue Grants, Contributions & Subsidies	I-6	45,500	
1-70	Income from Investments	I-7	2,188	
1-71	Interest Earned	I-8	1,135	
1-80	Other Income	I-9	1,000	
<b>A</b>	<b>Total – INCOME</b>		<b>15,44,323</b>	
	<b>EXPENDITURE</b>			
2-10	Establishment Expenses	I-10	38,500	
2-20	Administrative Expenses	I-11	2,200	
2-30	Operations & Maintenance	I-12	32,800	
2-40	Interest & Finance Expenses	I-13	15,500	
2-50	Programme Expenses	I-14		
2-60	Revenue Grants, Contributions & subsidies	I-15	17,500	
2-70	Provisions & Write off	I-16	23,600	
2-71	Miscellaneous Expenses	I-17	2,000	
2-72	Depreciation		18,875	
<b>B</b>	<b>Total – EXPENDITURE</b>		<b>1,50,975</b>	
<i>A-B</i>	<i>Gross surplus/ (deficit) of income over expenditure before Prior Period Items</i>		13,93,348	
2-80	Add: Prior period Items (Net)	I-18	3,000	
	<i>Gross surplus/ (deficit) of income over expenditure after Prior Period Items</i>			13,96,348
2-90	<b>Less: Transfer to Reserve Funds</b>			
	<b>Net balance being surplus/ deficit carried over to Municipal Fund</b>		<b>13,96,348</b>	

**SCHEDULES FORMING PART OF THE INCOME & EXPENDITURE ACCOUNT****SCHEDULE I-1: TAX REVENUE [CODE NO 110]**

Minor Code No	Particulars	Current year	Previous year
		(Rs.)	(Rs.)
1	2	3	4
110-01	Property tax	7,00,000	
110-02	Water tax 22,000	3,50,000	
110-03	Sewerage Tax	1,50,000	
110-51	Octroi & Toll		
110-52	Cess	45,000	
110-80	Other taxes	<b>12,67,000</b>	
	<b>Sub-total</b>		
	Less		
110-90	Tax Remissions and Refund [Schedule 1 – 1 (a)]	3,000	
	<b>Sub-total</b>		
	<b>Total tax revenue</b>	<b>12,64,000</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
110-90	Property taxes Water tax Advertisement tax Others	3,000	
	<b>Total refund and remission of tax revenues</b>	<b>3,000</b>	

**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	1,50,000	
120-30	Compensations in lieu of Concessions		
	<b>Total assigned revenues &amp; compensation</b>	<b>1,50,000</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	3,000	
130-20	Rent from Office Buildings		
130-80	Other rents		
	<b>Sub-Total</b>	<b>3,000</b>	
130-90	Less: Rent Remission and Refunds Sub-total	2,500	
	<b>Total Rental Income from Municipal Properties</b>	<b>500</b>	

**SCHEDULE I-4 : FEES & USER CHARGES [CODE NO 140]**

Code No.	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
1	2	3	4
140-10	Empanelment & Registration Charges	10,000	
140-11	Licensing Fees	4,000	
140-12	Fees for Grant of Permit	2,000	
140-13	Fees for Certificate or Extract		
140-40	Other Fees	5,000	
140-50	User Charges	42,000	
140-60	Entry Fees		
140-70	Service / Administrative Charges	4,000	
140-80	Other Charges	15,000	
	<b>Sub-Total</b>	<b>82,000</b>	
140-90	Less:Rent Remission and Refunds	2,000	
	<b>Sub-total</b>	<b>2,000</b>	
	<b>10.1 Total income from Fees &amp; User Charges – Income head-wise</b>	<b>80,000</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>10.2 Total Income from Sale &amp; Hire charges – income head-wise</b>	<b>0</b>	

**SCHEDULE I-6: REVENUE GRANTS, CONTRIBUTIONS & SUBSIDIES [CODE NO160]**

Detailed Head Code	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
1	2	3	4
160-10	Revenue Grant	29,500	
160-20	Re-imbusement of expenses	16,000	
60-30	Contribution towards schemes		
	<b>Total Revenue Grants, Contributions &amp; Subsidies</b>	<b>45,500</b>	

**SCHEDULE I-7: INCOME FROM INVESTMENTS – GENERAL FUND [CODE NO 170]**

Detailed Head Code	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
1	2	3	4
170-10	Interest on Investments		
170-20	Dividend		
170-30	Income from projects taken up on commercial basis	688	
170-40	Profit in Sale of Investments	1,500	
170-80	Others		
	<b>Total Income from Investments</b>	<b>2,188</b>	

**SCHEDULE I-8: INTEREST EARNED [CODE NO 171]**

Detailed Head Code	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
1	2	3	4
171-10	Interest from Bank Accounts		
171-20	Interest on Loans and advances to Employees	135	
171-30	Interest on loans to others	1,000	
171-80	Other Interest		
	<b>Total. – Interest Earned</b>	<b>1,135</b>	

**SCHEDULE I-9: OTHER INCOME [CODE NO180]**

Detailed Head Code	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
1	2	3	4
180-11	Lapsed Deposits		
180-30	Profit on Disposal of Fixed asses	1,000	
180-40	Recovery from Employees		
	<b>Total Other Income 1,000</b>		

**SCHEDULE I-10: ESTABLISHMENT EXPENSES [CODE NO 210]**

Detailed Head Code	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
1	2	3	4
210-10	Salaries, Wages and Bonus	2,500	
210-20	Benefits and Allowances	13,000	
210-30	Pension	3,000	
210-40	Other Terminal & Retirement Benefits	20,000	
	<b>3.1 Total establishment expenses – expense head wise</b>	<b>38,500</b>	

**SCHEDULE I-11: ADMINISTRATIVE EXPENSES [CODE NO 220]**

Detailed Head Code	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
1	2	3	4
220-10	Rent, Rates and Taxes		
220-11	Office maintenance		
220-12	Communication Expenses	1,500	
220-20	Books & Periodicals		
220-21	Printing and Stationery	700	
220-30	Travelling & Conveyance		
	<b>Total administrative expenses – expense head wise</b>	<b>2,200</b>	

**SCHEDULE I-12: OPERATIONS AND MAINTENANCE [CODE NO 230]**

Detailed Head Code	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
1	2	3	4
230-10	Power & Fuel		
230-30	Consumption of Stores	7,200	
230-40	Hire Charges		
230-51	Repairs & maintenance –Infrastructure Assets	25,000	
230-59	Repairs & maintenance – Others	600	
230-80	Other operating & maintenance expenses		
	<b>Total operations &amp; maintenance - expense head wise</b>	<b>32,800</b>	

**SCHEDULE I-13: INTEREST & FINANCE CHARGES [CODE NO 240]**

Detailed Head Code	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
1	2	3	4
240-50	Interest on Loans from Banks & Other Financial Institutions	10,000	
240-60	Other Interest	5,500	
240-70	Bank Charges		
240-80	Other Finance Expenses		
	<b>Total Interest &amp; Finance Charges</b>	<b>15,500</b>	

**SCHEDULE I-14: PROGRAMME EXPENSES [CODE NO 250]**

Detailed Head Code	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]**

Detailed Head Code	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
1	2	3	4
260-10	Grants [give details]	17,500	
260-20	Contributions [give details]		
	<b>Total Revenue Grants, Contributions &amp; Subsidies</b>	<b>17,500</b>	

**SCHEDULE I-16: PROVISIONS & WRITE OFF [CODE NO 270]**

Detailed Head Code	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
1	2	3	4
270-10	Provisions for Doubtful receivables	17,000	
270-20	Provision for other Assets	6,000	
270-40	Assets written off		
270-50	Miscellaneous Expense written off	600	
	<b>Total Provisions &amp; Write off</b>	<b>23,600</b>	

**SCHEDULE I-17: MISCELLANEOUS EXPENSES [CODE NO 271]**

Detailed Head Code	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
1	2	3	4
271-10	Loss on disposal of Assets	2,000	
271-20	Loss on disposal of Investments		
	<b>Total Miscellaneous expenses</b>	<b>2,000</b>	

**SCHEDULE I-18: PRIOR PERIOD ITEMS (NET) [CODE NO 280]**

Detailed Head Code	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
1	2	3	4
	<b>Income</b>		
280-10	Taxes	6,000	
280-20	Other – Revenues		
280-40	Other income		
	<b>Sub – Total Income (a)</b>	<b>6,000</b>	
	<b>Expenses</b>		
280-50	Refund of Taxes	2,000	
280-60	Refund of Other – Revenues	1,000	
280-80	Other Expenses		
	<b>Sub – Total Income (b)</b>	<b>3,000</b>	
	<b>Total Prior Period (Net) (a-b)</b>	<b>3,000</b>	



**BALANCE SHEET**

The ULBs 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.

The Balance Sheet is also drawn from the Trial Balance. Assets, liabilities and reserve heads are posted from the Trial Balance to the Balance Sheet.

The details of various Balance Sheet items are given in separate schedules attached to the Balance Sheet.

While preparing the Balance Sheet, the following should be kept in mind:

a. The balances in the asset accounts, which generally have a debit balance and are recorded on the debit side of the Trial Balance, shall be posted on the Asset side of the Balance Sheet;

b. The balances in the liabilities accounts, which generally have a credit balance and are recorded on the credit side of the Trial Balance, shall be posted on the Liability side of the Balance Sheet;

The Model Balance Sheet of a Model Municipal Corporation prepared on the basis of Trial balance (already cited previously) is given in the next page.

**MODEL MUNICIPAL CORPORATION (MMC)**  
**BALANCE SHEET OF MODEL MUNICIPAL CORPORATION AS ON 31ST MARCH 2007**

Code No	Description of items	Schedule No.	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
	<b>LIABILITIES</b>			
	<b>Reserve &amp; Surplus</b>			
3-10	Municipal (General) Fund	B-1	15,91,848	195,500
3-11	Earmarked Funds	B-2	1,24,925	114,000
3-12	Reserves	B-3	2,96,700	96,700
	<i>Total Reserves &amp; Surplus</i>		<b>20,13,473</b>	<b>406,200</b>
3-20	<b>Grants, Contributions for specific purposes</b>	B-4	7,860	
	<b>Loans</b>			
3-30	Secured Loans	B-5	0	
3-31	Unsecured Loans	B-6	1,43,700	0
	<i>Total Loans</i>		<b>1,43,700</b>	<b>0</b>
	<b>Current Liabilities and Provisions</b>			
3-40	Deposits Received	B-7	46,500	35,000
3-41	Deposit works	B-8	0	
3-50	Other Liabilities (Sundry Creditors)	B-9	1,04,500	75,000
3-60	Provisions	B-10	38,050	39,050
	<b>Total Current Liabilities and Provisions</b>		<b>1,89,050</b>	<b>144,050</b>
	<b>TOTAL LIABILITIES</b>		<b>23,54,083</b>	<b>550,250</b>
	<b>ASSETS</b>			
	<b>Fixed Assets</b>			
4-10	Gross Block	B-11	5,78,000	327,500
4-11	Less: Accumulated Depreciation		68,375	52,500
	Net Block			
4-12	Capital Work-in-Progress		41,500	24,000
	<i>Total Fixed Assets</i>		<b>5,51,125</b>	<b>299,000</b>
	<b>Investments</b>			
4-20	Investment – General Fund	B-12	5,000	0
4-21	Investments – Other Funds	B-13	11,000	0
	<i>Total Investments</i>		<b>16,000</b>	
	<b>Current Assets, Loans and Advances</b>			
4-30	Stock in Hand (Inventories)	B-14	30,800	38,000
4-31	Sundry Debtors (Receivables)			
	Gross amount outstanding	B-15	97,018	69,500
4-32	Less: Accumulated provision against bad and doubtful Receivables		(26,250)	(13,250)
	<i>Net amount outstanding</i>		70,905	56,250
4-40	Prepaid Expenses	B-16	1,800	0
4-50	Cash and Bank Balances	B-17	16,59,390	144,000
4-60	Loans, advances and deposits	B-18	27,800	18,000
4-61	Less: Accumulated provision against Loans		(6,000)	(5,000)
	<i>Net Amount outstanding</i>		21,800	13,000
	<b>Total Current Assets, Loans &amp; Advances</b>		<b>7,58,558</b>	<b>251,250</b>
4-70	<b>Other Assets</b>	B-19		
4-80	Miscellaneous Expenditure (to the extent not written off)	B-20	2,400	0
	<b>TOTAL ASSETS</b>		<b>23,54,083</b>	<b>550,250</b>

The various schedules to the Balance Sheet have been provided below:

**SCHEDULE B-1: MUNICIPAL (GENERAL) FUND [CODE NO 310]**

Code No.	Particulars	Opening balance as per the last account (Rs.)	Additions during the year (Rs.)	Total (Rs.)	Deductions during the year (Rs.)	Balance at the end of the current year (Rs.)
1	2	3	4	5	6	7
310-10	Municipal Fund					
310-90	Excess of Income & Expenditure	1,95,500	13,96,348	15,91,848		
	<b>Total Municipal fund (310)</b>	1,95,500	13,96,348	15,91,848	0	0

**SCHEDULE B-2: EARMARKED FUNDS**

**SCHEDULE B – 2: SPECIAL FUNDS/SINKING FUND/TRUST OR AGENCY FUND [CODE NO 311]**

Particulars	Gratuity & Leave encashment	Tree Authority fund	Pension fund	Provident fund	Water supply fund
Code No.					
<b>(a) Opening Balance</b>	Nil	Nil	45,000	55,000	14,000
<b>(b) Additions to the Special Fund</b>	20,000				14,000
(i) Transfer from Municipal Fund			3,000	300	
(ii) Interest/Dividend earned on Special Fund Investments		625			
(iii) Profit on disposal of Special Fund Investments					
(iv) Appreciation in Value of Special Fund Investments					
(v) Other addition (Specify nature)					
<b>Total (b)</b>		625	3,000	300	
<b>Total (a+b)</b>	20,000	625	48,000	55,300	14,000
<b>(c) Payments out of funds</b>					
<b>(i) Capital expenditure on</b>					
Fixed Assets*					
Others					
<b>Sub –total</b>	0	0	0	0	0
<b>(ii) Revenue Expenditure on</b>					
Salary, Wages and allowances etc.			10,000	3,000	
Rent					
Other administrative charges					
<b>Sub –total</b>	0	0	10,000	3,000	0
<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>	0	0	0	0	0
<b>Total of (i+ii+iii) (c)</b>			10,000	3,000	
<b>Net balance at the year end – (a+b)-(c)</b>	20,000	625	38,000	52,300	
<b>Grant Total of Special Funds</b>	20,000	625	38,000	52,300	14,000

**SCHEDULE B-3: RESERVES [CODE NO 312]**

Code No.	Particulars	Opening balance	Additions during the year (Rs.)	Total (Rs.)	Deductions during the year (Rs.)	Balance at the end of the current year (Rs.)
312-10	Capital Contribution		200,000	200,000		200,000
312-11	Capital Reserve			0		0
312-20	Borrowing Redemption Reserve			0		0
312-30	Special Funds (Utilised)			0		0
312-40	Statutory Reserve			0		0
312-50	General Reserve	96,700		96,700		96,700
312-60	Revaluation Reserve			0		0
	<b>Total Reserve funds</b>	96,700	200,000	296,700	0	296,700

**SCHEDULE B-4: GRANTS & CONTRIBUTION FOR SPECIFIC PURPOSES [CODE NO 320]**

Particulars	Grants from Central Government	Grants from State Government - Family welfare Grant	Grants from Other Government Agencies	Grants from Financial Institutions	Others
Code No.					
<b>(a) Opening Balance</b>					
<b>(b) Additions to the Grants *</b>					
(i) Grant received during the year		25,000			
(ii) Interest/Dividend earned on Grant Investments		360			
(iii) Profit on disposal of Grant Investments					
(iv) Appreciation in Value of Grant Investments					
(v) Other addition (Specify nature)					
<b>Total (b)</b>		<b>25,360</b>			
<b>Total (a+b)</b>		<b>25,360</b>	0	0	0
<b>(c) Payments out of funds</b>					
<b>(i) Capital expenditure on</b>					
Fixed Assets*					
Others					
<b>Sub –total</b>		<b>Nil</b>	0	0	0
<b>(ii) Revenue Expenditure on</b>					
Salary, Wages and allowances etc.		17,500			
Rent					
Other administrative charges					
<b>Sub –total</b>		<b>17,500</b>	0	0	0
<b>(iii) Other:</b>					

Loss on disposal of Grant Investments					
Diminution in Value of Grant Investments					
Grants Refunded					
<b>Sub –total</b>		<b>Nil</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total (c) [i+ii+iii]</b>					
<b>Net balance at the year end – (a+b)-(c)</b>		<b>7860</b>			
<b>Total Grants &amp; Contribution for Specific Purposes</b>		<b>7,860</b>	<b>0</b>	<b>0</b>	<b>0</b>

### SCHEDULE B—5: SECURED LOANS (CODE NO. 330)

#### Schedule B-5: Secured Loans [Code No 330]

Code No.	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
330-10	Loans from Central Government		
330-20	Loans from State government		
330-30	Loans from Govt. bodies & Associations		
330-40	Loans from international agencies		
330-50	Loans from banks & other financial institutions	0	
330-60	Other Term Loans		
330-70	Bonds & debentures		
330-80	Other Loans		
	<b>Total Secured Loans</b>	<b>0</b>	

### SCHEDULE B-6; UNSECURED LOAN

#### Schedule B-6: Unsecured Loans [Code No 331]

Code No.	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
331-10	Loans from Central Government		
331-20	Loans from State government		
331-30	Loans from Govt. bodies & Associations		
331-40	Loans from international agencies		
331-50	Loans from banks & other financial institutions	93,700	
331-60	Other Term Loans		
331-70	Bonds & debentures	50,000	
331-80	Other Loans		
	<b>Total Un-Secured Loans</b>	<b>143,700</b>	

**SCHEDULE B-7: DEPOSITED RECEIVED (CODE NO. 340)****Schedule B-7: Deposits Received [Code No 340]***Amount in Rs.*

Code No.	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
1	2	3	4
340-10	From Contractors	10,300	
340-20	From Revenues	4,000	
340-30	From staff		
340-80	From Others	32,200	
	<b>Total deposits received</b>	<b>46,500</b>	

**SCHEDULE B-8: DEPOSIT WORKS (CODE NO. 341)****Schedule B-8: Deposits Works [Code No 341]**

Code No.	Particulars	Opening balance as the beginning of the year Amount (Rs)	Additions during the current year Amount (Rs)	Utilisation / expenditure Amount (Rs)	Balance outstanding at the end of the current year Amount (Rs)
1	2	3	4	5	6
341-10	Civil Works				
341-20	Electrical works				
341-80	Others				
	<b>Total of deposit works</b>				

**SCHEDULE B-9: OTHER LIABILITIES (SUNDRY CREDITORS) (CODE NO. 350)****Schedule B-9: Other Liabilities (Sundry Creditors) [Code No 350]***Amount in Rs.*

Code No.	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
1	2	3	4
350-10	Creditors	97,000	
350-11	Employee Liabilities	1,000	
350-12	Interest Accrued and Due		
350-20	Recoveries Payable	6,500	
350-30	Government Dues Payable		
350-80	Others		
	<b>Total Other liabilities (Sundry Creditors)</b>	<b>104,500</b>	

**SCHEDULE B-10: PROVISIONS (CODE NO. 360)****Schedule B-10: Provisions [Code No. 360]**

Code No.	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
1	2	3	
360-10	Provision for Expenses	35,550	
360-20	Provision for Interest	2,500	
360-30	Provision for Other Assets	0	
	<b>Total Provisions</b>	<b>38,050</b>	

**SCHEDULE B-11: FIXED ASSETS (CODE NO. 410 & 411)****Schedule B-11: Fixed Assets [Code No. 410 & 411]**

Amount in Rs.

Code No	Particulars	Gross Block				Accumulated Depreciation		Net Block	
		Opening Balance	Additions during the period \$	Deductions during the period	Cost at the end of the year	Opening Balance	Additions during the period	At the end of current year	At the end of the previous year
1	2	3	4	5	6	7	8	11	12
410-10	Land	100,000	200,000		300,000			300,000	100,000
410-20	Buildings	100,000	30,000		130,000	25,000	6,500	98,500	75,000
	<b>Infrastructure Assets</b>				0			0	0
410-30	Roads and Bridges	65,000	25,500		90,500	15,000	4,875	70,625	50,000
410-31	Sewerage and drainage				0			0	0
410-32	Water ways				0			0	0
410-33	Public Lighting				0			0	0
	<b>Other assets</b>				0			0	0
410-40	Plants & Machinery	50,000		5000	45,000	10,000	2,000	33,000	40,000
410-50	Vehicles	12,500			12,500	2,500	2,500	7,500	10,000
410-60	Office & other equipment				0			0	0
410-70	Furniture, fixtures, fittings and electrical appliances				0			0	0
410-80	Other fixed assets				0			0	0
	<b>Total</b>	327,500	255,500	5000	578,000	52,500	15,875	509,625	275,000

5 - Additions include fixed assets created out of Earmarked Funds and Grants transferred to Urban Local Body's fixed block as referred to in Schedule B-2 and B-4

**SCHEDULE B-12: INVESTMENTS – GENERAL FUND (CODE 420)****Schedule B-12: Investments – General Fund [Code 420]**

Amount Rs.

Code No.	Particulars	With whom invested	Face value (Rs.)	Current year Carrying Cost (Rs.)	Previous year Carrying Cost (Rs.)
1	2	3	4	5	6
420-10	Central Government Securities				
420-20	State Government Securities				
420-30	Debentures and Bonds				
420-40	Preference Shares				
420-50	Equity Shares				
420-60	Units of Mutual Funds				
420-80	Other Investments		5,000		
	<b>Total of Investments General Fund</b>		<b>5,000</b>	<b>0</b>	<b>0</b>

**SCHEDULE B-13: INVESTMENTS – GENERAL FUND (CODE 421)****Schedule B-13: Investments - Other Funds [Code 421]**

Amount Rs.

Code No.	Particulars	With whom invested	Face value (Rs.)	Current year Carrying Cost (Rs.)	Previous year Carrying Cost (Rs.)
1	2	3	4	5	6
421-10	Central Government Securities		6,000		
421-20	State Government Securities				
421-30	Debentures and Bonds				
421-40	Preference Shares				
421-50	Equity Shares				
421-60	Units of Mutual Funds				
421-80	Other Investments		5,000		
	<b>Total of Investments Other Funds</b>		<b>11,000</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-14: STOCK IN HAND (INVENTORIES) (CODE 430)****Schedule B-14: Stock in Hand (Inventories) [Code 430]***Amount in Rs.*

Code No.	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
1	2	3	4
430-10	Stores	30,800	
430-20	Loose Tools		
430-30	Others		
	<b>Total Stock in hand</b>	<b>30,800</b>	

**SCHEDULE B-15: SUNDRY DEBTORS (RECEIVABLES) (CODE NO.431)****Schedule B-15: Sundry Debtors (Receivables) [Code No 431]**

Code No.	Particulars	Gross Amount (Rs.)	Provision for Outstanding revenues (Rs.)	Net Amount (Rs.)	Previous year Net amount (Rs.)
1	2	3	4	5 = 3 - 4	6
431-10	<u>Receivables for Property Taxes</u>	26,000	8250	17,750	
	Less than 5 years *				
	More than 5 years*				
	Sub - total				
431-91	Less: State Government Cesses/Levies in Taxes - Control Accounts				
	<b>Net Receivables of Property Taxes</b>	<b>26,000</b>	<b>8,250</b>	<b>17,750</b>	
431-19	<u>Receivable of Other Taxes</u>	3,000		3,000	
	Less than 3 years*				
	More than 3 years*				
431-99	Sub- total				
	Less: State Government Cesses/Levies in Taxes - Control Accounts				
	<b>Net Receivables of Other Taxes</b>	<b>3,000</b>			
431-20	<u>Receivables of Cess Income</u>				
	Less than 3 years*	8,500			
	More than 3 years*	6,000	8,000	6,500	
	<b>Sub- total</b>	<b>14,500</b>			
431-30	<u>Receivables for Fees and User Charges</u>	28,000	10,000	18,000	
	Less than 3 years*				
	More than 3 years*				
	<b>Sub - total</b>	<b>42,500</b>	<b>18,000</b>	<b>27,500</b>	
431-40	Receivables from Other Sources	518			
	Less than 3 years*				
	More than 3 years*				
	<b>Sub - total</b>	<b>518</b>		<b>518</b>	
431-50	Receivables from Government	25,000		25,000	
	<b>Total of Sundry Debtors (Receivables)</b>	<b>97,018</b>	<b>26,250</b>	<b>70,768</b>	

Note:

The provision made against accrual items would not affect the opening/ closing balances of the Demand and Collection

**SCHEDULE B-16: PREPAID EXPENSES (CODE NO.440)****Schedule B-16: Prepaid Expenses [Code No 440]**

Code No.	Particulars	Current year Amount (Rs.)	Previous year Amount (Rs.)
1	2	3	
440-10	Establishment		
440-20	Administrative		
440-30	Operations & Maintenance	1,800	
	<b>Total Prepaid expenses</b>	<b>1800</b>	



**SCHEDULE B-17: CASH AND BANK BALANCES (CODE NO.450)****Schedule B-17 :Cash and Bank Balances [Code No 450]**

Code No.	Particulars	Current year Amount (Rs.)	Previous year Amount (Rs.)
1	2	3	4
450-10	Cash	1,000	
	<b>Balance with Bank – Municipal Funds</b>		
450-21	Nationalised Banks	13,99,100	
450-22	Other Scheduled Banks		
450-23	Scheduled Co-operative Banks		
450-24	Post Office		
	<b>Sub-total</b>	<b>14,00,100</b>	
	<b>Balance with Bank – Special Funds</b>		
450-41	Nationalised Banks	109,290	
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>	<b>150,000</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>	<b>1659,390</b>	

**SCHEDULE B-18: LOANS ADVANCES AND DEPOSITS (CODE 460)****Schedule B-18: Loans, advances and deposits [Code 460]**

Code No.	Particulars	Opening Balance at the beginning of the year (Rs.)	Paid during the current year (Rs.)	Recovered during the year (Rs.)	Balance outstanding at the end of the year (Rs.)
1	2	3	4	5	6
460-10	Loans and advances to employees		4,700		
460-20	Employee Provident Fund Loans		2,250		
460-30	Loans to Others		14,350		
460-40	Advance to Suppliers and Contractors		6500		
460-50	Advance to Others				
460-60	Deposit with External Agencies				
460-80	Other Current Assets				
	<b>Sub –Total</b>		<b>27,800</b>		
461-	Less: Accumulated Provisions against Loans, Advances and Deposits (Schedule B – 18 (a))		6,000		
	<b>Total Loans, advances, and deposits</b>		<b>21,800</b>		0

**SCHEDULE B-18 (A): ACCUMULATED PROVISIONS AGAINST LOANS, ADVANCES AND DEPOSITS (CODE NO.461)**

**Schedule B-18 (a): Accumulated Provisions against Loans, Advances, and Deposits (Code No 461)**

Code No.	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
1	2	3	4
461-10	Loans to Others	6,000	
461-20	Advances		
461-30	Deposits		
	<b>Total Accumulated Provision</b>	<b>6,000</b>	

Note: The totals of this Schedule should equal to the amount as per the total in Schedule B – 18

**SCHEDULE B-19: OTHER ASSETS (CODE NO. 470)**

**Schedule B-19: Other Assets [Code No 470]**

Code No	Particulars	Current year	Previous year
		Amount (Rs.)	Amount (Rs.)
1	2	3	
470-10	Deposit Works		
470-20	Other asset control accounts		
	<b>Total Other Assets</b>		

**SCHEDULE B-20: MISCELLANEOUS EXPENDITURE (to the extent not written off) (CODE NO.480)**

**Schedule B-20: Miscellaneous Expenditure (to the extent not written off) [Code No 480]**

Code No	Particulars	Current year	Previous year
		Amount (Rs.)	Amount (Rs.)
1	2	3	
480-10	Loan Issue Expenses Deferred	2,400	
480-20	Discount on Issue of Loans		
480-30	Deferred Revenue Expenses		
480-90	Others		
	<b>Total Miscellaneous expenditure</b>	<b>2,400</b>	

**CASH FLOW STATEMENT**

Cash Flow statement is prepared in order to have information about the cash flows of an enterprise. It is useful in providing users of financial statements with a basis to assess the ability of the enterprise to generate cash and cash equivalents and the needs of the enterprise to utilise those cash flows.

A Cash Flow Statement, when used in conjunction with the other Financial Statements, provides information that enables users to evaluate the changes in assets and liabilities of an ULB, its financial status, and the actual performance in terms of cash inflows and outflows.

An example of the Cash flow of MMC is shown in the next page:

**Model Municipal Corporation (MMC)**  
**Statement of Cash Flow for the year ended 31st March, 2007**

Particulars	Current Year (Rs.)		Previous Year (Rs.)	
	Amount (Rs)	Amount (Rs)	Amount(Rs)	Amount (Rs)
<b>a. Cash flows from operating activities</b>				
Gross surplus/ (deficit) over expenditure		13,96,348		
<b>Adjustments for</b>				
<b>Add:</b>				
Depreciation	18,875			
Interest & finance expenses	15,500			
Provision for doubtful debts	23,000			
<b>Less:</b>				
Profit on disposal of assets	(1,000)			
Interest income	(1,822)			
Investment income	(1,500)			
Adjusted income over expenditure before effecting changes in current assets and current liabilities and extra ordinary items.		14,49,401		
<b>Changes in current assets and current liabilities</b>				
(Increase) / decrease in Sundry debtors	(27,246)			
(Increase) / decrease in Stock in hand	7,200			
(Increase) / decrease in prepaid expenses	(1,800)			
(Increase) / decrease in other current assets	850			
(Decrease)/ increase in Deposits received	11,500			
(Decrease)/ increase in other current liabilities	29,500			
(Decrease)/ increase in provisions	(5,000)			
Extra ordinary items (Specify)				
Net cash generated from/ (used in) operating activities (a)		14,64,405		
<b>b. Cash flows from investing activities</b>				
(Purchase) of fixed assets	(55,500)			
(Purchase) of CWIP	(17,500)			
(Increase) / Decrease in Special funds/grants				
(Decrease) / Increase in Earmarked funds	18,785			
(Purchase) of Investments	(21,000)			
<b>Add:</b>				
Proceeds from disposal of assets	3,000			
Proceeds from disposal of investments	6,500			
Interest income received	1,550			
Recovery of Loan	1,950			
Loan advanced to employee	(5,000)			
Loan advanced to MTU2	(10,000)			
Net cash generated from/ (used in) investing activities (b)		(77,215)		
<b>c. Cash flows from financing activities</b>				

Particulars	Current Year (Rs.)		Previous Year (Rs.)	
<b>Add:</b>				
Loans from banks/others received	150,000			
<b>Less:</b>				
Loan repaid	(6,300)			
Finance expenses	(15,500)			
Net cash generated from (used in) financing activities (c)		<b>128,200</b>		
<b>Net increase/ (decrease) in cash and cash equivalents (a + b + c)</b>		<b>15,15,390</b>		
Cash and cash equivalents at beginning of period		144,000		
<b>Cash and cash equivalents at end of period</b>		<b>16,59,390</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		1,000		
ii. Bank Balances		16,58,390		
iii. Scheduled co-operative banks				
iv. Balances with Post offices				
v. Balances with other banks				
<b>Total</b>		<b>16,59,390</b>		

### RECEIPTS AND PAYMENTS ACCOUNT

The Receipts and Payments Account shows the sources of funds and the applications of funds during the accounting reporting periods. The Receipts and Payments Account shall be prepared from the Balance Sheet, Income and Expenditure Statement, Ledgers and Cash Book.

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'.

An example of the Receipts and Payments account of MMC is shown in the next page:

**Model Municipal Corporation (MMC)**  
**Receipt and Payments accounts for the period from 01.04.2006 to 31.03.07**

Code No.	Head of Account	Current Period Amount (Rs.)	Corresponding Previous Period Amount (Rs.)	Code No.	Head of Account	Current Period Amount (Rs.)	Corresponding Previous Period Amount (Rs.)
	<b>Opening Balances#</b>	<b>144,000</b>					
	Cash balances including Imprest	1,000					
	Balances with Banks/Treasury (including balances in designated bank accounts)	143,000					
	<b>Operating Receipts</b>	<b>15,34,290</b>			<b>Operating Payments</b>	<b>89,650</b>	
1-10	Tax Revenue	13,03,000		2-10	Establishment Expenses	16,350	
1-20	Assigned Revenues & Compensations	125,000		2-20	Administrative Expenses	200	
1-30	Rental income from Municipal Properties	3,000		2-30	Operations and Maintenance	15,100	
1-40	Fees & User Charges	55,500		2-40	Interest & Finance Charges	15,500	
1-50	Sale & Hire Charges			2-50	Programme Expenses		
1-60	Revenue Grants, Contributions & Subsidies	45,500		2-60	Revenue Grants, Contributions & Subsidies	17,500	
1-70	Income from Investments	1,290					
1-71	Interest Earned	1,000		4-30	Purchase of Stores	5,000	
1-80	Other Income				Other Collections on behalf of State and Central Government	20,000	
	<b>Non-Operating Receipts</b>	<b>285,150</b>			<b>Non-Operating Payments</b>	<b>214,400</b>	
3-30/31	Loans Received	150,000		3-50	Other Payables	54,300	
3-40	Deposits Received	43,500		3-50	Refunds Payable	10,500	
3-20	Grants and contribution for specific purposes	25,000		**	Repayment of Loans	6,300	
3-50	Sale proceeds from Assets	3,000		**	Refund of Deposits	29,000	
4-20	Realisation of Investment – General Fund	6,500		4-10	Acquisition / Purchase of Fixed Assets	30,000	
4-21	Realisation of Investment – Other Funds			4-12	Capital Work – in – Progress		
3-41	Deposit works	50,000		3-41	Deposit works	28,000	
	Revenue Collected in Advance			4-20	Investments – General Fund	10,000	
	Loans & Advances to Employees (recovery)			4-21	Investments – Other Funds	11,000	
4-60	Other Loans & Advances (recovery)	2,150		4-60	Loans & Advances to Employees	5,000	
	Deposits with External Agencies (recovery)			4-40	Prepaid Expenses	1,800	
	Other Receipts			4-60	Other Loans & Advances - MTU2	10,000	
3-50	Unclaimed salaries	1,000		4-60	Deposits with External Agencies		
3-50	Sale proceeds of stores	2,000		4-60	Advance to contractors & others	13,000	
3-50	Recovery from Contractors	2,000		4-80	Loan issue expense deferred	3,000	
				4-60	Employee provident fund Loan	2,500	
					<b>Closing Balances #</b>	<b>16,59,390</b>	
					Cash balances including Imprest	1,000	
					Balances with Banks/Treasury (including balances in designated bank accounts)	16,58,390	
	<b>GRAND TOTAL</b>	<b>19,63,440</b>			<b>GRAND TOTAL</b>	<b>19,63,440</b>	

## FINANCIAL RATIO ANALYSIS

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.

An example of the financial ratios of Model Municipal Corporation (MMC) computed from the financials above is given in the next page:

**FINANCIAL RATIOS OF MODEL MUNICIPAL CORPORATION  
FOR THE PERIOD ENDED 31ST MARCH 2007**

Sr. No.	Particulars	Current Year	Previous Year
	<b>Income Ratios</b>		
1	Tax Revenue to Total Income Ratio... (%)	81.85	
2	Property & Other Taxes to Total Income Ratio... (%)	77.70	
	Octroi to Total Income Ratio... (%)	1.42	
3	Cess to Total Income Ratio... (%)	2.91	
4	Assigned Revenues & Compensations to Total Income Ratio... (%)	9.71	
5	Rental Income from Municipal Properties to Total Income Ratio... (%)	0.03	
6	Fees & User Charges to Total Income Ratio... (%)	5.18	
7	Revenue Grants, Contributions & Subsidies to Total Income Ratio... (%)	NA	
	<b>Expense Ratios</b>		
8	Establishment Expenses to Total Income Ratio... (%)	2.49	
9	Administrative Expenses to Total Income Ratio... (%)	0.14	
10	Operations & Maintenance to Total Income Ratio... (%)	2.12	
11	Interest Expense to Total Income Ratio... (%)	1.00	
	<b>Net Income Ratios</b>		
12	Cash Surplus / Deficit to Total Income Ratio... (%)	1.03	
	<b>Efficiency Ratios</b>		
13	Gross Property Tax Receivables Ratio... (No. of Days)	482	
14	Gross Cess Receivables Ratio... (No. of Days)	103	
15	Property Tax Receivable to Property Tax Income Ratio... (%)	46.15	
16	Cess Receivable to Cess Income Ratio... (%)	3.79	
17	Operations & Maintenance to Gross Fixed Assets Ratio... (%)	5.67	
18	Interest Expense to Loans Ratio... (%)	10.79	
	<b>Leverage Ratios</b>		
19	Loans to Reserves Ratio or Debt-Equity Ratio... (times)	0.07	
20	Interest Coverage Ratio... (times)	79.62	
21	Debt Service Coverage Ratio... (times)	74.65	
	<b>Investment Ratios</b>		
22	Earmarked Fund Investments to Earmarked Funds Ratio... (%)	8.81	
23	Interest on Investments Ratio... (%)	13.68	
	<b>Liquidity Ratio</b>		
24	Current Assets to Current Liabilities Ratio... (times)	9.44	
	<b>Asset Ratios</b>		
25	Fixed Assets to Total Assets Ratio... (%)	23.41	
	<b>Performance Ratios</b>		
26	Income per Employee... (Rs.)	30886.46	
27	Expenditure per Employee... (Rs.)	3019.50	
28	Income per Citizen... (Rs.)	NA	
29	Expenditure per Citizen... (Rs.)	NA	

Note: It is assumed that the total staff strength is 50.

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**SUMMARY**

1. The financial statements indicate the state of affairs and the performance of the ULB for a stated period usually a year.
2. Financial statement comprise of the following
  - a. Balance Sheet;
  - b. Income and Expenditure Statement;
  - c. Statement of Cash flows (a summary of an enterprise's cash flow over a given period of time);
  - d. Receipts and Payments Account (detailed as per the account heads);
  - e. Notes to Accounts; and
  - f. Financial Performance Indicators.
3. The process of preparation of the Financial Statements shall be preceded by preparation of a Trial Balance.
4. The **Trial Balance** is a list of closing balances in all the accounts in the Ledger and the Cash Books. The purpose of preparing a Trial Balance is to determine the equality of posted debits and credits, and to generate a basic summary of accounts for facilitating preparation of the Financial Statements
5. The ULB shall also prepare an **Income and Expenditure Statement** for every accounting period. The Income and Expenditure Statement discloses the results of the working of the ULB during the period covered by the statement. It shows incomes and expenditures of the ULB for an accounting period and the excess of income over expenditure or vice-versa for that period.
6. The ULB shall prepare a **Balance Sheet** at the end of each accounting period. The Balance Sheet is a statement, which reflects the financial position of the ULB as on a particular date. It presents the assets, liabilities and reserves of the ULB as on a specified date.
7. Cash Flow statement is prepared in order to have information about the cash flows of an enterprise. It is useful in providing users of financial statements with a basis to assess the ability of the enterprise to generate cash and cash equivalents and the needs of the enterprise to utilise those cash flows.
8. The Receipts and Payments Account shows the sources of funds and the applications of funds during the accounting reporting periods.
9. Notes to Accounts shall comprise of Statement of Significant Accounting Principles, Statement on Contingent Liabilities, Subsidy Report and Other Disclosures.
10. Ratios are indicators of performance of the ULB/Department. Financial Ratio Analysis is a study of ratios between various items or groups of items in the Financial Statements of the ULB.

### EXERCISE 1 – SESSION 3

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

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

**2. Match the following**

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

**3. Identify the relevant Account codes (Major Head- Minor Head – Detailed Head) for the following transactions**

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



**EXERCISE 2 – SESSION 3****Fill in the blanks**

1. \_\_\_\_\_ is a list of closing balances in all the accounts in the ledger and the cash book.
2. The Income and Expenditure Statement shows \_\_\_\_\_ of the ULB
3. Any income or expenditure under a particular individual head, which is \_\_\_\_\_ or \_\_\_\_\_ which ever is higher, shall be shown separately in the Schedules annexed to the Income and Expenditure Statement.
4. Balance sheet reflects \_\_\_\_\_ of the ULB.
5. A cash flow is classified in to \_\_\_\_\_, \_\_\_\_\_ & \_\_\_\_\_ Activities.

**Answer the following questions**

1. What do financial statements comprise off?
  2. What is the purpose of Cash flow statement?
  3. State any five differences between “Receipts and Payments account” and “Cash flow statement”?
  4. In a Cash flow statement what does “Cash flow from investing activities” mean?
  5. What do negative balance in “Cash flow from operating activities” signifies?
  6. What do the following ratios signify and how it is computed?
    - a. Tax revenue to total income ratio
    - b. Gross property tax receivable ratio.
    - c. Operations and maintenance to gross fixed asset ratio.
    - d. Debt service coverage ratio
    - e. Current asset to current liabilities ratio.
-



# **SESSION 4**

**SESSION TITLE:**

**POINTS TO BE FOLLOWED  
IN CERTIFICATION AUDIT.**

<b>SESSION TITLE: Points to be followed in Certification Audit</b>		Session Guide
<b>INSTRUCTOR'S GUIDE</b>	Reference	Participants' Response
<b>SESSION OVERVIEW</b>		
<p><b>Welcome</b> participants to the session and remind them that their active participation is critical for the success of each session.</p> <p><b>Remind them</b> that in the last session Charts of Accounts were discussed and participants were familiarized with Financial Statements</p> <p><b>Tell them</b> that in this session various probable audit points for Certification Audit will be discussed..</p>	Lecture	
<b>BASIC CONCEPT</b>		
<p><b>Explain</b> the objective / purpose of Certification Audit, Audit Materiality e.g. Assessing materiality, Relationship between Materiality and Sensitivity of account, Factors other than value deciding materiality, Audit Procedures, System Based Approach, Opening Balances and Comparatives, Evidence, Reporting, Types of opinions e.g. Qualified Opinions etc.</p> <p><b>Tell them</b> the duties of the Auditor, appointed by the State Government, as laid down in the West Bengal Municipal Act.</p>	<ul style="list-style-type: none"> <li>• Lecture</li> <li>• SESSION 4 PowerPoint Presentation</li> </ul>	
<b>SUMMARISE</b>		
Summarise the session with the mention of topics discussed during the session.		

**SESSION TITLE****Points to be followed in Certification Audit****LEARNING OBJECTIVE**

At the end of this Session, the participants will-

- understand the Primary objective of financial audit, Objectives set by CAG of India, Audit Materiality, Relationship between Materiality and Sensitivity of account,
- be familiar with the Audit Procedures, Evidence, Reporting, Unqualified opinions, Qualified Opinions

**SESSION OVERVIEW**

This session covers general audit objectives of financial audit; objectives set by CAG of India and explain the Audit Materiality, Assessing materiality, Relationship between Materiality and Sensitivity of account etc. It will also cover factors other than value deciding materiality, Materiality by nature, Materiality by context. This session also covers the Audit Procedure which includes Analytical Procedures, System Based Audit and Substantive Test of Details and legal requirements for the Examiner of Local Accounts or Director of Local Fund.

**OBJECTIVE OF FINANCIAL AUDIT OR CERTIFICATION AUDIT**

The purpose of financial audit of Municipal entities include providing decision makers (financial statement users) with the assurance as to whether the financial statements of the entities are reliable (presented fairly in all material respects, in accordance with accounting rules) and report on non compliance with laws and regulations.

**AUDIT OBJECTIVES**

In relation to financial audit, it is necessary to clarify the following concepts:

- Primary objective of financial audit;
- Objectives which might be set by the CAG or the Statute;
- The general audit objectives of any financial audit

**PRIMARY OBJECTIVE OF FINANCIAL AUDIT**

Financial audit may be defined as a process of attestation of financial accountability of accountable entities involving examination and evaluation of financial records and expression of opinion on financial statements. Primary objective of financial audit is, therefore, “expression of an opinion” on financial statements.

**OBJECTIVES SET BY CAG OR STATUTE**

While the primary objective of the financial audit is to give an opinion on the financial statements (accounts), the CAG’s orders may determine the way financial audit is carried out. The objectives set by the CAG would reflect his audit mandate and policy. For instance,

while carrying out the financial audit of Finance and Appropriation Accounts of a State Government, verification of adequacy of internal controls in the systems followed in the compilation of accounts leading to preparation of Finance and Appropriation Accounts in the office of the Accountant General (A&E) may be specified as an objective. Sometimes the Statute (the legislation governing the audit) may also lay down the audit objectives.

### **THE GENERAL AUDIT OBJECTIVES OF FINANCIAL AUDIT: ASSERTIONS IN FINANCIAL STATEMENTS**

To be relevant, the audit must relate to general objectives (also called assertions). Assertions are positive statements about the 'state of being'. For example an assertion may be that all receipts are accounted for, or that all the investments shown in the accounts were really owned by the entity. These general audit objectives (assertions) are designed to ensure that the auditor obtains evidence to support all aspects of the opinion required to be expressed on an account.

### **GENERAL FINANCIAL AUDIT OBJECTIVES ('ASSERTIONS') FOR RECEIPT AND PAYMENT OR INCOME AND EXPENDITURE ACCOUNT ITEMS**

There are five general audit objectives as indicated below:

- Completeness
- Occurrence
- Measurement
- Disclosure
- Regularity

These audit objectives are explained below:

**COMPLETENESS:** 'Completeness' means that all transactions relevant to the year of the account have been recorded. This implies that no transaction has been overlooked. This assertion directly tests for potential understatement of figures in accounts. To take an example, if the accounts are prepared for the financial year 2009-10, an item of expenditure which takes place during 2009-10 is not recorded in accounts of 2009-10, the completeness objective is not fulfilled.

**OCCURRENCE:** 'Occurrence' means that all recorded transaction occurred and were relevant to the year of account. For instance, if an item of receipt was booked in the accounts for the financial year 2009-10 which actually related to financial year 2010-11, then it violates the assertion of 'occurrence'. To satisfy the 'occurrence' objective, the item should relate to only 2009-10 (in above instance) and not to any other financial year.

**MEASUREMENT:** 'Measurement' means that the recorded transactions have been correctly valued, properly calculated, or measured in accordance with established accounting policies,

on an acceptable and consistent basis. This involves much more than clerical accuracy as it requires the auditor to check conformity with established accounting policies and standards and the consistency in measurement.

**DISCLOSURE:** ‘Disclosure’ means an item is disclosed, classified and described in accordance with the recognised accounting policies and practices and relevant statutory requirements, if any. This implies that the receipts and expenditure were booked to proper heads of accounts and the disclosure in the notes and foot notes in the accounts are appropriate and adequate.

**REGULARITY:** ‘Regularity’ is unique requirement for Government accounts, the regularity of the expenditure and receipt is an important element to be considered. For example, a payment may be correctly recorded and properly disclosed in the relevant year of the account at correct value, but payment would be irregular if it did not accord with the requirement of the governing legislation or regulations.

### **FOR BALANCE SHEET OR ITEMS OF ASSETS AND LIABILITIES**

There are five general audit objectives as indicated below:

- Completeness
- Existence
- Valuation
- Ownership
- Disclosure

These objectives are explained below:

**COMPLETENESS:** ‘Completeness’ means that all assets and liabilities have been recorded in the accounts and nothing was omitted. In other words there are no unrecorded assets or liabilities. This objective directly tests for potential understatement of assets and liabilities. For example, if the accounts omit some investments or liabilities, the completeness objective is not satisfied.

**EXISTENCE:** ‘Existence’ means that all recorded assets and liabilities actually exist on the given date. This objective directly tests for potential overstatement of assets and liabilities. For example, if the accounts show some amount as cash balance, which does not exist, the ‘existence’ objective is not satisfied.

**VALUATION:** ‘Valuation’ means that the values given to the assets and liabilities are accurate and have been arrived at in accordance with the established *accounting consistent application*.

**OWNERSHIP:** ‘Ownership’ means that the assets are owned by the entity, the liabilities are properly those of the entity and both arise solely from regular activities. The balance sheet

presents an accumulation of the entity's rights and obligations. 'Ownership' assertion requires that the assets and liabilities reported actually represent those rights and obligations of the entity on the given date. For example, if an item is shown in the accounts as amount receivable, the entity should have the legal right to sue and collect the amount.

**DISCLOSURE:** 'Disclosure' means that the assets and liabilities have been properly disclosed, classified and described in accordance with applicable reporting framework and relevant statutory requirements, if any. This implies that the assets and liabilities were booked to proper head of account and the disclosure in the notes and footnotes in the accounts are appropriate and adequate. For instance, if obligations under the guarantees given by the entity are not shown in the accounts, the requirement of 'disclosure' is not satisfied.

### **AUDIT MATERIALITY**

The concept of materiality underlines the whole process of financial audit. The users of financial statements do not need absolute accuracy to make informed decisions. A matter is, therefore considered material, if its omission or misstatement would reasonably influence the decision of an intended user taken on the basis of financial information given in accounts.

The concept of materiality is used both at planning stage of the audit, when deciding what and how much work (i.e. audit procedures) needs to be done, and in evaluating the results of the audit. These are known as 'planning materiality' and 'reporting materiality' respectively. Thus materiality should be considered by audit when:

- a) determining the nature, timing and extent of audit procedures; and
- b) evaluating the effects of misstatements.

*There is an inverse relationship between materiality and the degree of audit risk, that is, higher the materiality level, the lower the audit risk and vice versa. The auditor takes the inverse relationship between the materiality and audit risk into account when determining the nature and extent of audit procedure. As a matter of caution, the planning materiality should be taken at lower figure than reporting materiality.*

### **ASSESSING MATERIALITY**

Materiality depends on the size and nature of the item judged in the particular circumstances of its misstatement. In assessing materiality, the prime consideration is the total value of the errors in the account. However, the value is not the sole consideration while determining materiality. The concept of materiality recognises that some matters, either individually or in aggregate, are relatively important for true and fair presentation of financial information in conformity with recognised accounting policies and practices. The nature of the error, or the



context in which transaction occurs, are sometimes more important and Audit must always consider these factors, as well as value, when deciding whether an error is material.

Thus materiality can be categorised into three types. These are explained in following paragraphs:

- Materiality by Value
- Materiality by Nature
- Materiality by Context

The point where the total value of errors in an account becomes unacceptable to Audit, so that Audit would have to qualify the audit opinion, is called materiality level of that account. Audit has to judge the materiality level of a particular account through the eyes of the intended users of that account. In doing this, Audit will be judging the sensitivity of the account.

The materiality thresholds depend on the nature of accounts and their sensitivity. Materiality is a relative term and requires the exercise of professional judgement. Materiality should be chosen to reflect the drivers behind the account, and could be expenditure, income, average surplus or asset values etc. The level of materiality by value is set at the outset of the audit, but only should be considered as a guide. It should not be considered a hard and fast figure. A range of values can be considered for materiality and audit plan should contain a justification of the choice.

Audit materiality should be based on its individual circumstances. When deciding on a figure to be used as materiality the auditors should be guided by two questions:

- How great is the users' interest in the account likely to be?
- What are they most likely to be concerned about?

#### **RELATIONSHIP BETWEEN MATERIALITY AND SENSITIVITY OF ACCOUNT**

The level of interest in the account dictates sensitivity of the account, more interest in the account results in less error being tolerated before the financial statements are felt to be no longer giving true and fair view of the state of affairs of the entity.

The materiality level is usually set at a percentage of the materiality base depending upon the sensitivity of the account. The example given in the following table illustrates different base figures and materiality thresholds depending upon the sensitivity of the accounts:

Base Figure for Materiality	Materiality thresholds based on sensitivity of Account		
	Very Sensitive	Sensitive	Not Sensitive
Normal net surplus	5%	5 – 10%	10%
Gross income /expenditure	0.5%	0.5 – 2%	2%
Turnover (Sales)	0.5%	0.5 – 2%	2%
Total assets	0.5%	0.5 – 1%	1%
Net assets	1%	1 – 2%	2%

**Example**

A public sector company is engaged mainly in trading activities. The income of the company in a year is Rs. 500 crore. The accounts are not considered sensitive as there is no recent interest expressed by the Legislature and members of general public. There is no proposal for disinvestment of government's share in the company and there are no shareholders other than government. *Considering the accounts as non-sensitive, materiality threshold for sales was fixed at 2% i.e. Rs. 10 crore was fixed for financial (attest) audit.*

**FACTORS OTHER THAN VALUE DECIDING MATERIALITY**

While the use of percentage as numerical threshold such as one percent of expenditure may provide the basis of preliminary assessment of materiality, it can not appropriately be used as substitute for a full analysis of all relevant considerations. In other words materiality is also affected by nature of error as well as context of error.

**MATERIALITY BY NATURE**

The question asked here is *“Does the error affect a figure in accounts which users expect to be stated with high degree of accuracy or which is likely to be of great interest to them?”*

This recognises that in any set of accounts some are more material than others. These will include specific disclosure requirements of the auditee entity and the matters which the auditor knows the legislature would be interested in to the extent that a higher degree of accuracy is required for those particular figures than the account as a whole.

**MATERIALITY BY CONTEXT**

The question here being addressed is *“Is error material because of its implication for other aspects of accounts?”* For example, due to a misstatement, the financial statements indicate that a department has savings when it has in fact exceeded its budget, will become material.

**AUDIT PROCEDURES**

The following audit procedures are commonly used to obtain audit assurance and help in forming opinion on the financial statements.

- Analytical Procedures
- System Based Audit
- Direct Substantive Testing

**ANALYTICAL PROCEDURES**

Analytical procedures consist of evaluation of financial information in audit, by studying the plausible relationships among both financial and non financial data. It involves analysis of significant ratios and trends that are inconsistent with other relevant data or which deviate from expectations. "Expectations" in this context, refer to the auditor's expectations of what a

figure in accounts being audited, should approximately be as worked out from other relevant financial and non financial information. It is based on assumption that there are relationships between items in the accounts and this relationship may be expected to continue.

Example:

- The reasonableness of figures of expenditure on salaries can be verified by multiplying the number employees in each grade with the average salary of the grade.
- The reasonableness of the interest on General Provident Fund balance can be verified by multiplying the average balance in the General Provident Fund with the prescribed rate of interest.

Comparing the amounts with budgeted amounts as well comparing these with the figures of a few previous years, identifying anomalous items within an account balance e.g. salaries should not be drawn for more than 12 months in a year, are part of analytical review.

The analytical review procedure may be applied to the consolidated financial statements and individual elements of financial statements.

The analytical review procedure helps us to find areas which should be examined in detail during audit. When the analytical review procedure identifies significant fluctuations or relationships that are inconsistent with other relevant information or that deviate from predicted amount, the auditor should investigate and obtain adequate explanations and appropriate evidence. Mere existence of anomaly or amounts deviating from expectations is not enough to draw conclusions. These should be substantiated later on by carrying out detailed audit by obtaining evidence.

### **SYSTEM BASED APPROACH**

The organisations establish systems of control designed to assure the accuracy and completeness of financial statements, the legality and regularity of underlying transactions and economy, efficiency and effectiveness of operations. Generally speaking, if the auditor is satisfied about the adequacy and effectiveness of these controls, the substantive checking of financial statements, transactions can be reduced accordingly. The approach whereby the auditor checks the adequacy and effectiveness of the entity's internal control systems is known as the System Based Approach (SBA).

Various steps involved in SBA are as follows:

- Identification and in-depth evaluation of relevant key controls, and assessment of extent, if any, to which the auditor can rely on these controls provided they are found to be operating effectively.

- The testing of the operation of these controls to establish whether they have operated effectively throughout the period under examination.
- The evaluation of the results of the tests of control to establish whether the degree of reliance foreseen can be taken from the examination of the controls.

Based on above examination, the auditor will arrive at a conclusion as to whether the controls are existing, reliable and extent of their reliability. The auditor may also indicate loopholes in internal control system and suggest what additional controls could be used to remove such loopholes.

Example:

In the Revenue Department of Kolkata Municipal Corporation, a sub-system could be 'Assessment of Property Tax'. One of the objectives here would be that the property tax is assessed as per rate prescribed under appropriate Act. The internal control to achieve this objective could be that the staff engaged for assessment work should note down the notification regarding property tax rates once in a month (say on 10<sup>th</sup> of the month) from of the Administration Wing which records all notifications/ circulars on various subject. The auditor may find this control not effective and instead may recommend that whenever any circular on rates of the tax is issued, the Head in charge of Revenue Department should get these notifications acknowledged the day of receipt of the notification from all the staff engaged with assessment.

### **DIRECT SUBSTANTIVE TESTING**

Direct Substantive tests are those tests of transactions and balances which seek to provide evidence as against audit assertions like completeness, accuracy, disclosure (classification) etc. in the information contained in accounts or financial statements. The testing involves examination of samples of transactions or account balances and is a form of inductive reasoning where the reasonableness of aggregate results is inferred from the evidence of reliability of the individual details that have been tested.

Example

If the auditor wants to test whether the 'Investments' shown in the balance sheet are not overstated, he will check the records relating to investments like ledger, instruments of all the investments if possible, otherwise he can check this on sample basis.

Various steps involved in performing direct substantive testing are as follows:

1. Determination of sample size and performance of test check as explained below.
2. Identification of sub-systems to be tested. For example, in Revenue Department of KC one of the sub-systems could be 'Property Tax'.

3. Identification of audit objectives to be tested for selected sub-system. For example, the audit objective could be to check whether ‘the transactions (revenue receipts) are accurately reflected in the accounts i.e. checking the assertion of ‘completeness’.
4. Identification of techniques of gathering evidence. In case of above cited example the auditor would compute the amounts of individual transactions and reconcile the same with the amount given in the ledger.
5. Formulation of conclusions on the fulfillment or other wise of audit objectives for the selected sub-system.

### **OPENING BALANCES AND COMPARATIVES**

Opening Balances’ are those account balances which exist at the beginning of the period. They are based on the closing balances of the preceding period and therefore reflect the transactions of preceding periods and accounting policies applied in those periods. The audit team should obtain relevant, reasonable and competent audit evidence that amounts derived from preceding period’s financial statement are free from material misstatements (which materially affect the current period’s financial statements) and that appropriate accounting policies are constantly applied, or where changes have been, they are properly disclosed.

‘Comparatives’ are the corresponding amounts and other related disclosures from the preceding period which are part of current period’s financial statements. Except where prior period adjustment or change in accounting policy, the opening balances should be consistent with preceding period’s closing balances. The audit team should obtain evidence that:

- The accounting policies used for comparatives are consistent with those of the current period, or, where this is not the case, the appropriate adjustment and disclosure has been made.
- The comparatives agree with the amounts and disclosures made in the preceding period and are free from material misstatements in the context of current period’s financial statements.
- Where the comparatives have been adjusted to take into account of any relevant legislation, accounting standards, rules and instructions, appropriate disclosures have been made in the financial statements.

Normally in the majority of circumstances, the financial statements of the preceding periods would have been audited by Comptroller and Auditor General of India and there may not be prior period adjustments. In such cases audit team must rely on the audit work in the preceding period and restrict audit procedure to checking that account balances have been

brought forward accurately and comparatives match appropriately. Where there are prior period adjustments, the audit team should test the basis for those adjustments and ensure that the comparatives and opening balances have been properly restated.

## EVIDENCE

For the purpose of expressing an opinion on the financial statements, being audited, an auditor collects evidence. The Auditing Standards of the Comptroller & Auditor General of India require that the auditor should obtain competent, relevant and reasonable evidence to support his findings and conclusions.

The ways in which the audit evidence is obtained can be categorised as :

**Inspection:** examination of records, documents or tangible assets. Generally an audit team places considerable reliance on this for test of controls and substantive tests.

**Observation:** watching a process as it takes place. This is unlikely to provide substantive evidence but may be useful in testing controls that leave no audit trail. However, its reliability is limited because the presence of the audit team may influence the way in which the process is undertaken.

**Enquiry and confirmation:** obtaining information from knowledgeable person inside or outside the entity. This may be used for both testing of controls and substantive testing. Confirmation is a response to an enquiry which corroborates information contained in the accounting records.

**Computation:** checking the arithmetical accuracy of the source documents and accounting records. This is a central feature of substantive testing and as the evidence is created by the audit team, it is highly reliable.

**Analytical procedure:** the analysis of relationship between items of financial data or between financial and non-financial data. Its reliability as source of evidence depends crucially on the plausibility of the relationships examined.

## REPORTING

### Opinion and basis of accounts

The circumstances in which each form of words is used are indicated below:

‘properly presents’ – used when the financial statements have been prepared on cash basis, reflecting very low level of judgement required in preparing financial statements on cash basis.

‘presents fairly’ – used when the financial statements have been prepared on a partial accrual basis and are not intended to give true and fair view. This form of words reflect the fact that

though some element of judgement have been used in preparing the financial statements, the audit opinion is distinct one on accounts which give true and fair view.

‘true and fair’ – used when the financial statements have been prepared on a full accrual basis and intended to give a true and fair view.

### FRAMING OF OPINION

The audit certificate should contain a clear expression of opinion on both true and fairness and regularity of the transactions recorded in the financial statements

### TYPES OF OPINIONS

**Unqualified opinions:** An unqualified opinion is given when, in the judgement of the auditor, the financial statements give true picture of income and expenditure, assets and liabilities and have been prepared in accordance with relevant accounting requirements.

In forming this judgement the auditor must be satisfied that in all material respects:

- the financial statements have been prepared in accordance with relevant legislation, regulations, instruction and applicable accounting standards;
- there is adequate disclosure of all information relevant to proper understanding of the financial statements;
- appropriate accounting policies have been consistently applied in preparation of financial statements; and
- the financial statements are free from material irregularity.

**Qualified Opinions:** The opinion should be qualified where the auditor is unable to satisfy himself that the financial statements are free from material misstatements whether caused by fraud, error or other irregularities.

The reasons for qualified audit certificates can be attribute to:

- Uncertainty
- Disagreement

Uncertainty can arise when the auditor is unable to obtain all the information and explanations he considers necessary to complete his audit (resulting in a limitation on the scope of audit), thus rendering the auditor unable to reach a definite conclusion.

Disagreement can arise when the auditor disagrees with something the auditee has included in, or omitted from, the accounts. For example, the auditor may disagree with amounts shown the accounts.

The manner in which the auditor qualifies his opinion depends on following:

- whether the qualification is due to uncertainty or disagreement
- the strength of the qualification



The strength of qualification can be determined by asking the basic question - Is the matter fundamental to understanding of the financial statements, so that in auditor's opinion, a person reading the financial statements would be misled as a result of the error (misstatement) in them?

Thus if the auditor feels that something has caused the material uncertainty, he would qualify his normal opinion by stating that the accounts 'give true and fair view' by saying 'subject to (the uncertainty) and he would report separately on the circumstances.

Similarly in case of material disagreement the auditor would reflect the material disagreement in opinion by stating '*except for* ... (the overstatement of assets etc.) followed by normal opinion. The report (SAR) should provide the details of this disagreement.

However in case of fundamental uncertainty or fundamental disagreement the opinion is expressed in following manner:

- The fundamental uncertainty would be reflected in the certificate by the auditor stating that he was unable to give an opinion on the accounts also known as disclaimer of opinion.
- The fundamental disagreement would result in the auditor giving an adverse opinion stating that the accounts did not 'give true and fair view'.

Qualifications of the audit opinion therefore fall into the following categories:

Nature of circumstances	Material but not fundamental	Fundamental
Uncertainty	'subject to' opinion	Disclaimer opinion
Disagreement	'except for' opinion	Adverse opinion

Before issuing a qualified opinion or a disclaimer of opinion, the matter should be discussed with the management of the auditee entity in full regarding the circumstances giving rise to qualification and auditee management should be given opportunity to make corrections to the financial statements or provide further information in support of their contention.

### **LEGAL PROVISIONS**

The provisions of the West Bengal Municipal Act, 1993 and the West Bengal Municipal (Finance and Accounting) Rules, 1999 as amended vide notification (No. 12/MA/O/C-4/1A-8/2005) dated 5<sup>th</sup> January 2007, on audit of accounts of municipalities are as under:

The accounts as contained in the financial statements including the accounts of special funds, if any and the Balance Sheet, shall be examined and audited by the Auditor appointed by the State Government. The Auditor's Report on the Balance Sheet, Income and Expenditure



Statement, Receipts and Payments Statement, and Cash Flow Statement shall be addressed to the Chairman / Mayor of the Municipality, with a copy being forwarded to the Director of Local Bodies or such other officers as the State Government may direct. The Auditor shall include the following a statement in his report -

- Every payment which appears to him to be contrary to law, account of any deficiency or defalcation or loss which appears to have been caused by the gross negligence or misconduct of any person,
- the account of any sum received, which ought to have been, but have not been, brought into any account by any person,
- any other material impropriety or irregularity which may be observed in the accounts

The Report of the Auditor shall state the following in addition to the statements above:

- Whether he has obtained all the information and explanations which to the best of his knowledge and belief were necessary for the purposes of his audit;
- Whether, in his opinion, proper books of account as required by the Act and these Rules and any other stipulation have been kept and are presented in proper form, by the Municipality so far as it appears from his examination of those books;
- Whether the Municipality's Balance Sheet, Income and Expenditure Statement, Receipts and Payments Statement and Cash Flow Statement dealt with by the report are in agreement with the books of accounts;
- Whether appropriate internal controls have been adhered to.

Where any of the matters referred to above are answered adversely or with a qualification, the auditor's report shall state the reason for the same and with further explanations and inclusion of statistical impact if possible.

The Auditor shall comment in respect of the following matters in the Annexure to the Audit Report-

- whether all the expenditure incurred by the Municipality are authorised by appropriate provision in the sanctioned budget, whether made originally or subsequently and are in all cases such as are authorised by law;
- whether all sums due to and received by the Municipality have been brought to account within the prescribed time limits and are in all cases such as are authorised by law;
- whether all transactions (incomes, expenditures, assets and liabilities) are correctly classified and stated in sufficient detail;

- whether in respect of all bills for charges on account of all works and other expenditure, proper certificates have been furnished in support of them and that no deviation has been made from the sanctioned plans and the estimates without the sanction of the competent authority;
- whether the amounts received as specific grants have been utilised for the purposes as stated in the grant sanction order;
- whether the Special Funds, if any, have been created as per the provisions of relevant statutes and whether the Special Funds have been utilised for the purposes for which created;
- whether the Municipality is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets; whether these fixed 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;
- whether physical verification has been conducted by the Municipality at reasonable intervals in respect of stores,
- whether the procedures of physical verification of stores followed by the Municipality are reasonable and adequate. if not, the inadequacies in such procedures should be reported.
- whether any material discrepancies have been noticed on physical verification of stores compared to book records, and If yes, 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 by the State Government from time to time. Whether the basis of valuation of stores is same as in the preceding year. If there is any deviation in the basis of valuation, the effect of such deviation, if material, should be reported;
- whether the parties to whom the loans or advances in the nature of loans, have been given by the Municipality, 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 Municipality for recovery of the principal and interest;
- 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 and whether provision for the loss in this respect, if any, has been made in the accounts;
  - whether the Municipality is regular in depositing Provident Fund dues and Profession Tax deducted with the appropriate authorities and if not the extent of arrears;
  - whether the Municipality is regular in depositing tax deducted at source (income tax and works contract tax) and other statutory dues, and if not, the nature and cause of such delay and the amount not deposited;
  - whether any personal expenses have been charged to revenue account; if so, the details thereof;
  - whether the total liabilities of the Municipality can be met out of the Municipal Fund when falling due;
  - any other matter which the Government, Municipality and/or the Authority (as required by the Act), may have specifically required to be covered as a part of the Audit.
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# **SESSION 5**

**SESSION TITLE:  
FAMILIARISATION WITH PURO-HISAB  
(ACCOUNTING SOFTWARE).**

<b>SESSION TITLE: Familiarisation with PURO-HISAB</b>		Session Guide
<b>INSTRUCTOR'S GUIDE</b>	<b>Reference</b>	<b>Participants' Response</b>
<b>SESSION OVERVIEW</b>		
<p><b>Welcome participants</b> to the session and remind them that this is a practical session and their active participation is critical for the success of this session.</p> <p><b>Remind them</b> that in the 4<sup>th</sup> Session participants were introduced to the probable areas where audit can explore.</p> <p><b>Tell them</b> that in this session they will be familiarising with the accounting software 'PURO-HISAB' used in ULBs of West Bengal.</p>	Lecture	
<b>BASIC CONCEPT</b>		
<p><b>Introduce participants</b> to the PUROHISAB accounting software.</p> <p><b>Discuss</b> the basic feature of this software.</p> <p><b>Explain</b> how daily accounting is kept through this software and how reports including various financial statements are generated automatically.</p> <p><b>Introduce the participants</b> to the Financial Statements prepared by the ULBs.</p> <p><b>Discuss</b> in detail the Trial Balance Sheet, Income and Expenditure Statement, Balance Sheet, Cash Flow Statement and Receipts and Payments Account in detail with illustration cited in this module or of your own.</p>	<ul style="list-style-type: none"> <li>• Lecture</li> <li>• Software operation</li> <li>• Demonstrate the software through overhead projector.</li> </ul>	
<b>SUMMARISE</b>		
Summarise the session with the mention of topics discussed during the session.		

**SESSION TITLE: Familiarisation with PURO-HISAB****LEARNING OBJECTIVE:**

At the end of this Session, the participants will-

- Be familiar with the features of PURO-HISAB accounting software.
- Be familiar with the process through which Financial Statements are generated.

**SESSION OVERVIEW:**

PUROHISAB is the accounting software prepared by Change Management Unit, Kolkata Urban Services for the Poor, Govt of West Bengal. The accounts of all the Municipalities of West Bengal are being maintained through this software. A thorough demonstration of the software will help the auditor to understand the process through which Financial Statements are generated automatically. To browse the different forms of the software the 'User Manual of Purohisab Accounting Software' prepared by the Change Management Unit, KUSP. Govt. of West. Bengal will be followed.

**BASIC FEATURES OF 'PUROHISAB':**

**Log on Form:** As one starts the system the Logon form appears on the screen. The user has to provide user name and password in the appropriate box (if Database is secured) and data source name (created by ODBC Data source in the Control Panel) to enter into the system. To enter into the system user has to click <OK> otherwise <Cancel> buttons respectively. Once the authentication is done, the actual interface of the Accounting system is displayed. The main menu consists of Setup, Transaction, Reports, Enquiry and Utility. Each menu has sub-menus as described.

This menu consists of basic entry/editing forms without which the Accounting system cannot be implemented.

**Set Up:** This menu consists of basic entry/editing forms without which the Accounting system cannot be implemented.

**Insert / Modify Account Head wise Opening Balance for a Month:** This form is used to Enter/Change the Opening Balance of each Account Head at the start of a month for a particular year for a specific Fund.

The first drop-down Box is used to select the month and the second box (up-down box) is used to select the Year. Select the Specific Fund for which Account Headwise Opening Balance to be given. The check box titled '**Specific Major Head**' is to be checked or selected if a user wants to select Account Heads of a specific Major Head among the List of **Major Heads** from the drop-down box, otherwise all the Account Head(s) will be listed. After this

the <**Proceed**> button is clicked to display the Account Heads and **Opening Balance**. The opening balance is displayed in the text box below the listed table titled '**Opening Balance**'. The Opening Balance Amount can be changed from this text box and then saved by clicking on the <**Save**> command button. The <**Cancel**> button is clicked to go back to the previous state when the form was first opened. The <**Exit**> button is used to leave the form.

**Insert / Modify Account Head wise Budget Amount:** This form is used to define the Budget Amount of each Account Head (Initial/Revised) for a financial Year. The particular **Financial Year** is selected using the up-down box titled '**Year**'. Then one of the option buttons titled 'Initial' or 'Revised' is selected for Initial Budget Amount or Revised Budget Amount respectively. The Function and the Functionary details are selected from the drop-down boxes of the same name. Then the Ward for which the Budget Amount is entered is selected from the up-down box titled '**For Ward No**'. The (check) box titled '**Specific Major Head**' is clicked if the user wants to select a specific Major Head from the drop-down box. The <**Proceed**> button is then clicked to display the Code and Description along with the **Budget Amount**. The Budget Amount gets displayed in the **Budget Amount** text box for the particular Major code selected from the table. The new Budget Amount is entered for each and every Account Code by clicking on the specific Description from the table. The entry is then saved using the <**Save**> button. The <**Cancel**> button is used to go back to the state when the form was first opened leading to new Budget entries for another Function and functionary.

**Insert/Modify Secondary A/c Headwise Opening Balance of Receivables & Payables for a Month:** This form is used to **Enter/Change** the Secondary A/c Head-wise Opening Balance of Receivables & Payables at the start of a month for a particular year. The first drop-down Box is used to select the **month** and the second box (up-down box) is used to select the Year. Select the Specific Secondary A/c Head (party) for which Account Headwise Opening Balance Receivables & Payables to be given. Select from the option '**Receivables**' or '**Payables**'. After this the <**Proceed**> button is clicked to display the **Account Heads** and **Opening Balance**. The opening balance is displayed in the text box below the listed table titled '**Opening Balance**'. The **Opening Balance** amount can be changed from this text box and then saved by clicking on the <**Save**> command button. The <**Cancel**> button is clicked to go back to the previous state when the form was first opened. The <**Exit**> button is used to leave the form.

**Transaction:** The Transaction contains all the form(s) related to the day to day transactions containing Voucher(s).



**Miscellaneous Receipt:** This Form is used to issue Voucher(s) on receiving any payment from a Party (listed or non-listed) and in the process storing the detail(s) of the Payment in the database. This is actually a Money receipt form. The entry boxes are as follows:

**Voucher Date:** This field is used to enter the Date on which the payment was made.

**Voucher No.:** This field is not needed or kept blank as the system automatically generates a Voucher number but this field is essential when one wants to modify (change) an existing voucher but not passed or unpassed. **Listed Party:** There are two types of Parties namely

**Listed Party** with whom the Municipality transacts on a regular basis such as various Contractors whereas there are **Other Parties (unlisted)** such as a tax payer who pays tax once in a while. When the user clicks on the box titled '**Listed Party**', the List of Parties is displayed in a drop-down box. The user then selects the necessary Party from the box.

**Received from:** This field is used to fill the Name of the Party (Non Listed) or the Person who pays the amount. **Address:** The address of the Party is entered here. Now the details of the Payment made is entered. The '**Detail of Head wise Receipt**' frame is used to enter the

details of the Payment received, i.e., the Account Head and the Amount paid followed by remarks (if any). **A/c Head:** The Account Head under which the Amount has to be booked is selected from the dropdown box. **Imp Note:** If the user is familiar with the Account Head Code, the Account Head Code can also be entered directly in the box displayed titled '**A/e**

**Head**' after clicking the box (check box) titled '**Accept Account Head by Code**'. **Amount:** The Total Amount paid is entered in this box otherwise. If a part or the whole of the Amount is paid in cheque, then only the Cheque details is entered in the frame titled '**Detail of**

**Cheques Received**'. **No.:** The Cheque number is entered here. **Issue Date:** The cheque date is entered here. **Amount:** The Cheque amount is entered here. **Bank:** The Bank name is

entered in this box. After this the <Include> button is clicked to display the Details in the adjoining table. More than one cheque can be added to the list in the same way as a party can issue more than one cheque. To edit Cheque details first selected from the list of cheques by clicking and then clicking the <Edit> button. This puts the entry in the selected cheque entry

in the appropriate boxes to be edited. The cheque number is displayed in the box titled '**No**' and so on. <Clear> button used to clear the entry/editing boxes for a new entry.

**Note:** This box is also optional and can be used to enter a note for the specific Voucher for future reference.

The total of the **Cash Amount** or the **Cheque amount** is displayed in the boxes titled '**Cash Amount**' and '**Chq Amount**' respectively. The total amount paid by the Party is shown in the

box titled '**Total Amount**' just below the first table. The '**Copy to Print**' box is used to enter the number of copies to be printed that will be 1 by default. <Save> button is clicked to permanently store the entry in the database. <Print> button is used to print the Voucher. <Delete> This button is used to delete a Voucher entry. <Refresh> button is used to clear all the necessary fields to make a new Voucher entry or edit another entry. <Exit> button is used to leave the form. Once a transaction is passed the Voucher cannot be modified or deleted.

**Other Receipt (Challan) Voucher:** Any Receipt other than the Misc. Receipt is received using this form. This is used for transaction with the listed parties such as the listed contractors who work on a regular basis or transaction between the various departments within the Municipality etc. The various entries in the form are as follows:

**Voucher Date:** Here the date on which the Payment is received, is entered in the given format. **Voucher No:** This entry is needed only during modification of an already entered un-passed Voucher. **This is automatically generated during Voucher entry.** **Received from:** This is a drop-down box containing the Party List. The user has to select the party from the list available. In the frame titled '**Detail of Head wise Receipt**' the user has to select the **Major Head** and the **Account Head** along with the Total Amount to be deposited.

**A/c Head:** This is also a drop-down box containing all the Account Heads under which the Amount is to be received. Users can directly enter/input the **Account Head Code** by clicking the (check) box titled '**Accept Account Head by Code**' and entering the Account Head Code.

**Amount:** The Total Amount is then entered in this box followed by remarks in the Remarks box for that particular entry. More than one entry for a particular Voucher entry can be done in this manner.

The <Add> button is then clicked to enter the entry details in the adjoining table. <Select> button is used to select an entry from the listed entries in the adjoining table for modifying or deleting an entry. The entry is first selected from the list in the table by clicking on the specific entry and clicking the <Select> button. This instantaneously changes the <Select> button to <Delete> and the <Add> button to <Edit>. <Edit> button is clicked to modify the entry (A/c Head or / and Amount, Remarks) whereas <Delete> button is used to delete the Listed entry.

If Part of the amount of the transaction or Full amount is by Cheque, then the Cheque details are entered in the '**Detail of Cheques Received**' frame and added using the <Include> command button.

**No.:** The Cheque number is entered here. **Issue Date:** The Cheque Issue Date is entered here. **Amount:** The Cheque Amount is entered in the Amount box. **Bank:** The name of the Bank on which Cheque was issued in the Bank box. The clicking of the <Include> button enters the entry in the adjoining table. The <Edit> button is used to modify the listed entry from the table by clicking on the particular entry in the table and then clicking the <Edit> button. Now the Cheque entry can be modified and saved using the <Include> button or deleted using the <Remove> button. The <Clear> button is used to clear the entries from editing or deleting.

*Note: This box is also optional and can be used to enter a note for the Voucher entry for future reference.*

The '**Cash Amt**' box displays the Total Cash amount paid by the Party and '**Chq Amt**' box displays the total Cheque amount paid. The total amount paid by the Party is shown in the box titled '**Total Amount**' just below the first table.

The Voucher entry done properly is then saved into the database by clicking on the <Save> button. <Delete> button is used to remove or delete the entry from the database. <Print> button is used to print the voucher. <Refresh> button is used to clear the previous entries for entry/modification of a new Voucher. <Exit> command button for leaving the application.

This form also can be used to modify an unpassed voucher by entering the Voucher Number in the field '**Voucher No.**' and clicking the <Modify> button.

**Contra Vouchers:** Contra Vouchers are of 3(three) types:

- Deposit Daily Collection to Bank (Cash to Bank)
- Withdraw Cash from Bank (Bank to Cash Contra)
- Inter Bank Transfer (Bank to Bank Contra)

**Deposit Daily Collection to Bank:** This is actually Cash to Bank Contra.

**Voucher Date:** The Voucher Date is entered here. The Voucher number is automatically generated and thus left blank.

**Receipt Date:** The Receipt date is entered in this field.

The Total collection for the Receipt Date is displayed in the boxes titled '**Total Collection of Date**'. The Cash and the Cheque amounts are separately displayed. The Amount to be deposited (Cash and Cheque) for that Particular Day is displayed in the box titled '**Amount to be Deposited**'.

Details of the Cheques Received are displayed in the table on the left hand side of the form Where to deposit is selected from the drop-down box titled '**Deposit to**'

The **Cash Amount** to be deposited is entered in the field titled '**Cash Amount**'.

The listed Cheques can also be deposited by selecting from the listed (left) undeposited cheques and added to the table on the right by clicking on the <Add> or <Add all> button. This lists the Cheque details in the right side of the table meaning that the cheques are to be deposited in the selected Bank. <Remove> and <Remove all> buttons are used to do the reverse.

The <Save> command button saves the entry in the Database whereas the <Delete> button deletes the entry. The <Print> prints the voucher. The <Refresh> button clears the form for another entry. <Exit> button closes the form.

A Particular voucher can be edited by entering the Voucher Number for that transaction in the

'Voucher No.' Box.

**Withdraw Cash from Bank:** This is actually Bank to Cash Contra. **Voucher Date:** The Voucher Date is entered here. The Voucher number is automatically generated by the system and thus left blank. **Fund:** The Fund to be selected from this dropdown list. A detailed narration (e.g. purpose of withdraw) can be entered under the head 'Narration'. Select the Bank/institution from '**Withdraw from**' where all the Banks/Institutions are populated. Enter the **Amount** to be withdrawn and the Cheque details under the Head(s) 'Cheque No' & '**Cheque Date**'. User can enter a short Note (if any) under '**Note**'. The <Save> button is used to save the entry in the Database whereas the <Delete> button deletes the entry. The <Print> prints the voucher. The <Refresh> button clears the form for another entry. <Exit> button closes the form. A Particular voucher can be edited by providing the specific Voucher Number and clicking <Modify> button. **Inter Bank Transfer:** This is actually Bank to Bank Contra. **Voucher Date:** The Voucher Date is entered here. The Voucher number is automatically generated by the system and thus left blank. **Fund:** The Fund to be selected from this drop-down list. A detailed narration (e.g. purpose of withdraw) can be entered under the head '**Narration**'. Select the Bank/Institution from where amount is withdrawn from the list '**Transfer from**' and where amount is deposited from the list '**Transfer to**'. These two Banks must be different Enter the **Amount** to be transferred and the Cheque details under the Head(s) '**Cheque No**' & '**Cheque Date**'. User can enter a short Note (if any) under '**Note**'. The <Save> button is used to save the entry in the Database whereas the <Delete> button deletes the entry. The <Print> prints the voucher. The <Refresh> button clears the form for another entry. <Exit>, button closes the form. A Particular voucher can be edited by providing the specific Voucher Number and clicking <Modify> button.

**Payment Voucher:** This form is used to create Voucher(s) for a Payment to a Party. This can also be used to modify an **un-passed** Payment Voucher. A **passed** Voucher cannot be modified.

**Voucher Date:** This field is used to enter the Date on which the Voucher is made. **Voucher No:** This number is automatically generated and a user should not enter a value. The 'Voucher No' is only entered if the user wants to modify an existing but un-passed Voucher. **Pay to:** This is a drop-down box used to select the name of the Party. **Bill Ref.:** This box is used to enter a brief description of the bill against which the Payment is made. **Bill Date:** Bill date of the Bill Ref against which the Payment is being made. **Pay from:** This drop-down box is used to select the Bank or the institution from which payment is made.

**Chq No.:** This is used to enter the Cheque number. This field is only needed only if payment is made by cheque. **Cheque Date:** Issue Date of Cheque. The '**Details of Head wise Payments and Deductions**' frame is used to enter the Account Headwise amount to be paid along with Deductions (if any). **Major Head:** This drop-down box is used to select the Major Head. **A/c Head:** This drop-down box is used to select the Account Head under which the Payment or Deduction is made. One of the option buttons '**Payment**' or '**Deduction**' needs to be selected as the case maybe. **Amount:** Here the Payment/Deduction type amount is entered and the Remarks entry is made to enter a remark/note about the Particular Payment/Deduction transaction as there may be more than one transaction entry to be added. The (Check) box titled '**Accept Account Head by Code**' can be used by a user to enter the '**Account Head Code**' directly, instead of selecting '**Major Head**' and '**A/c Head**'. The <Add> button is used to enter the transaction entry in the adjoining table. There may be more than one entry in the table.

The <Select> button is enabled or highlighted only when there is entry in the table. The <Select> button is used to modify or delete the entry in the table after selecting the entry from the table. As soon as the <Select> button is used the <Select> button becomes <Delete> button and <Add> button changes to <Edit> button for deleting or modifying the specific entry. The <Cancel> button is used to cancel the above changes and return to the previous state.

The Net Amount payable to the Party after deduction (if any) is reflected in the box named '**Net Amount**' automatically.

**Narration:** This box is used to enter a detail note about the Voucher (if any) for future reference. After the entry/modification of the voucher, the entry is permanently stored in the database by clicking on the <Save> button. <Delete> This button is used to delete the

voucher entry from the database. <**Print**> This button is used to print the Voucher. <**Refresh**>: This button is used to clear the appropriate entry boxes for a new entry. <**Exit**> This button as always is used to leave the Payment Voucher form.

**Journal Voucher:** This form is used to create Journal Vouchers. **Voucher Date:** The voucher date is entered here. **Voucher No.:** This field is not needed during voucher creation. This entry is needed to modify or delete an un-passed saved voucher. So this form can also be used to delete or modify an un-passed voucher. **Narration:** This box is used to enter a detail description of the voucher about the specific transaction listed. This is an optional entry and is not compulsory. The '**Details of Head wise Debit and Credit**' frame is used to enter account head-wise Debit/Credit Amount.

Select the '**Major Head**' and the specific '**Account Head**' under the Major Head. The debit or the credit amount is entered in the '**Amount**' text box. The '**Debit**' or '**Credit**' option is selected from the options named 'Credit' and 'Debit'. **Remarks:** This box is used to enter brief details about the specific credited or debited amount. This is an optional entry. <**Add**> button lists the entered details about a transaction in the adjoining table. The <**Select**> button is used to select a specific entry from the table to be modified or deleted as the case may be. Selecting an entry immediately changes the <**Select**> button to <**Delete**> button and the <**Add**> button to <**Edit**> button. The <**Edit**> button is used to modify the specific entry among the list while the <**Delete**> button is used to remove the specific entry. The <**Cancel**> button cancels all above actions enabling the user to <**Add**> or <**Select**> another entry for necessary action.

The total debited and credited amount is displayed in the two boxes beside the label titled '**Total**'. **Brief Note** (if any): Any note or remarks about the voucher may be entered here. This is an optional entry. <**Save**> button is used to permanently store the Voucher entry in the database. <**Delete**> button is used to remove the voucher from the database. <**Print**> button is used to print the voucher. <**Refresh**> In order to make another entry or modification after one entry this button is used. This clears the previous transaction entry. <**Exit**> button as always is used to leave the application.

**Receipt Summary:** This report is used to get the summary of receipts within a range of dates. '**From**' and '**To**' date boxes are used to enter the dates between which the Receipt Summary is required. Select from the options from '**Party wise**' or '**Account Head wise**' as necessary. Specific Counter-wise and User-wise Summary also available. Click <**Show**> button to view the report on the screen and <**Print**> button to print the report. Click <**Exit**> button to close the form.

**Date-wise Voucher Detail:** This is used to **Display, Print or Export** (in html format only) the voucher details of different types of voucher(s).

The Date Range within which the user wants to display or print the Voucher details is entered in the boxes titled '**Voucher Date**' and '**to**'. The type of voucher is selected from the drop-down box titled '**Voucher Type**'. The '**Voucher Status**' frame allows the user to select the '**Passed**', '**Un-passed**' or '**All**' voucher(s) available within the date range.

The '**Report Option**' frame allows the user to '**Show**', '**Print**' or '**Export**' the report by selecting the necessary option. After entering/selecting all the necessary fields the <**Proceed**> button is to be clicked to **Show/Print/Export** the report depending on user's choice. The <**Exit**> button closes the form.

**Party-wise Receipt Ledger:** This form is used to display or print the details of receipts from a specific party within a range of dates. The '**Party**' drop-down list is used to select the Party from the list of Listed Parties available. If party is at listed one click the checkbox '**From Unlisted Party**' and enter the Name of Party. The '**From Date**' and '**To Date**' boxes are used to enter the period for which the Ledger is required.

Select the Voucher type from the option menu '**From Voucher type**'. <**Show**> button displays the details on screen. <**Print**> button prints the details. <**Exit**> button closes the form.

**Check Book Register (Payment):** This is used to display or print the details of the cheque issued on various Bank(s) by the ULB to parties. The '**Bank**' drop-down box is used to select the specific Bank among the list of Banks. The '**From**' & '**To**' box is used to enter the period for which the user wants to get the report. The <**Show**> button is used to display the cheque details of the specific bank on the screen whereas <**Print**> button is used to get the printout of the same. The <**Exit**> button is used to close the form.

**Statement on Status of Cheque Received:** This form is used to display the detailed status of Cheques Received by the ULB for a specific month. The user has to select the Month from the box titled '**For the Month**' and **Year** from the up-down box. The <**Show**> option displays the cheque details on screen whereas <**Print**> prints the same. After selecting all the options the <**Proceed**>; button is to be clicked to Display or Print according to user's choice. <**Exit**> closes the form.

**Register of Dishonoured Cheques / Drafts :** This form is used to display the detailed status of Cheques Received by the ULB which are Dishonoured for a specific period.

The '**From Date**' and '**To Date**' boxes are used to enter the period for which the Register is required.

The <**Show**> option displays the cheque details on screen whereas <**Print**> prints the same. After selecting all the options the <**Proceed**>' button is to be clicked to Display or Print according to user's choice. <**Exit**> closes the form.

**Party-wise Payment Ledger:** This form is used to display or print the details of payment made to a specific party within a specific period. The '**Party**' drop-down is used to select the Party from the list of Listed Parties available. If the party is an unlisted one click the checkbox '**From Unlisted Party**'. The '**From Date**' and '**To Date**' boxes are used to enter the period within a financial year for which the user wants to print/display the payment transaction to a particular party. <**Show**> button displays the details; <**Print**> button prints the details; <**Exit**> button closes the form.

**Annual Accounts:** This report is to Displays / Prints the transactions done and the Budget amount within a financial year based on '**Broad Head**' (INCOME / EXPENSE / ALL) and '**Account type**' (REVENUE / CAPITAL / ALL). The user should choose anyone option among three from the frame titled '**Broad Head**'. Similarly the user should choose anyone option among the three options available within the frame titled '**Account Type**'. The period for which the user wants the report, is entered in the two Date boxes titled '**Start Date**' and '**End Date**'. The <**Show**> button is clicked if the user wants to display it on the screen. The <**Print**> button is clicked if the user wants a hard copy (printout) of the report. The <**Exit**> button closes the form.

**Budget Estimation Sheet / Budget Summary/ Major Account Head-wise Budget:** This form displays/prints all the reports related to Budget namely '**Budget Estimation Sheet**', '**Budget Summary**' and '**Major Account Head-wise Budget**' according to user's choice. The Budget period i.e. the financial year needs to be selected from the box titled '**For the Period**'. The drop-down boxes titled '**Function**' and '**Functionary**' are only applicable to '**Budget Estimation Sheet**' option. These two options are deactivated or disabled if the user chooses any of the other two options of 'Budget Summary' and 'Major Account Head-wise Budget'.

**Budget Estimation sheet :** This is used to display/print a comparative study of the Budget as well as Revised Budget for the current financial year with the actual transactions of the previous year and the Budget figures for the next year. This can be done for each and every **Function** and **Functionary**. The **financial year** is selected from the box (s) titled '**For the Period**'. The '**Function**' and the '**Functionary**' are selected from the two respective drop-



down boxes. Then the <Show> or <Print> button is clicked to display or print the report. The <Exit> button is used to close the form.

**Budget Summary:** This report is used to **display/print** the comparative Budget Summary with reference to the **Total Receipts** (Revenue & Capital) and **Total Expenditure** (Revenue & Capital) for the current financial year with Actual(s) of previous year and the Budget allocation (original budget & revised Budget) for the current year. The next year's Budget can also be taken into account. After selecting the option '**Budget Summary**', the user needs to select the financial year from the box titled '**For the Period**' that forms the basis of the Comparative Budget report. The <Show> command button displays the Report whereas the <Print> button prints the Report. <Exit> button is used to close the form.

**Major Account Head-wise Budget:** This is also a Comparative analysis of the **Budget** (Current & Revised) with reference to **Actual Transactions for the previous year** and the **Budget allocations for the next year for each Account Type** (REVENUE INCOMES, REVENUE EXPENDITURE, CAPITAL RECEIPTS, CAPITAL PAYMENTS). Here the break up of the figures is provided for each **Major Head**. After selecting the option '**Major Account Head wise Budget**', the financial year is selected from the box titled '**For the period**'.

The <Show> button displays the Report whereas the <Print> button prints the report. The <Exit> button closes the form.

*\*\* The 'Function' and the 'Functionary' drop-down boxes are not required with the options 'Budget Summary' and 'Major Account Head wise Budget'.*

**Summary of Function wise Budget / Functionary wise Budget:** This form is used to display/print summary of Budget based on **Function** and **Functionary** from the options titled '**Summary of Function wise Budget**' and '**Summary of Functionary wise Budget**'. The Financial Year is selected from the box titled '**For the Period**'. The <Show> button displays the report on the screen whereas the <Print> button prints the report. 'Exit' closes the form.

**Quarterly Budget Variance Report:** This form is used to get a report of the actual difference (variance) in fund utilization for each **Major Head** from the budgetary allocation at the end of a particular quarter of a financial Year. The user has to select the Financial Year from the Box titled '**For the Period**' and the specific quarter of a financial year from the drop-down list titled '**Upto Quarter**' followed by <Show> or <Print> button to display or print the Report. <Exit> is used as always to close the form.

**Function/Functionary-wise Subsidiary Ledger of Income/Expenditure:** This form is used to display /print the Total Income/Expenditure under each Function Head (as in the Chart of Accounts) within a specified period. The user has to choose anyone of the options of **Function** or **Functionary** wise, then **Income** or **Expenditure** and breakup type (**Major Head-wise** or **Detail Head-wise**). In the boxes titled '**From Date**' and '**To Date**', the period in respect for which the user wants the transaction details are to be entered. The <Show> button displays the report whereas the <Print> button prints the report. <Exit> closes the form.

**Ward-wise Subsidiary Ledger of Income/Expenditure:** This form is used to display /print the Total Income/Expenditure under each Ward. The user has to choose anyone of the options of **Income** or **Expenditure** and breakup type (**Major Head-wise** or **Detail Head-wise**). In the boxes titled '**From Date**' and '**To Date**', the period in respect for which the user wants the transaction details are to be entered. The <Show> button displays the report whereas the <Print> button prints the report. <Exit> closes the form.

**Statement of Receivables and Payables:** This form is used to display/print the status of **Receivables** or **Payables** (Account Head wise) for a particular **Month**. The user has to select one option from the available options titled '**Statement of Receivables**' and '**Statement of Payables**' followed by the **Month** and the **Year** from the two boxes. The '**Statement of Receivables**' option displays the details of amount received (Account Head wise) whereas the '**Statement of Payables**' option displays the details of amount paid (Account Head wise). The <Show> button displays the Report on screen whereas <Print> option the Report. <Exit> closes the form.

**Cash Book and Journal Book:** This form can be used to display/print the day-wise Cash Book and Journal Book as per specified format within a period. The **Cash Book** displays the details of all transactions except non-cash Journals. All the transactions occurring through Journal Voucher form in the Transaction sub-menu, are reflected in the option titled '**Journal Book**'. The period for which the user wants to see the transactions, is entered in the boxes '**From Date**' and '**To Date**'. <Show> command button is used to display the Report whereas the <Print> button is used to print the same Report. <Exit> closes the form.

**Bank Reconciliation Statement:** The user needs to select the Bank form which the statement is required from the drop-down box titled '**Bank**'. Month and the Year for which the Reconciliation is needed are selected from the box titled '**For the Month**' and the next box displaying the **Year**. Statement type is selected from the options **Bank Reconciliation**

**Statement / Cheques issued but not presented / Cheques drawn but not issued / Cheques issued but payment stopped.**

<Show> button is used to display the Report on the screen. <Print> button is used to print the Report. <Exit> is used to close the form.

**Ledger:** This is '**Account Head wise Ledger**' between a specified time period. Each Account Head-wise detailed transactions are shown in the report.

The user has to enter starting and the ending dates are entered in the boxes titled '**From**' and '**To**'. If Ledger is required for a specific Account Head, '**Specific Account Head**' check box is to be checked and Account Head is to be selected from the drop down list where all Accounting Heads are available. The <Show> command button displays the Report on screen whereas the <Print> button prints the Report. <Exit> button closes the form.

**Trial Balance:** This is actually '**Account Head wise Balance**' between a specified time period based on the criteria of '**Broad Head**' and '**Account Type**' i.e. REVENUE/INCOME, REVENUE/ EXPENSE, CAPITAL/INCOME and CAPITAL/EXPENSE. The user has to select the Account type from the frame titled '**Account Type**' and the Broad Head from the frame titled '**Broad Head**'. The starting and the ending dates are entered in the boxes titled '**Start Date**' and '**End Date**'. The <Show> command button displays the Report on screen whereas the <Print> button prints the Report. <Exit> button closes the form.

**Income and Expenditure Statement:** This is an Income and Expenditure Statement within a specific Period based on certain criteria. The statement can be based on **Major Head, Minor Head or Detailed Head**, as the user wants, to be elected from the '**Type of A/c Head**' frame. Similarly the time Period can be either a full **Financial Year or Period between any two dates** within a financial year. This criterion is selected from the frame titled '**Required**'. For the option '**For a Year**' the Financial Year is selected from the box titled '**Year**' whereas for the option '**For a Period**' the user needs to enter the Period in the '**From**' and '**To**' boxes. The <Show> can now be used to display the Report and the <Print> button to print the Report. <Exit> button closes the form.

**Balance Sheet:** The Balance Sheet displays or prints the Balance Sheet as per specified form for the Current Financial Year and the Previous Year on a Specific Date to be selected by the user. The user only needs to select a Date of the Specific month of a Year from the Calendar provided in the frame titled '**Select Required Date**'. The buttons <Show> or <Print> are selected by clicking on the required button to display/print the Report.

**Schedule of Balance Sheet/Income &Expenditure Account:** This is required to display or print the different Schedules of **Balance Sheet** and Income &Expenditure Account as on a specific date of the financial year. A user can get the schedule of Balance sheet or the **Income & Expenditure account** depending on user's choice from the frame titled '**Required for**'. The Date up to which the user wants to get the report is entered in the box titled '**As on**'. The '**Specific Schedule**' box (check box) is optional. If the user wants a specific Schedule, then the check box titled '**Specific Schedule**' is clicked and the necessary **Schedule No.** is selected from the adjoining drop-down box. The <**Show**> command displays the Report whereas the <**Print**> command prints the Report. <**Exit**> command closes the form.

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**SESSION 6**  
**SESSION TITLE:**  
**CASE STUDY.**

<b>SESSION TITLE: Case Study</b>		<b>Session Guide</b>
<b>INSTRUCTOR'S GUIDE</b>	<b>Reference</b>	<b>Participants' Response</b>
<b>SESSION OVERVIEW</b>		
<p><b>Welcome participants</b> to this session.  <b>Remind them</b> that in the 5<sup>th</sup> Session participants were familiarized with 'Purohisab' Accounting Software and  <b>Tell them</b> that in this session they will study a few Financial Statements with few supporting documents (i.e. Schedule) of a certain Municipal Corporation. Their active participation in this discussion is very much important for the success of this session.</p>	Lecture	
<b>GROUP FORMATION</b>		
<p><b>Form Groups</b> according to the number of <b>Participants</b> and also to the available infrastructure.  <b>Distribute</b> the copies of the Financial Statements along with schedules to each Group. Allot time to study the Statements and to jot down the probable irregularities / audit points.</p>	Photo Copies of FINANCIAL STATEMENTS & .Lecture	
<b>APPLICATION</b>		
Discuss the Statements on the basis of the points raised by the Groups.		
<b>DISTRIBUTE</b>		
Distribute the suggested Audit Points among the participants.	Participants Note (Only the Suggested Audit Points)	
<b>SUMMARISE</b>		
Summarise the session with thanks.		

**The ABC Municipal Corporation  
Balance Sheet as on 31<sup>st</sup> March, 2006**

All figures in Rupees

As at 31.3.2005	LIABILITIES	SC HE DU LE	AMOUNT	AMOUNT	As at 31.5.2005	ASSETS	SC HE DU LE	AMOUNT	AMOUNT
	<b>Fund Balances</b>					<b>Fixed Assets</b>	13		
	<b>Municipal Fund</b>				6188739457	<b>Gross Block</b>		9164326172	
4859959221	Capital Fund	1	4912924327		3332951076	<b>Less: Depreciation</b>		<u>4127478158</u>	
16154441127	Revenue Fund	2	<u>19188696855</u>	24101621183		<b>Net Block</b>			5036848015
530664352	Local Fund Audit	22		585283352	2831370711	<b>Capital Work In Progress</b>	13C		1062544410
699127222	Earmarked Fund (Grants & Contribution)	3		836011036		<b>Assets Transferred From KEIP</b>	13D		
58213208	<b>CUDP-III Project Account</b>	4		58318299	36294505	<b>Gross Block</b>		36294505	
509840000	Project under Slum Development			509840000	3507679	<b>Less: Depreciation</b>		<u>7015358</u>	
429543598	Capital Receipts for Market Development			450749336		<b>Net Block</b>			29279148
268793343	<b>Custodial Fund</b>	5		199725067		<b>Proportionate Depreciation against KEIP Grant</b>			
374802865	Deferred Government Grants <b>Deferred Income (to the extent not yet adjusted)</b>	6		444835073		<b>Expenditure on general infrastructure improvement</b>			
	<b>Long Term Debts</b>				457,649,777	<b>Not yet capitalised</b>	14		457649779
500000000	12.50% Non-Convertible Redeemable Bond		500000000		489,943,632	<b>Markets Development - Projects under</b>			496204731
600000000	13.65% Non-Convertible Redeemable Bond		-			<b>Investments</b>			
221914677	<b>CUDP III</b>	4A	221914677		2500000	<b>Commercial Securities</b>		<u>25000</u>	25000
478179433	<b>Interest Accrued on CUDP III Loan</b>		422148827		3771688736				
	<b>West Bengal Government Grant Contribution (KEIP)</b>		222995557			<b>Fixed Deposits with Banks</b>	15A		3716316726
	<b>Less : Depreciation</b>		(1155078)			<b>Current Assets</b>			
75255560	<b>Govt. Contribution</b>		160255560		66177410	<b>Inventories</b>		78207342	
178021116	<b>Loan for KEIP from ADB</b>		491331766		15739079612	<b>Receivables</b>	16	17482399592	

18,896,288	<b>Interest on Loan for KEIP</b>		63810737		250426	<b>Prepaid Expenses</b>			
72335916	<b>Housing &amp; Urban Devel. Corporation</b>			2081302045	6522921	<b>Security Deposit for capital expenditure</b>		6500921	
14638533	<b>KEIP liability recognised pending Loan Reimbursement from ADB</b>					<b>KEIP-Advance</b>		1225834941	
	<b>Medium/Short Term Debts</b>				54082685	<b>Accrued Interest on Fixed Deposits</b>		55613022	
276484190	<b>Employees House Building Loan From Bank</b>		211000502		4417403546	<b>Loans &amp; Advances</b>	17	4829395226	
12154000	<b>Loan from Union Bank of India, Dharmatalla Br.</b>		12154000	223154502		<b>Accumulated advances relating to earlier years</b>			
	<b>Loan from Government &amp; Statutory Bodies</b>				146010185	<b>to the extent not realized / recovered</b>	18	146010185	
150318761	<b>Assets taken over from KMDA</b>		150318761		1553309991	<b>Bank Balances</b>	19	2668707622	
69070220	<b>Government and Other Statutory Bodies</b>	7	69070220	219388981	130141693	<b>Cash &amp; Cash equivalents</b>	20	<u>186307725</u>	26698998577
	<b>Current Liabilities</b>				273675970	<b>Custodial Funds - Bank Balances</b>	21		223393547
207351358	<b>Liabilities for Expenses</b>	8	226256756			<b>Local Fund Account</b>			
1562491459	<b>Statutory Liabilities</b>	9	1513462100		530664352	<b>Pay &amp; Accounts Office 1, Govt, of WB</b>			
2746960542	<b>Other Liabilities</b>	10	3093662453						
2732137993	<b>Miscellaneous Deposits</b>	11	3080197875	7913579165					
	<b>Accumulated Liabilities relating to earlier years</b>								
<u>97451874</u>	<b>to the extent not extinguished</b>	12		<u>97451874</u>					
<u>33359046855</u>				<u>37721259932</u>	<u>33359046855</u>				<u>37721259932</u>

Schedule 1 to 22 & Notes to Accounts form part of the Accounts

Place XXX Date: XX.XX.XXXX

**Additional Controller of Municipal Finance  
& Accounts (Accounts)**

**Controller of Municipal  
Finance & Accounts**

**Municipal Commissioner**



## THE ABC MUNICIPAL CORPORATION

### Schedules forming part of Balance Sheet as at 31st March 2006

*All figures in Rupees*

#### SCHEDULE 9 : STATUTORY LIABILITIES

	31.03.2006	31.03.2005
	Amount	Amount
<b>A. Income Tax</b>		
Tax Deducted at source from Contractors	10,550,711	9,661,574
Arrear Surcharge on Income Tax	356,165	1,754,001
Employee Income Tax	34,085,318	33,532,131
Interest & Penalty on Income Tax	882,566	882,566
	45,874,760	45,830,272
<b>B. Other Taxes</b>		
Sales Tax / Works Contract Tax	28,747,666	24,499,039
Employment Tax	243,000	(135,770)
	28,990,666	24,363,269
<b>C. Provident Fund</b>		
Compulsory Provident Fund deducted from employees	217,833,126	217,820,810
General Provident Fund deducted from employees	961,845,937	1,016,421,938
Recovery of loan against General Provident Fund	159,391,815	158,529,374
Loss of Interest Payable on short transfer of Funds	99,525,796	99,525,796
	1,438,596,674	1,492,297,918
<b>D. Total (A+B+C)</b>	1,513,462,100	1,562,491,459

**THE ABC MUNICIPAL CORPORATION**  
Schedules forming part of Balance Sheet as at 31st March 2006

**SCHEDULE 11 : MISCELLANEOUS DEPOSITS***All figures in Rupees***A. Miscellaneous Deposits**

Particulars	Balance as on 31.03.2000	Balance as on 31.03.2003	Net Movement during 2003-04	Balance as on 31.03.2004	Net Movement during 2004-05	Balance as on 31.03.2005	Net Movement during 2005-06	Balance as on 31.03.2006
	Rs.	Rs.	Rs.	Rs.				
Contractors' Deposits	109,167,286	113,690,691	23,918,219	137,608,910	23,569,065	161,177,975	7,389,177	168,567,152
Employees' Deposits	6,122,478	6,385,961	72,868	6,458,829	1,879,478	8,338,307	(1,778,914)	6,559,394
Short Excess Remittance	731,145	4,545,224	86,859	4,632,082	(3,213,103)	1,418,979	2,902,555	4,321,534
Deposit Miscellaneous	924,243,446	1,081,993,925	10,706,297	1,092,700,222	(28,568,839)	1,064,131,383	56,287,519	1,120,418,903
Other Deposit	(4,387,003)	910,511	1,834,590	2,745,101	(909,565)	1,835,535	2,296,584	4,132,120
Court Attachment	312,467	1,334,373	120,267	1,454,640	242,452	1,697,091	79,050	1,776,141
Employees' Flat Rent	188,542	370,636	66,348	436,984	48,569	485,553	7,319	492,872
Renovation of Star Theatre	-	18,000	-	18,000	-	18,000	-	18,000
Sundry Deposits	-	1,782,235	-	1,782,235	-	1,782,235	-	1,782,235
<b>TOTAL (A)</b>	<b>1,036,378,361</b>	<b>1,211,031,555</b>	<b>36,805,448</b>	<b>1,247,837,003</b>	<b>(6,951,943)</b>	<b>1,240,885,059</b>	<b>67,183,291</b>	<b>1,308,068,350</b>

**B. Partial Recovery of Property Tax**

## Particulars

Net Balance as on  
31.03.2006      Previous Year

	Rs.	Rs.
Deposit of Bill with Collector (Tolly)	73,911,794	43,259,241
Deposit of Bill with Collector (CMLO)	252,368,473	2,093,807
Deposit of Revenue Nature	1,127,746,559	1,127,797,187
Short Excess Remittance Deposit	2,638,071	2,638,071
Recovery of Rate Bills	1,038,547	1,038,547
Deposit PR Bills with Collector	314,306,528	314,306,528
Deposit of Revenue Nature (Revenue Officer)	119,553	119,553
<b>TOTAL (B)</b>	<b>1,772,129,525</b>	<b>1,491,252,933</b>
<b>TOTAL (A+B)</b>	<b>3,080,197,875</b>	<b>2,732,137,993</b>

## THE ABC MUNICIPAL CORPORATION

Schedules forming part of Balance Sheet as at 31st March 2006

*All figures in Rupees*

### SCHEDULE 14 : EXPENDITURE ON GENERAL INFRASTRUCTURE IMPROVEMENT NOT YET CAPITALISED

	31.03.2006	31.03.2005
	Amount	Amount
<b>A. CUDP III Projects under Construction</b>		
Water Supply	31,048,801	31,048,801
Sewerage and Drainage	97,923,229	97,923,229
Roads	39,485,409	39,485,409
Street Lighting	1,315,692	1,315,692
Bustee Improvement	40,416,309	40,416,309
Solid Waste	34,190,577	34,190,577
Other Schemes	8,066,957	8,066,957
Health	52,434,262	52,434,262
Less : Capitalised grants on Revenue Expenses on CUDP III for the period 1998-99 to 2002-2003	(32,408,416)	(32,408,416)
	<b>272,472,820</b>	<b>272,472,820</b>
<b>B. Projects under Slum Development</b>		
Reservicing of Basic Civic Amenities within the Bustee/Slums	84,707,368	84,707,368
Improvement of Sewerage and Drainage System of Core City	9,772,210	9,772,210
Modern Concept of garbage clearance from Slums	262,724	262,724
Housing Schemes - Harijans, Sweepers and Scavengers	13,313,871	13,313,871
Improvement of approach road leading to Bustee/Slums	66,918,699	66,918,699
Improvement of lighting of passages within Bustee/Slums	2,568,006	2,568,006
Improvement of park/ open spaces within Bustees	2,135,572	2,135,572
Improvement and extension of Civic Health Services in Slums	446,860	446,860
Improvement of Basic, Civic Amenities within Bustee/Slums	95,559	95,559
Conversion of Service Privies into Sanitary Latrines	962,657	962,657
Improvement of Water Supply Services within Bustees	3,993,432	3,993,432
	<b>185,176,959</b>	<b>185,176,959</b>
<b>C. Total (A+B)</b>	<b>457,649,779</b>	<b>457,649,779</b>

## THE ABC MUNICIPAL CORPORATION

Schedules forming part of Balance Sheet as at 31st March 2006

All figures in Rupees

### SCHEDULE 16 : RECEIVABLES

A. Receivables - General Government dues	31.03.2006	31.03.2005
	Amount	Amount
Property Tax - Kolkata Proper and Added Units	14,250,158,680	12,444,008,754
<i>Less: Partial Recovery against demand</i>	<u>(2,164,240,557)</u>	<u>(2,164,240,557)</u>
	12,085,918,123	10,279,768,197
Property Tax - Tolly	3,471,069,491	3,563,522,932
Service Charges on Central Government Properties	54,509,270	31,723,612
Licence	202,309,655	202,309,655
Tax on Profession, Trades & Callings	418,487,372	418,487,372
	<u>16,232,293,910</u>	<u>14,495,811,768</u>
<b>B. Receivables - Government's Business type activities</b>		
Advertisement	70,012,912	44,021,594
Markets	15,592,436	14,929,207
Land & Estate	2,664,257	1,927,897
Water Supply	172,456,865	154,401,083
Car Parking	445,138	585,823
Drainage	235,867,587	216,586,563
Royalty for Pay & Use Toilets (Bustee)	1,369,916	530,399
	<u>498,409,110</u>	<u>432,982,566</u>
C. Dues from Government & Other Institution	742,601,255	742,601,255
D. Profession Tax Recoverable (Excess deposit)	8,516,022	8,516,022
E. Interest Recoverable from IOB	-	59,168,000
F. Interest Recoverable from BOI	579,294	
<b>G. Total (A+B+C+D+E)</b>	<u>17,482,399,592</u>	<u>15,739,079,612</u>

## THE ABC MUNICIPAL CORPORATION

Schedules forming part of Balance Sheet as at 31st March 2006

All figures in Rupees

## SCHEDULE 17: ADVANCES RECOVERABLE IN CASH OR IN KIND

Particulars	Balance as on 31.03.2000	Balance as on 31.03.2003	Balance as on 31.03.2004	Net movement during 2004-05	Balance as on 31.03.2005	Net movement during 2005-06	Balance as on 31.03.2006
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Category A : Advance to Contractors, Suppliers, &amp; Employees</b>							
Advance - Miscellaneous	41,294,605	40,762,226	38,520,366	(8,811,772)	29,708,594	(1,247,850)	28,460,744
Advance - Imprest	350,769	455,479	535,579	(98,495)	437,084	(4,406)	432,678
Advance - Special Imprest	734,872	1,063,737	1,116,937	32,450	1,149,387	19,328	1,168,715
Advance - Corporation Servants	1,246,389,446	1,279,640,490	1,255,666,563	(13,701,796)	1,241,964,768	80,505,421	1,322,470,188
Advance - Contractors	2,356,551,020	3,193,385,858	2,780,564,888	40,941,459	2,821,506,347	328,861,137	3,150,367,484
Employees Housing Loan	109,364,231	250,549,554	282,621,126	23,023,968	305,645,094	4,735,133	310,380,227
Festival Advance - Idd Advance	9,711	9,711	72,723	(60,614)	12,109	49,780	61,889
Durga Puja	-	-	926,559	642,179	1,568,738	513,829	2,082,567
Computer Advance	34,410	(218,414)	(336,998)	(122,960)	(459,958)	(90,465)	(550,423)
Advance - Medical Treatment	-	-	35,115	162,151	197,266	(150,342)	46,924
<b>SUB TOTAL (A)</b>	<b>3,754,729,064</b>	<b>4,765,648,640</b>	<b>4,359,722,858</b>	<b>42,006,570</b>	<b>4,401,729,428</b>	<b>413,191,565</b>	<b>4,814,920,993</b>
Out of the Balance as on 31.03.2006 -							1,507,848,247
							3,307,072,746
							<b>4,814,920,993</b>
<b>Category B : Other Advances</b>							
Cost of Work Done in Default	6,331,613	7,003,567	7,299,647	-	7,299,647	-	7,299,647
Stores Purchase Suspense	946,912	946,912	805,055	-	805,055	-	805,055
Co-operative Bank	1,051,119	3,293,679	2,083,624	(102,863)	1,980,762	(1,147,862)	832,900
Employees' State Insurance	5,309,185	5,887,605	5,865,274	(418,232)	5,447,043	142,233	5,589,276
Recovery from Employees on Deputation	1,434,148	181,653	179,679	(38,067)	141,612	(194,256)	(52,644)
<b>SUB TOTAL (B)</b>	<b>15,072,977</b>	<b>17,313,417</b>	<b>16,233,279</b>	<b>(559,161)</b>	<b>15,674,118</b>	<b>15,674,118</b>	<b>14,474,233</b>
<b>Total (A)+(B)</b>	<b>3,769,802,041</b>	<b>4,782,962,057</b>	<b>4,375,956,138</b>	<b>41,447,408</b>	<b>4,417,403,546</b>	<b>428,865,683</b>	<b>4,829,395,226</b>

## THE ABC MUNICIPAL CORPORATION

**Schedules forming part of Balance Sheet as at 31st March 2006** *All figures in Rupees*

### SCHEDULE 18 : ACCUMULATED ADVANCES RELATED TO EARLIER YEARS (to the extent not realised)

	31.03.2006	31.03.2005
	Amount	Amount
Programme Under MDP	1,929,476	1,929,476
Employees' Pension Scheme (EPS)	262,744	262,744
Advance - Miscellaneous	59,456,615	59,456,615
Advance - Vehicle Purchase	2,744,214	2,744,214
Advance - Income Tax Commissioner	959,798	959,798
Advance - Staff Contractors	34,280	34,280
Cooperative Society - HQ	181,507	181,507
Employees' Contribution	203,607	203,607
Pension Fund	63,547	63,547
Refund of Pension and Gratuity	98,335	98,335
Security Deposit	1,343,747	1,343,747
Advances - Stores	78,732,315	78,732,315
	146,010,185	146,010,185



**The ABC Municipal Corporation**  
**INCOME AND EXPENDITURE ACCOUNTS FOR THE YEAR ENDED 31<sup>ST</sup> MARCH, 2006** (All figures in Rupees)

As on 31.3.08	Expenditure	Amount	Amount	As on 31.3.05	Income	Amount	Amount
	<b>Administrative &amp; Support Services</b>				<b>Income from Taxes</b>		
27504678	Administration	27919258			Property Taxes		
45670556	Municipal Secretary	42818191		3365293815	For Current Year All Units Taken Together	3443467090	
477338	Finance. & Accounts Budgeting	480314		<u>(469466)</u>	Less: Refund of Taxes		3443467090
100628231	Finance and Accounts	96850550		510856183	Tolly		385723418
29764007	Treasury	33031845			Other Taxes:		
12175636	Data Processing	11240602		653840	Tax on Profession Traders & Callings	665636	
21633667	Law	20435786		30476	Tax on Carriages	25543	
35566387	Public Relation	22482540		3245203	Tax on Carts	2937675	
4927082	Service Records & Accounts Cell	6041709		36569085	Service Charges on Central Govt. Proj.	<u>71409237</u>	75038091
4278653	Advertisement Department	4872826			<b>Income from Advertisement Deptt.</b>		
9553639	Land and Estate	10185168		161140882	Tax and Non Tax Revenue		179075789
42750133	Building	43689714			<b>Non Tax Income</b>		
67869468	Assessment-Collection (South)	70647613		11941	Law Administration	4385	
63901260	Assessment-Collection (North)	71927796		72232	Public Relation	403259	
68094016	Assessment-Collection (Tollygunge)	75246370		37385785	Fees from Car Parking	39876110	
64499964	Licence & Amusement	67392575		225500	Parking on Public Street on Mobile Ou	313000	
60328324	Commercial Services	70021723		1070708	Arrear Amount under Licence	1224307	
101336860	Engineering	101929886		82477564	Land & Estate	61953705	
640039429	Water Supply & Water Works	692142578		692084386	Building	888230361	
	Water Supply to Ships	9055738		5391960	Assessment Collection (S)	5135169	
405788249	Sewerage & Drainage	444466526		14024076	Assessment Collection (N)	9078955	
622164629	Road & Roadways	784347136		4554342	Assessment Collection (Tolly)	4846607	
137206735	Solid Waste Management	1292264632		223119033	Licence & Amusement	228512946	
183539401	Lighting	189195531		108056632	Markets	139808798	
15460211	Electricity	17609460		37883197	Engineering Administration	40234269	
138776625	Motor Vehicles	106400358		198596178	Water Supply & Water Works	263628308	
10397301	Education Administration	13220003		15742456	Sale of Water to Ships	14433613	
107153083	Primary Education	93270652		451801902	Drainage	297859103	
950547	Socio-Economic Service	1145893		133888332	Road & Roadways	132303741	

38025075	Health Administration	37198196		15759507	Solid Waste Management	13507536	
136141822	Health Service Preventive	161115153		32094	Lighting	-	
31922422	Health Service Curative	33337755		3398	Electricity	-	
72028942	Health Services Welfare	78385040		63000	Motor Vehicles	-	
23005080	Bustee Services-Water Supply	23592733		114	Primary Education	-	
5251636	Bustee Service-Drainage	6742814		89747	Health-Administration	128428	
	Bustee Services-Road	13408237		24312	Health-Curative	25656	
	Bustee Services-Conservancy	9070414		26304122	Health Services-Welfare	25276676	
1853451	Bustee Services-Lighting	1291144		34	Bustee Services-Lighting	-	
12129422	Bustee Services-Education	11951435		2071808	Royalty for Pay & Use Toilets	2969564	
1145617	Bustee Services-Health	1369669		3804888	Central Records	4333535	
3026159	Bustee Service-Land & Estate	4360679		19366881	Central Stores	9404467	
22422749	Personnel	23860685		-	Central Workshop	319000	
4363721	Central Records	5055559		-	Guest House	-	
33948925	Central Stores	31869646		56568	Other Administrative Support	-	
68982947	Central Workshop	75601600		549649	Misc. Receipts	20662900	
2316381	Central Vigilance	2781216		-	Misc. Agencies	11000000	2215474398
16742868	Central Printing	18393150			<b>Interest Income</b>		
23832663	Other Administrative & Support Services	26869183		155906331	-Interest on Fixed / Term Deposit	211850776	
7493829	Agencies	11905465		7780813	-Interest on Recurring Deposit	14486005	
101011912	Spl. Programme	196768590		2026178	-Interest from IOB	-	
58065	Misc. Agencies	-		9907644	-Interest on Savings Bank A/C	10587999	
-	Telephone Expenses	3329485	5198590821	18645270	-Interest on House Building Loans	3953659	
	<b>Revenue Expenditure out of Revenue Grants</b>			-	-Interest on Computer Loans	19791	



90936023	DFID Capacity Programme			-	Interest from BOI CD+	2873178	
747116383	Contribution to Pension Fund	818112455		3884	-Interest on Contractors' Deposit	2825	243774233
21920800	Mediclaime Insurance for Employees		21430702		<b>Government Grant</b>		
	<b>Finance &amp; Bank Charges</b>			418206798	-Grants for Dearness Allowance	403560000	
1315447	-Bank Commission & Other Charges	2354461		2173450000	-Grants for Increased Cost of Pay	2187220000	
1315447	-Interest on HUDCO Loans	5253147		120387380	-Relief on Pension	237464620	
22879475	-Interest on House Building Loan From Bank	-		-	-Fixed Grant for Payment to CESC	550000000	
26832	-Interest on Bank Loan	67438	7675046		Grants out of proceeds from M.V.Tax	60000000	
	Electricity Charges paid to CESC & WBSEB		362675215	-	-Fixed Grants	-	3438244620
	Revenue Expenditure out of Earmarked Grants				Government Grant – Global Share of Income		
32229062	-National Social Assistance Programme	-		20050000	-Entertainment Tax	114600000	
6389097	-CUDP III - Health	-		30000000	-Trade Licence	29700000	
90472	-NSDP	-		-	-Tax on Profession Trade & Callings	-	144300000
1875377	-Payment for Artisan	-			Recoveries from Staff against Benefits Provided		
	-State Finance Commission	-		536357	Recoveries from Employees		6798081
496293	-11 <sup>th</sup> Finance Commission	-			Appropriation of Earmarked Funds utilized for Revenue Expenses		
4875096	-DFID – Revenue Expenditure	-		32229062	-National Social Assistance Programme	-	
492258	-Bustee BMS Revenue Expenses	-		6389097	-CUDP III - Health	-	
	Payment for River Front Beautification		292414	90472	-NSDP	-	
	Depreciation in Fixed Assets			1875377	-Payment for Artisans	-	
421315704	On Assets created out of Municipal	764429595		-	-State Finance Commission	-	
15902906	On Assets created out of Earmarked Funds	20351028		496293	-11 <sup>th</sup> Finance Commission	-	
7364720	On Assets created out of MPLAD Funds	9746459		4875096	-DFID – Revenue Expenditure	-	
3507679	On Assets transferred from KEIP	2352601	796879683	492258	-Bustee BMS Revenue Expenses	-	
43316708	Miscellaneous Expenses not resulting in Fixed Assets			13320080	Increase in Inventories		12029933

	Interest on CUDP-III Loan		27758344		Deferred Income		
183079601	-For the year 2004-05	-		15902906	Out of Earmarked Funds	6528827	
27584875	-Loss of Interest payable to Provident Fund	-		7364720	Out of MPLAD Funds	9746459	16275286
2793181164	Excess of Income over Expenditure		2926786258	59168000	Interest from IOB		-
9255765379			10160200938	9255765379			10160200938
				2793181164	Excess of Income Over Expenditure		2926786258
	<b>Prior Period Adjustment</b>				<b>Prior Period Adjustment</b>		
162424	Excess Interest (Previous year) on Fixed Deposit Written Back	-	-	-	Interest on CUDP-III Loan for the period prior		83788950
316102699	Miscellaneous Deposit written back previous year	-	-	2550116	Car Parking Accrual not Considered in '03-04		-
952901417	Waiver – Write Off of Receivables (All Units)			-	Pension Contribution		19431520
3297549912	Surplus transferred to Revenue Fund		3030006728	1772985172	Electricity dues written back		-
4568716451			3030006728	4568716451			303006728

Place: XXX

Additional Controller of  
Management  
Finance & Accounts  
(Accounts)

Controller of Municipal  
Finance & Accounts

Municipal Commissioner

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## THE ABC MUNICIPAL CORPORATION

Receipts and Payments Account for the year ended 31st March, 2006

All Figures in Rupees

Dr.				Cr.			
As on 31.03.2005	RECEIPTS	AMOUNT	AMOUNT	As on 31.03.2005	PAYMENTS	AMOUNT	AMOUNT
1,746,040,382	To Opening Balance of Cash & Bank (Including mutilated currency notes)		1,957,127,654				
	Opening Balance of Local Fund Account		530,664,352				
	To Income from Taxes				By Tangible Capital Assets Created at Departments		
	-Property Taxes : PD Bills			252,451	Administration	746,164	
1,257,493,102	Kolkata Proper	1,254,224,345		1,285,703	Municipal Secretary	1,128,351	
116,236,808	Added Units	143,004,844		1,443,865	Finance & Accounts	401,252	
126,006,242	Tolly	116,060,510		403,719	Treasury	1,743,505	
	-Property Taxes : FS Bills			259,035	Data Processing	49,150	
398,455,896	Kolkata Proper	372,812,505		211,300	Law Administration	58,500	
129,414,852	Added Units	134,983,336		-	Public Relations	7,000	
68,706,783	Tolly	84,128,169		2,468,520	Service Records and Accounts Cell	1,139,938	
	-Collection from Waiver			86,720	Advertisement	-	
1,293,422,334	Kolkata Proper And Added Units	10,280,315		256,241	Land & Estate	250,887	
60,537,090	Tolly	-		299,219	Building	2,809,071	
	-Other Taxes			858,213	Assessment Collection (S)	184,140	
653,840	✓ Tax on Profession Trades & Callings	665,636		79,629	Assessment Collection (N)	161,690	
30,476	✓ Tax on Carriages	25,543		2,142,081	Assessment Collection (Tolly)	431,775	
3,245,203	✓ Tax on Carts	2,937,675		943,384	License	483,768	
32,390,509	✓ Service Charges on Central Govt. Properties	48,623,579	2,167,746,457	2,240,011	Commercial Services	3,693,705	
	To Income from Advertisement Department			423,109	Engineering Administration	690,663	
40,865,039	Tax on Advertisement	48,908,951		1,068,095,396	Water Supply & Water Works	779,389,207	
91,222,758	Non Tax Revenue	104,175,521	153,084,472	73,279,505	Sewerage & Drainage	78,203,398	
	To Non-Tax Revenue - Functional Departments			159,906,388	Road & Roadways	344,702,272	
11,941	Law Administration	4,385		30,309,769	Solid Waste Management	29,958,473	
72,232	Public Relation	403,259		83,410,497	Lighting	99,980,214	
39,350,078	Car Parking Fees	40,016,795		2,233,859	Electricity	5,269,389	
225,500	Parking on Public Street - Mobile Outlet	313,000		28,817,797	Motor Vehicles	806,177	
1,070,708	Arrear amount under License	1,224,307		1,839,466	Education Service	5,478,420	
82,049,164	Land & Estate	61,217,345		4,402,023	Health Services	6,520,855	
692,084,386	Building	888,230,361		90,396,297	Bustee Services	168,412,533	
5,391,960	Assessment Collection (S)	5,135,169		-	Personnel	231,152	
14,024,076	Assessment Collection (N)	9,078,955		-	Central Records	34,650	
4,554,342	Assessment Collection (Tolly)	4,846,607		3,397,857	Central Stores	1,014,688	
206,752,876	License	210,620,449		450,713	Central Workshop	45,720	
16,366,157	Amusement	17,892,497		-	Central Vigilance	10,750	
				14,610,629	Other Administrative Services:-		
				-	Municipal Building	6,653,440	
				-	Institute of Urban Management	99,750	
				99,237,599	Special Programme	87,536,142	1,628,326,787.65

## THE ABC MUNICIPAL CORPORATION

All Figures in Rupees

## Receipts and Payments Account for the year ended 31st March, 2006

Dr.				Cr.			
As on 31.03.2005	RECEIPTS	AMOUNT	AMOUNT	As on 31.03.2005	PAYMENTS	AMOUNT	AMOUNT
104,689,344	Markets	139,145,567		6,522,921	Security Deposit	-	
37,883,197	Engineering Administration	40,234,269					
234,529,928	Water Supply	248,572,526					
					<b>By Tangible Capital Assets Created out of Earmarked Funds</b>		
15,742,456	Sale of Water to Ships	14,433,613			N.S.D.P. Project	20,776,557	
235,215,339	Drainage	278,578,080		3,526,842	Basic Minimum Service	319,283	
133,888,332	Roads	132,303,741		22,581,171	National Social Assistance Programme	21,548,674	
15,759,507	Solid Waste Management	13,507,536			-Payment Under DFID Project	34,743,536	
3,398	Electricity	-		20,366,322	KEIP-Advance	616,676,261	
63,000	Motor Vehicles	-		266,215,059	10th Finance Commission	-	
114	Primary Education	-		11,519,685	11th Finance Commission	95,421	
89,747	Health Services (Admn.)	128,428		30,721,236	State Finance Commission	757,936	
24,312	Health Services (Curative)	25,656		26,229,775	- Government Grants for Artisans	538,148	695,455,816
26,304,122	Health Services (Welfare)	25,276,676					
1,541,409	Royalty for Pay & Use Toilets	2,130,047			<b>By Disbursal of Funds as a Custodian / Trustee</b>		
3,804,888	Central Records	4,333,535			- MP Local Area Development		
19,366,881	Central Stores	9,404,467		46,543,248	Capital Expenditure	29,614,761	
-	Central Workshop	319,000		113,710,575	Revenue Expenditure	201,534,533	
638,345	Other Receipts	20,662,900		606,608	Contingency Fund	782,209	
-	Miscellaneous Agencies	11,000,000	2,176,039,170	10,080,835	- B.E.U.P.	9,549,263	241,480,586
	<b>To Water Supply (Kallghat BPS)</b>	<b>18,000,000</b>	<b>18,000,000</b>		<b>By Revenue Expenses in Administrative &amp; Support Departments</b>		
	<b>To Interest Income</b>			27,872,241	Administration	28,493,674	
7,780,813	Interest on Recurring Deposit	14,486,005		45,264,418	Secretary	43,403,656	
25,280,894	Interest on Fixed / Term Deposits	36,512,141		477,338	Finance & Accounts - Budgeting	480,314	
9,907,644	Interest on Savings Bank A/c	10,587,999		100,342,724	Finance & Accounts	97,344,744	
18,645,270	Interest on House Building Loans	3,953,659		29,935,890	Treasury	32,892,124	
-	Interest on Computer Loans	19,791		12,177,142	Data Processing	11,250,168	
-	Interest from BOI CD+	2,293,884		22,372,518	Law	20,467,589	
3,884	Interest on Contractors' Deposit	2,825		32,207,357	Public Relations	25,896,613	
2,026,178	Interest From IOB	59,168,000	127,024,303	4,926,909	Service Records & Accounts Cell	6,046,457	
	<b>To Government Grants</b>			4,272,945	Advertisement Department	4,878,534	
418,206,798	Grants for Dearness Allowance	403,560,000		9,564,905	Land & Estate	10,193,282	
2,173,450,000	Grants for Increased Cost of Pay	2,153,075,000		41,875,883	Building	44,603,181	
120,387,380	Relief on Pension	237,464,620		62,704,211	Assessment Collection (S)	75,810,194	
-	Fixed Grant for payment to CESC	550,000,000		63,577,056	Assessment Collection (N)	72,274,600	
-	Grants out of proceeds from M.V.Tax	60,000,000	3,404,099,620	66,523,517	Assessment Collection (Tolly)	77,008,038	
	<b>To Government Grant - Global Share of Income</b>			63,872,321	License	68,029,776	
20,050,000	Entertainment Tax	74,600,000		60,026,567	Commercial Services	70,022,768	
30,000,000	Trade Licence	29,700,000	104,300,000	101,233,011	Engineering Administration	102,636,595	
	<b>To Receipts as Earmarked Funds</b>			640,297,915	Water Supply & Water Works	689,550,298	
5,308,190	- CUDP III - Health	7,992,675			Water Supply to Ships	9,055,738	
20,660,699	National Social Assistance Programme	45,037,000		406,288,133	Sewerage & Drainage	447,392,705	
-	- Basic Minimum Service	12,000,000		620,094,601	Road & Roadways	786,046,525	
-	11th Finance Commission	60,000,000	125,029,675	1,296,476,133	Solid waste Management	1,316,256,130	
				183,443,239	Lighting	189,370,806	
				15,436,642	Electricity	17,680,237	
				140,237,557	Motor Vehicles	105,949,880	
				10,321,151	Education Administration	13,152,285	

## THE ABC MUNICIPAL CORPORATION

All Figures in Rupees

## Receipts and Payments Account for the year ended 31st March, 2006

Dr.	RECEIPTS		AMOUNT	AMOUNT	As on 31.03.2005	PAYMENTS		AMOUNT	AMOUNT	Cr.
As on 31.03.2005										
	To Local Fund for Earmarked purpose				107,253,709	Primary Education		93,936,660		
19,746,000	State Finance Commission	113,250,000			928,007	Socio Economic Service		1,144,300		
-	12th Finance Commission	64,551,000			38,047,376	Health Administration		37,404,953		
-	National Slum Development Programme	12,613,000			136,548,172	Health Services Preventive		161,027,387		
-	Fixed Grant	19,720,000			31,966,963	Health Services Curative		33,462,050		
-	Employment Generation for SC Category	11,414,000			72,043,934	Health Services Welfare		78,165,239		
-	Employment Generation for General Category	7,216,000	228,764,000		22,978,641	Bustee Services- Water Supply And Administ		23,711,306		
	To Receipts of Earmarked Grants				5,282,263	Bustee Services-Drainage		6,858,912		
42,284,000	-Receipt Under DFID Project	112,644,725			-	Bustee Services-Road		13,408,237		
60,000,000	National Slum Development Programme	30,000,000	142,644,725		-	Bustee Services-Conservancy		9,070,414		
					1,849,627	Bustee Services-Lighting		1,291,144		
1,411,259,922	To Proceeds Realised upon Maturity of FDR's	1,023,330,369	1,023,330,369		12,156,968	Bustee Services-Education		11,886,445		
					1,181,228	Bustee Services- Health		1,370,735		
	To Proceeds Realised upon Maturity of CPT Bonds	673,308	673,308		3,026,159	Bustee Services-Land & Estate		4,405,637		
					22,387,790	Personnel		23,883,805		
	To Kolkata Environment Improvement Project				4,360,825	Central Records		5,023,841		
48,933,728	West Bengal Government Grant Contribution (KEI)	146,700,793			33,877,374	Central Stores		31,832,410		
114,178,700	West Bengal Government Loan (KEIP)	313,310,650			66,536,620	Central Workshop		76,310,735		
	West Bengal Government Contribution (KEIP)	85,000,000	545,011,443		2,359,026	Central Vigilance		2,739,959		
					16,747,659	Central Printing		18,398,884		
	To Receipt of Funds as a Custodian / Trustee				23,717,196	Other Administrative & Support Services		27,087,326		
137,639,785	MP - Local Area Development (MPLAD)	147,042,493			7,027,718	Miscellaneous Agencies		12,386,402		
11,613,492	Bidhayak Elaka Unnayan Prakalpa (BEUP)	21,167,623			100,967,080	Special Programmes		113,922,084		
	- MP Local Area Development				-	Telephone Expenses		3,329,485	5,158,245,261	
	Capital Income (Others)	1,000,000	169,210,116							
						By Finance & Bank Charges				
	To Grant for Midday Meal to Primary Schools	3,750,203	3,750,203		1,869,285	- Bank Commission And Other Charges		2,348,263.83		
					26,832	- Interest On Bank Loan		67,438		
102,879,475	To Receipts of House Building Loan from Union Bank of				22,879,475	- Interest On House Building Loan From Bank		-		
					70,690,000	- Interest On NCRB		70,029,618		
59,424,446	To Bills Payable (Net)	388,739,026	388,739,026		-	-Interest On HUDCO Loan		26,442,883.00	98,888,203	
	To Advance for Expenses					By Electricity Charges paid to CESC & WBSEB		362,675,215	362,675,215	
143,595	- Imprest Advance	51,156								
15,000	- Special Imprest Advance	39,972	91,128			By Payment for River Front Beautification		292,414	292,414	
	To Recoveries - Statutory Deductions				3,317,585	By Disbursement out of Mayors Relief Fund		-	-	
260,311	- Compulsory PF	254,735								
374,940	- Voluntary PF	373,150				By Payment for Midday Meal to Primary Schools		548,009	548,009	
298,174,610	- GPF	333,415,429								
62,847,659	- Recovery from GPF	69,886,071			67,846,000	By Repayment of Short Term Loan from UBI		-	-	

## THE ABC MUNICIPAL CORPORATION

All Figures in Rupees

## Receipts and Payments Account for the year ended 31st March, 2006

Dr.		AMOUNT	AMOUNT	As on 31.03.2005	PAYMENTS	AMOUNT	AMOUNT	Cr.
As on 31.03.2005								
	<b>RECEIPTS</b>				<b>PAYMENTS</b>			
8,480	- Recovery from CPF	1,950			By Repayment of HUDCO Loan	72,335,916.00		72,335,916
600	- Voluntary Recovery	-			By Staff Advances & Deposits			
18,166,499	- Employees Income Tax	10,999,251			- Housing Loans to Employees	53,261,296		
3,385,197	- Employees State Insurance	2,464,697		64,409,534	- Advance for Medical Treatment	177,458		
26,186,193	- Employment Tax	28,158,812		416,637	- Advance for Durga Puja Festival	3,733,433		
66,060,582	- Income Tax Deducted from Contractors	61,262,457		2,960,125	- Idd Advance	257,655		
12,708	- Arrear Surcharge on Income tax	356,165		162,950	- Advance on Personal Capacity	701,529		
33,242,084	- Sales Tax deducted from Contractors	38,009,618		516,292	- Advance on Official Capacity	309,762,195		
13,074,486	- Group Insurance	12,952,564	558,134,898	326,406,244	- Employees' Deposits	5,040	367,898,606	
				3,325				
	To Recoveries from Staff against Benefits provided				By Staff Benefits			
97,687,428	- Credit Society Employees Deposit	106,577,639			- Credit Society Employees Deposit	106,639,359		
1,102,156	- LIC	1,054,898		103,952,360	- Life Insurance Corporation	1,050,708		
14,109	- Labour Welfare Fund	14,529		1,096,026	- Labour Welfare Fund	17,127		
64,785,151	- For Payments to Co-operative Banks	83,569,126		12,699	- Contribution to Pension Fund	818,112,455		
1,882,803	- Employees' Deposits	21,622		747,116,383	- Payments to Co-operative Banks	82,421,264	1,008,240,913	
5,365,357	- Recoveries from Employees'	6,798,081		64,682,288				
	- Receipts from Pension Fund	19,431,520	217,467,414	74,294,511	By Re-payment of House Building Loan from Union t	65,483,688		65,483,688
	To Recoveries from Staff against Advances				By Advance, Deposits and Retainage			
41,385,566	- Housing Loans to Employees	48,526,163			- Retention Money	93,861,254		
254,486	- Advance for Medical Treatment	327,800		77,728,626	- Contractors Advance	735,520,465		
2,317,946	- Advance for Durga Puja Festival	3,219,604		792,730,322	- Contractors Deposit	718,909		
223,564	- Idd Advance	207,875		382,109	- Earnest Deposit	23,730,302	853,830,929	
122,960	- Computer Advance	90,465		11,439,531				
3,917,769	- Advance on Personal Capacity	739,986			By Advance for Expenses			
336,671,127	- Advance on Official Capacity	229,218,317		45,100	- Imprest Advance	46,750		
35,436	- Advance (Corporation Servants]	-	282,330,210	47,450	- Special Imprest Advance	59,300	106,050	
	To Adjustment for Past Year's Liability				By Discharge of Past Years Liability			
12,166,831	- Undisbursed Liability	54,448			- Undisbursed Liability	387,500		
3,295,330	- Unpaid Wages	4,189,722	4,244,170	4,905,139	- Unpaid Wages	2,928,262	3,315,762	
	To Advance, Deposits and Retainage			2,125,047	By Development of Market Complex	6,261,099		6,261,099
117,477,210	- Retention Money	135,118,547		18,201,053	By Statutory Payments			
33,599,824	- Earnest Deposit	30,159,492			- Compulsory PF	279,319		
1,790,882	- Contractors Deposit	1,678,895		658,991	- Voluntary PF	338,000		
751,788,863	- Contractors Advance	353,300,551	520,257,485	380,715	- GPF	387,991,429		
	To Other Receipts			362,464,721	- Recovery from GPF	69,023,630		
290,342,826	- Deposit of Partial Recovery of Bills with Collector (Calcutta Prop)	253,223,794		61,459,322	- Recovery from CPF	200		
	- Deposit of Partial Recovery of Bills with Collector (Tolly)	30,652,553		9,580	- Voluntary Recovery	-		
10,526,235	- Advance Miscellaneous	2,502,000		600	- Employees Income Tax	10,446,064		
10,059,822	- Short Excess Remittance	2,902,555		18,150,052	- Employees State Insurance	2,606,930		
35,589				2,966,965	- Employment Tax	27,780,042		
				26,506,038				



## THE ABC MUNICIPAL CORPORATION

All Figures in Rupees

## Receipts and Payments Account for the year ended 31st March, 2006

Dr.				Cr.			
As on 31.03.2005	RECEIPTS	AMOUNT	AMOUNT	As on 31.03.2005	PAYMENTS	AMOUNT	AMOUNT
64,399,251	- Deposit Miscellaneous	107,214,828		60,991,832	- Income Tax on Contractors Payment	58,036,405	
13,225,217	- Other Deposits	21,670,832		28,005,876	- Sales Tax deducted from Contractors	32,995,544	
495,878	- Recoveries on behalf of Employee on Deputation	667,177		13,139,554	- Group Insurance	12,873,011	
124,813	- Flat Rent Corporation Employee	60,439		457,811	- GPF Payment on behalf of Employee on Deputa	472,921	
1,927,216	- Court Attachment	291,791		-	-Arrear Surcharge on Income Tax	1,754,001	604,597,496
7,711,988	- Stores Purchase Suspense	9,984,543	429,170,512				
	40,545 To Sale of Land		-		<b>By Other Payments</b>		
				6,591,279	- Deposit of Partial Recovery of Bills with Collector (Calcutta Prop)	2,949,127	
25,089,809	To Receipts for Market Complex Development	21,205,738	21,205,738		- Deposit of Partial Recovery of Bills with Collector (Tolly)		
				31,462	- Deposit of Revenue Nature	50,628	
3317585	To Mayor Relief Fund		-		- Short Excess Remittance	-	
				3,248,692	- Deposit Miscellaneous	50,927,309	
				92,968,090	- Advance Miscellaneous	1,254,150	
				1,248,050	- Flat Rent Corporation Employee	53,120	
				76,244	- Court Attachment	212,741	
				1,684,764	- Other Deposits	19,374,248	
				14,134,782	- Refund of taxes	-	
				469,466	- Stores Purchase Suspense	9,984,543	84,805,866
				7,711,988			
					<b>By Revenue Expenditure out of Earmarked Grants</b>		
				32,229,062	- National Social Assistance Programme	-	
				6,389,097	- CUDP III - Health	7,887,584	
				496,293	- 11th Finance Commission	-	
				1,875,377	- Government Grants for Artisans	-	
				492,258	- Bustee BMS Revenue Expenses	-	
				90,472	- NSDP	-	
				2,430,000	-DFID Financial Management Revenue	-	
				28,600	-DFID Governance Revenue Expenditure	150,328	
				214,738	-DFID Human Resource Revenue Expenditure	20,974,912	
				-	-DFID Training Revenue Expenditure	1,145,685	
				-	-DFID Social Development Revenue	868,300	
				-	-DFID R.M.I F.M Revenue Expenditure	7,512,890	
				-	-DFID Information Technology Revenue	6,017,140	
				2,201,758	-DFID Planning & Environment Revenue	8,257,431	
					-DFID Capacity Building Management Support	22,796,906	75,611,176
					<b>By Revenue expenditure out of Revenue Grants</b>		
				90,936,023	- Governance/ Planning & Environmental	-	-
				2,211,920,290	<b>By Re-investment of Fixed Deposits</b>	789,901,061	789,901,061

Dr.				Cr.			
As on 31.03.2005	RECEIPTS	AMOUNT	AMOUNT	As on 31.03.2005	PAYMENTS	AMOUNT	AMOUNT
					By Redemption of Bond	60,000,000	60,000,000
				21,920,800	By Insurance Premium (Employees Medical Insurance)	21,430,702	21,430,702
				43,316,708	By Misc. Expenses not resulting in addition to FA	-	-
				1,957,127,654	By Closing Balance of Cash & Bank		
					Bank Balances	2,688,707,622	
					Cash & Cash equivalents	186,307,725	
					Custodial Funds - Bank Balances	223,393,547	3,098,408,894
<u>14,541,020,864</u>			<u>15,298,140,447</u>	<u>14,541,020,864</u>			<u>15,298,140,447</u>

Place : Kolkata  
 Date : January 15, 2007





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SUGGESTED AUDIT COMMENTS ON FINANCIAL STATEMENTS OF ABC  
MUNICIPAL CORPORATION

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**Comments on Accounts:**

**Balance Sheet – Liabilities - Current liabilities**

**Statutory liabilities:-Rs.15134.62 lakh (Schedule - 9)**

**Provident Fund Liability - Rs.14385.97 lakh**

Provident Fund is not regulated by any separate trust having a separate legal entity as per regulation framed under the ABC MUNICIPAL CORPORATION Act. The entire amount of employees' contribution and employer's contribution are being managed/ invested/ reinvested by the ABC Municipal management. Thus, as per accounts and records maintained by the Provident Fund Cell, the deficit balance of Rs. 1446.48 lakh as on 31-03--06 has to be borne by ABC Municipal Corporation out of which Rs.995.26 lakh was charged in the accounts of ABC Municipal Corporation up to 31-03-2005. The amount of Rs. 451.22 lakh (Rs.1446.481lakh - Rs.995.26 lakh), therefore, should have been charged in the Income & Expenditure Account for the year 2005-06. Non-charging resulted in overstatement of excess of Income over Expenditure as well as Municipal Fund by Rs.451.22 lakh with corresponding understatement of liability on account of provident fund by same amount.

The reply of the ABC Municipal Corporation is not tenable, since records were not furnished to audit showing that interest is payable by the Government.

**Miscellaneous Deposits - Rs.30801.98 lakhs (Schedule 11).**

Out of the above unspent deposit head, Rs.3695.80 lakh had been written back to income in the accounts for 2003-04 irregularly under prior period adjustment. However, a sum of Rs.3181.03 lakh was reversed in the accounts for 2004-05 in compliance with earlier audit observation leaving a balance amount of Rs.514.77 lakh remaining to be reversed. Non reversal of the said balance amount of deposit resulted in understatement of Miscellaneous Deposit with corresponding overstatement of Excess of Income over Expenditure and Municipal Fund by-Rs.514.77 lakh.

ABC Municipal Corporation admitted the fact and agreed to adjust the same in the accounts for 2006-07.

**Assets**

**(i) Capital work in progress - Rs.10625.44 lakh (Schedule -13C)**

**(ii) Expenditure on general infrastructure improvement not yet capitalized Rs.4576.50 lakh (Schedule - 14).**

The Corporation has not produced the assets register to audit. It has not disclosed the policy regarding physical verification cycle for its assets including land records and capital-work-in-progress.

**The above mentioned Capital Work-in-Progress included:-**

1.	Commercial Project lakh ( <b>Schedule - 13C</b> ) remain in progress since 90-91.	<b>Rs.554.99 lakh</b>
2.	CUDP III projects under Construction ( <b>Schedule 14A</b> )-remain in progress since 97-98.	<b>Rs.879.25 lakh</b>
3.	Project under Slum Development ( <b>Schedule - 14B</b> ) remain in progress since 1995-96	<b>Rs.1851.77 lakh</b>
		<b>Rs.3286.01 lakh</b>

Since these assets are being shown in progress for more than 10 years without any progress and no physical verification has been done so far, these no longer can be considered as assets in progress and should have been written off. Thus inclusion of the said amount resulted in overstatement of assets under Schedule 13C and Schedule 14 as well as surplus revenue and Municipal Fund by Rs.3286.01 lakh.

ABC Municipal Corporation admitted the fact and agreed to adjust the same in the accounts for 2006-07.

**Inventories - Rs.782.07 lakh**

**Income & Expenditure Account**

**Increase in inventory Rs.120.30 lakh.**

Above value of closing. inventory was arrived at after taking the opening balance of Rs.935.88 lakh whereas closing balance as on 31 March 2005 as per audited balance sheet was Rs.661.77 lakh. This has resulted in excess valuation by Rs.274.11 lakh (Rs.935.88 lakh - Rs.661.77 lakh). Thus, closing inventory should have been Rs.507.96 lakh (Rs.935.88 lakh - Rs.274.11 lakh) resulting in overstatement by Rs.274.11 lakh. This has resulted in overstatement of Excess of Income over Expenditure as well as Municipal Fund by Rs.274.11 lakh.

ABC Municipal Corporation admitted the fact and agreed to settle and adjust the same in the accounts for 2006-07.

**Receivables - Rs.174824.00 lakh (Schedule - 16)****(i) Receivables - General Government dues - Rs.162322.94 lakh**

Above includes RS.2023.10 lakh and Rs.4184.87 lakh being Receivable on account of Licence and Tax on Profession, Trades & Callings as on 31-03-2006 which remained stagnant for over 4 years since 2001-02. The Corporation did not produce any ledger in support of the said receivables. As it was doubtful if the receivables were realizable, they should be adjusted by charging Income & Expenditure accounts.

Non-adjustment/ non charging, resulted in overstatement of Receivables, Excess of Income over Expenditure as well as Municipal Fund to the extent of Rs.6207.97 (Rs.2023.10 + Rs.4184.87) lakh.

No reply was furnished by the ABC Municipal Corporation.

**(ii) Dues from Government and Other Institutions Rs.7426.01 lakh (Schedule 16-C).**

Receivables included Rs.7426.01 lakh towards dues from Government and Other Institutions which were being carried over since 2000-01.

In spite of an earlier audit observation in this regard, ABC Municipal Corporation had neither initiated suitable administrative action for realization of the dues nor charged off the same in the accounts as of 31 March 2006.

In the absence of definitive administrative action for realisation or acceptance on the part of the grantors about the amount payable to ABC Municipal Corporation should have been written off. Thus Excess of Income over Expenditure, Receivables have been overstated with corresponding overstatement of Municipal Fund by Rs. 7426.01 lakh.

No reply was furnished by the ABC Municipal Corporation.

**(iii) Profession Tax Recoverable: Rs. 85.16 lakh**

Above amount of Rs.85.16 lakh being shown receivable as excess Profession Tax deposited during 1997-98 to 2002-03 with the Tax authority is yet to be written off in spite of comments issued in this regard through the Annual Reports for 2003-04 and 2004-05. Since the amount was never formally claimed from the Tax authority, the amount is not eligible for refund and, therefore, should have been written off. Non-writing off the amount resulted in overstatement of above Receivable head, Excess of income over expenditure & Municipal Fund to the extent of Rs.85.16 lakh.

ABC Municipal Corporation agreed to write off the same.

**Loans & Advances - Rs.48293.95 lakh (Schedule -17)****Accumulated Advances Rs.1460.10 lakh (Schedule - 18).**

a) Above Loans & Advance (Schedule -17) include Rs.33070.73 lakh which have remained stagnant for over five years. The amount not being recoverable, as revealed in the relevant Notes and Schedules to the Accounts, should have been written off in the Income & Expenditure Account. Thus, non writing off resulted in overstatement of Loans & Advances, Excess of Income over Expenditure and Municipal Fund by Rs.33070.73 lakh.

b) Above accumulated Advances (Schedule -18) remained stagnant for very long period and the Management continues to attach the same Notes on Account vide Accumulated Advance item No. 1 - for more than 5 years stating that they would consider adjustment. Since it could not be adjusted the amount should have been written off. Non writing off has resulted in overstatement of the Schedule - 18 - Excess of Income over Expenditure and Municipal Fund to the extent of Rs.1460.10 lakh.

ABC Municipal Corporation admitted the fact stated under (a) and (b) above and assured that necessary adjustment would be made after further investigation.

### **Income & Expenditure Account**

#### **Income**

#### **Deferred income Rs.162.75 lakh**

Above amount was not arrived at as per Accounting Standard 12 and disclosed policy under 'Fixed Assets'. The deferred income should have been in proportion with the depreciation charged in respect of creation of depreciable assets out of Earmarked Fund. This led to understatement of the above income by Rs.138.22 lakh resulting in the understatement of Excess of Income over Expenditure and Municipal Fund by the same amount.

ABC Municipal Corporation admitted and agreed to adjust in the next accounts (2006-07).

#### **Internal Audit**

Section 156 and 157 of the KM C Act, 1980 provide that the Chief Municipal Auditor shall conduct internal audit of the accounts of the Corporation and shall report thereon highlighting the material impropriety or irregularity noticed.

Due to non-furnishing of the report of Internal Audit on the accounts of the Corporation for the year 2005-06 it could not be ascertained whether internal control is commensurate with the size and volume of transactions of ABC Municipal Corporation.

No reply was furnished by the ABC Municipal Corporation.

### **Cash & Bank Balance**

(a) No bank reconciliation was done in respect of 34 bank accounts since the last 3 years. On 31 March 2006, the difference between book balance and balance confirmed by bank stood at Rs.2417.86 lakh. Therefore, correctness of book balance reflected in the Accounts is doubtful and needs immediate reconciliation and investigation.

ABC Municipal Corporation has noted the observations for future compliance.

(b) Cash balance of Rs.18.63.08 lakh excluded Rs.12,52,555 being the amount found short in physical verification in- the year 2002-03, Till 31.03.2005, the amount of shortage continued to be shown in the closing balance of petty cash. However, the Note to Accounts in this regard (Cash and cash equivalent - item 1) did not disclose the fact clearly.

### **(c) Irregularities in maintenance of Cash Book.**

Cash Book maintained by the Finance and Accounts Department electronically was not balanced daily. As a result, balance at the end of a particular day/ month/ Year could not be verified in audit.

### **General Provident Fund.**

As per regulation framed under ABC Municipal Corporation Act the entire amount of both employees' and employers' contribution towards GPF /CPF are being managed/ invested/ reinvested by ABC Municipal Corporation through a separate provident Fund Cell responsible for keeping accounts and records. The records maintained by P.F. Cell shows receivable of Rs.19542.23 lakh from ABC Municipal Corporation as on 31 March 2006 whereas ABC Municipal Corporation Account showed Rs.13390.71 lakh as liability in this regard. Thus liability booked was less by Rs.6151.52 lakh.

Further Provident Fund balance of Rs.12087 .76 lakh remained invested as on 31.03.2006 and there was closing cash and Bank balance of Rs.375.83 lakh. All these balances were neither accounted for after reconciliation nor were clearly disclosed. Thus investment, liability and cash / bank balances in this regard have no reflection in the Corporation Account in respect of Provident Fund.

### **Pension Fund.**

Regarding pension fund also although closing bank balance as shown in the separately prepared accounts for pension fund was taken into account in the Corporation Account the fixed deposit of Rs.81.48 lakh from this account was not incorporated in the Corporation Account notwithstanding the fund is being managed by the Corporation management.

In reply ABC Municipal Corporation did not comment as to the reasons on account of which these balances were kept out of the accounts.

**Non disclosure of objective/ nature-wise Expenses.**

Financial Statement of ABC Municipal Corporation did not disclose its Receipts & Payments / Income & Expenditure objective nature-wise.

As a result major items of expenses viz. total salary/ wages in various sub-heads, stores consumed in various sub-heads, repair/ maintenances expenditure, workshop expenses, payments to contractors/ suppliers, printing and stationery, power and fuel consumption, employer's contribution to CPF, if any, interests paid / payable and other identifiable overheads remain undisclosed.

ABC Municipal Corporation admitted the same and agreed to take necessary action in this regard in the accounts for 2006-07 through a separate schedule.

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**Regional Training Institute, Kolkata**  
**Indian Audit and Accounts Department**