

RESOURCE BOOK ON **ACCRUAL ACCOUNTING** FOR ADMINISTRATIVE AND FINANCE PERSONNEL

SK Das, RK Mohanta and SK Sethi



भारत-राष्ट्रीय चावल अनुसंधान संस्थान
ICAR-National Rice Research Institute



Resource Book on
Accrual Accounting
for Administrative and Finance Personnel

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Message

It is pertinent to mention that human resource is one of the most important factors for achieving target for any organization. The performance, efficiency and competency of the human resources can be enhanced by conducting capacity building programmes on emergent subjects at regular intervals. As administration and finance is one of the important domain of Indian Council of Agricultural Research (ICAR), effort made by Human Resource Management Unit of ICAR, New Delhi in implementing ICAR HRM Policy 2017 and conducting training for administrative and finance personnel of ICAR institutes and headquarter is highly appreciated.

I am extremely delighted to record that Training on Accrual Accounting for the administrative and finance personnel of ICAR has been conducted through virtual mode by ICAR-National Rice Research Institute, Cuttack in collaboration with Human Resource Management Unit, Indian Council of Agricultural Research, New Delhi during the COVID-19 pandemic period. The representatives from administration and finance wing of most of the ICAR institutes and ICAR headquarter have attended the specialized training programme on this subject. I do hope that the trainees would have enriched their knowledge in accrual accounting for the benefit of their respective institutes.

I sincerely appreciate the ICAR-National Rice Research Institute for publication of this Resource Book on Accrual Accounting for Administrative and Finance Personnel. It is expected that the publication will be useful for the institutions functioning under the Council, other Ministries/Departments of the Government of India and Central Agricultural Universities of the country to further enriching the knowledge of their personnel working on this aspect and other officers involved in Finance management.


(T Mohapatra)



Foreword

Training and Capacity Building is an important intervention to enrich the knowledge and enhance the competency & capacity of the individuals working in an organization. Based on the National Training Policy-2012 of Government of India, ICAR has formulated and implemented the ICAR HRM Policy: Training and Capacity Building since 2017 to develop and enhance competency of individuals so that their efficiency and performance can be augmented. An effort has been made by ICAR-National Rice Research Institute, Cuttack in collaboration with HRM Unit, ICAR HQs. in organising Training on Accrual Accounting for all the administrative and finance personnel of ICAR HQs. and ICAR-Institutes starting from Lower Division Clerk (LDC) to Senior Administrative Officer & Senior Finance & Accounts Officer.

Considering the administrative and finance personnel as one of the most important segment of ICAR workforce, the Training Need Analysis (TNA) of various groups of administration and finance starting from Lower Division Clerk (LDC) to Senior Administrative Officer (SAO) & Senior Finance & Accounts Officer (SF&AO) has been conducted by ICAR-National Rice Research Institute, Cuttack in collaboration with Human Resource Management Unit, Indian Council of Agricultural Research, New Delhi.

ICAR-National Rice Research Institute has brought the Resource Book on Accrual Accounting for Administrative and Finance Personnel after completion of such training in five Batches during 2021 through virtual mode during the period of pandemic on account of COVID-19. The publication would be treated as an information source for Master Trainers to conduct training for various categories and functional group of administrative employees in ICAR as well as the entire National Agricultural Research and Education System (NARES) including Central/State Agricultural Universities.

The significant contributions of Director, ICAR-NRRI, Cuttack and her team for organizing five batches of training on Accrual Accounting during pandemic period is highly appreciated. I also acknowledge the sincere and commendable efforts of Dr. SK Das, Senior Finance & Accounts Officer and Course Director and his team for successfully conducting the training programmes and bringing out this important publication which will be useful as a resource book for Administrative, Finance Personnel and Master Trainers across the country, not in the NARES but also in different Minister/Departments of Central/State Government.

Dated the 06th June, 2022


(AK Vyas)

Assistant Director General (HRM)
& Training Manager, ICAR, KAB-II, Pusa, New Delhi



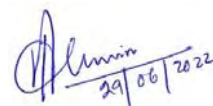
Preface

Capacity Building Programme on Accrual Accounting of five batches for administrative and finance officials of Indian Council of Agricultural Research to enhance knowledge, skills and competency and develop professionalism was conducted by ICAR-National Rice Research Institute, Cuttack in collaboration with Human Resource Management Unit of Indian Council of Agricultural Research, New Delhi.

The support and co-operation provided by Dr T Mohapatra, Secretary, DARE & Director General, ICAR; Dr AK Vyas, Assistant Director General (HRM) & Training Manager, ICAR and his team, Dr S Samantaray, HRD Nodal Officer, ICAR-NRRI, Cuttack in successfully conducting the capacity building programme is immensely praiseworthy. The contribution of resource persons within and outside the ICAR system in general and Shri GP Sharma, Director (Finance), ICAR; Shri SK Pathak, Comptroller, ICAR-IVRI, Bareilly and Ms Sunita Arya, Director (Finance), ICAR-CAZRI, Jodhpur in particular is highly appreciable. The involvement of administrative, finance and technical staff of ICAR-NRRI, Cuttack in conducting the programme is highly commendable.

This “Resource Book on Accrual Accounting for Administrative and Finance Personnel” contains ready reference to be used by the master trainers in future which will help the course directors and trainers in organizing specialized capacity building programmes for employees of ICAR, CAUs and SAUs.

I hope this useful publication on “Resource Book on Accrual Accounting for Administrative and Finance Personnel” will be of immense help to the Master Trainers of ICAR, CAUs, and other Central/State Government Ministries/Departments. I wish this resource book will be extensively used.



(P Swain)

Director
ICAR-NRRI, Cuttack



Acknowledgements

The “Resource Book on Accrual Accounting for Administrative and Finance Personnel” was possible due to valuable guidance, support and cooperation of Dr T Mohapatra, Secretary, DARE & Director General, ICAR, Dr AK Vyas, Assistant Director General (HRM) & Training Manager and Shri GP Sharma, Director (Finance), ICAR. The efforts of the domain specific resource persons associated with this momentous are sincerely acknowledged for effective completion of the training programme. The support guidance of Director, ICAR-NRRI, Cuttack and Dr GAK Kumar, Head, Social Science Division, ICAR-NRRI, Cuttack in bringing this publication is also thankfully acknowledged.

Sincere efforts of Shri GP Sharma, Director (Finance) & Dr NK Jain, Principal Scientist (HRM) & HRD Nodal Officer, ICAR headquarters are noteworthy and duly acknowledged for encouraging in bringing out this publication. The necessary support provided by Ms. Anjali Sharma, Under Secretary and staff of HRM unit, ICAR headquarters from time to time are also duly recognized.

The contribution of senior officers of ICAR headquarters and ICAR institutes and resource persons, Dr RK Mohanta, Senior Technical Officer & Course Coordinator, Shri SK Sethi, Technical Officer (Computer) & Course Co-coordinator and officials of ICAR-NRRI, Cuttack is highly appreciated.

This material has been developed taking inputs from presentations made by experts and reference materials.



(SK Das)

Course Director &
Senior Finance & Accounts Officer
ICAR-NRRI, Cuttack



Introduction

Prior to implementation of accrual accounting system in Government offices in India, Cash basis system was in use. Under Cash basis method, income and expenditure is recognized upon receipt of the cash and payment of cash, respectively. Though it is a simple method, but all the expenses incurred do not fully match with the incomes generated in a given period of time in most of the cases. The objectives of the financial reporting system were not achieved because of the inconsistency in the cash receipt/cash payments with earning of revenues or incurring of expenses. Inaccurate computation of income and expenditure, no differentiation between receipts or payments on capital account and no statement of assets and liabilities were the major disadvantage of cash basis of accounting. In order to resolve these drawbacks, many government and autonomous bodies including Indian Council of Agricultural Research (ICAR) have adopted accrual accounting.

The objective of the accrual accounting is to recognise financial transactions not at the time of receipt or payment of cash but at the time of the occurrence of the transactions. The accrual method is based on the principle that all incomes earned during a given period of time are matched with the expenses incurred for earning those incomes. Incomes are recorded in the period in which they are generated, and expenses are recognised by measuring goods and services consumed to generate those incomes. The accrual method provides a better measurement of net income

because it matches expenses incurred with income earned for a given period and it reflects income in the period to which they belong i.e., the period in which they are earned. Since accrual accounting provides complete and useful information than the Cash basis accounting, most organisations including ICAR use this form of accounting to support their financial reporting and decision making.

Upon implementation of accrual accounting, the financial performance & liquidity position can be correctly assessed as all expenses whether paid or not and all incomes whether received or not are duly accounted for. Under this system, accounting policies and contingent assets & liabilities can be disclosed. Besides, the organization will be able to provide comprehensive information on the financial position. The “Resource Book on Accrual Accounting for Administrative and Finance Personnel” contains ready-to-use references that the Administrative, Finance Personnel and Master Trainers can use in the future. This will be of use for course directors and trainers in organising specialised capacity building programmes for employees of ICAR, CAUs, and SAUs.

The Master Trainers of ICAR, CAUs, and other Central/State Government Ministries/Departments will find this publication of great use and this reference book can be widely used. The publication can be used as a resource for Master Trainers who will train different categories and functional groups of administrative staff at ICAR as well as the



complete National Agricultural Research and Education System (NARES), which includes Central/State Agricultural Universities.

Since ICAR has adopted accrual accounting system and most of the administrative and finance personnel are not well versed with this system, capacity building programmes are required to be extensively conducted throughout the country. ICAR-National Rice Research Institute, Cuttack has been one of the pioneering institute to provide capacity building to administrative and finance personnel of various institutes. However, many more institutes need to develop their capabilities to conduct such programmes to cover the administrative and finance personnel

of Council as well as other organizations to completely implement accrual accounting system in the country. The ensuing chapters of this resource book aims to provide ready reference for all such institutes.

The chapters have been planned starting from the fundamental concept of accounting like General Accepted Accounting Principles, Journal, ledger, Trail Balance, Single Entry & Double Entry system of accounting etc. to advance accounting concepts like financial management, Accounting Standard, accounting through TSA and other aspects. Apart from accounting taxation subjects like Income Tax, GST and purchase procedure has also been included in the resource book.



Generally Accepted Accounting Principles (GAAP)

Meaning of Principle

Principle as a general law or norm is used as a guide to action, a firm ground or basis of activity or practice. According to American Institute of Certified Public Accountants “The rules and convention of accounting are generally referred to as principles”.

Generally Accepted Accounting Principles (GAAP) is a technical accounting word that refers to the conventions, regulations, and procedures that are used to define accepted accounting practices at a certain point in time. It contains both broad principles for general applications as well as specific practices and procedures. These norms, regulations, and procedures serve as a benchmark against which financial presentations can be judged. GAAP refers to the rules of action or conduct that are derived from experience and practice and are accepted as accounting principles once they have proven to be helpful. The three factors that GAAP is founded on are as follows:

1. **Relevance:** It is relevant and valuable for accounting information.
2. **Objectivity:** This refers to the consistency, verifiability and trustworthiness of information. If it is not influenced by personal prejudice, it is objective.
3. **Feasibility:** It is the applicability in practice. It can be implemented without complexity.

Characteristics of Accounting Principles

1. Because accounting principles are man-made, they lack the authority of universal principles such as those found in physics, chemistry and other natural sciences.
2. These principles are neither completely certain such as physical and chemical science nor can these be verified by experiment. The general acceptances of these principles are received by accountants.
3. Accounting is a social science and a natural outcome of economic phenomena.
4. The science of accounting is not a complete form, it is evolving.
5. These are influenced by business practices and customs, government agencies and other business groups.
6. The principle is objective to the extent that the accounting information is not influenced by the personal bias of those providing information.
7. Accounting information provided in the financial statements must be free from personal prejudice of those who have participated in the preparation of these statements.
8. A principle is feasible to the extent that it can be applied without undue complexity or cost.

9. These principles are not only followed by one accountant but followed by all accountants in India and world.
10. Accounting principles are derived by argument and experience: Accounting principles neither checked by verification nor derived by written law. These are derived by necessity, experience and argument.

Accounting Principles

Accounting Principles: Accounting Principles are a set of rules for establishing standards for solid accounting processes and procedures in reporting an organization financial condition and performance throughout time. Accounting standards are documents prepared by Government, professional institutes, or other regulatory bodies. Accounting Principles are separated into two groups:

(I) Accounting Concepts: Accounting concepts can be thought of as postulates, or fundamental assumptions or circumstances that the science of accounting is built on. Although there is no authorized list of these concepts, the majority of them have widespread acceptance.

(II) Accounting Conventions: The term convention refers to the conditions or traditions that govern an accountant in generating financial accounts. The term concepts and conventions are frequently interchanged. The primary distinction is that concepts are concerned with account maintenance, whereas conventions are used for financial statements, such as profit and loss account and balance sheet.

Accounting Concepts

1. Business Entity
2. Money Measurement
3. Going Concern Concept
4. Cost
5. Dual Aspect
6. Accounting Period
7. Matching
8. Realization
9. Objective Evidence
10. Accrual
11. Timeliness

Accounting Conventions

1. Consistency
2. Full Disclosure
3. Conservatism
4. Materiality

Accounting Concepts

1. The Business Entity Concept

The existence of business is considered separate from his business owners. All the books of business in which business transactions are recorded are kept separate from owner.

The Profit & Loss account of the business depicts profit and loss of the business and not the owners. Similarly, balance sheet of the business depicts the financial position of the business not the owner. Owner of the business is considered as creditor and manager of business. On this basis, the interest is given on capital invested in business to owner and interest is taken on the amount withdrawn



(drawings) from the business. House of the owner, his personal car, his personal income and expenses are maintained separately from business. Similarly, if the owner has more than one business, the accounts of these businesses are maintained separately. Transactions with the business such as capital provided to the business, goods and amounts withdrawn from the business for the sole trader's personal use, income tax or life insurance premiums paid from the business on the taxable income or life of the proprietor, and so on, are recorded to reveal true financial position and profitability.

2. Money Measurement Concept

According to this concept, only those transactions are recorded in books of accounts which can be expressed in terms of money. Any event, though may be of some importance to the business, should be completely ignored if they cannot be expressed in terms of money. Hence for making accounting clear, they are brought to a common unit of measurement, i.e., money. Money is the only practical unit of measurement that can be employed to achieve homogeneity of financial data, so accounting records only those transactions which can be expressed in terms of money though quantitative records are also preserved. The items presented in multiple units of measurement cannot be combined together to obtain an estimate of the overall worth of the assets of the business. Thus, money measurement concept of accounting has two fundamental drawbacks:

- ✳ It limits the scope of accounting because it is incapable of capturing transactions that are not monetary in nature.

- ✳ It ignores the consequences of inflation since it assumes that the money measurement unit is stable.

3. Going Concern Concept

It is anticipated that the business will last a long time and will not close in near future. On account of this concept, the assets in balance sheet are recorded by reducing depreciation from actual cost and not at market price. The assets are not recorded on market price because these are to be used in business and not to be sold in market. According to this concept, when the profit from expenditure on specific item is to be received for more than one year then these expenditures would be divided in many years because these expenditures are considered as capital expenditure. The following are the examples of situations in which going concern notion is invalid:

- ✳ When a business was founded with a specific goal in mind that has been met or will be met soon.
- ✳ Board of Industrial and Financial Reconstruction (BIFR) declares a firm as sick.
- ✳ When a company is in the midst of severe financial crisis and is projected to close down soon.
- ✳ When a receiver or liquidator has been appointed in the event of a company that is to be liquidated or going out of business.

4. Cost Concept

It refers to historical cost, i.e., the cost incurred at the time of acquisition. The cost becomes the basis for subsequent accounting treatment. Depreciation is a method of

systematically reducing the cost of an asset from year to year. Although the market value of an asset may fluctuate over time, it is nevertheless recorded in the balance sheet at book value, which is the cost less depreciation.

The cost concept has the benefits of providing impartiality to the financial statements. Financial statement information is not influenced by the personal prejudice or judgment of people who provide such statements. In the absence of cost concept, assets will be shown at their market values which will depend on the subjective views of persons who furnish financial statements.

According to this concept, it is possible to remove the cost of fixed assets from the accounts altogether by writing off their cost as depreciation against income even though assets are still in good condition and are being used in the business. As a result of this drawback secret reserves are created and the auditor may overlook the verification of assets showing zero book value because their accounts will no longer appear in the books. There are some assets which earn income but are not shown in the books of accounts on account of this concept because no cost has been incurred to acquire such assets.

5. Double Aspect Concept

As per this principle, every transaction has two aspects. Every transaction affects at least two accounts in business. One account is debited and other account is credited. Accounting equation based on this concept is $\text{Assets} = \text{Liabilities} + \text{Capital}$ or $\text{Capital} = \text{Assets} - \text{Liabilities}$. When a company buys an asset, it must give up other assets like cash or commitment to pay it in the future. As a result,

a giver necessitates a receiver and a receiver necessitates a giver. To have a complete record of each business transaction, a double entry must be made, with an entry in the receiving account and an entry in the giving account for the same amount. As a result, the accounting equation shows that for every debit, there is an equal credit.

6. Accounting Period Concept

As per this concept, we assume that working of business is long term but after a certain period we want to figure out the company's profit and loss. The business's whole profit and loss is calculated only after complete closing of the business after a certain period as ascertainment of profit and loss of a business after a long time will not be of any use for different parties. Therefore, every business has a certain accounting period at the end of which profit and loss account and balance sheet are prepared for ascertainment of profit and loss and financial position of business. Normally this period is of one year. As per Companies Act, the accounting year will be from 1st April to 31st March.

The accounting period notion underpins the principle of separating capital and revenue expenditures. Revenue expenditures for a given period are moved to that period's profit and loss account, whereas capital expenditures are carried forward to the extent that their benefits will be used in future accounting periods. Thus, the accounting period concept plays a very important role in determining the income of a particular accounting period. It is also helpful in ascertaining the true and fair financial position of a business entity on a particular date at a particular point of time.



7. Matching Concept

- ✳ According to this principle, for determining the profit made by the business during a period, revenue of the period should be matched with the costs (expenses) of that period. Thus, profit is ascertained by deducting expenses from revenue.
- ✳ If any expenses have been paid in accounting period, but revenue is to be generated in next year, then it should be included in the next year in which revenue is to be generated. For example, prepaid expenses, prepaid insurance premium etc.
- ✳ If any revenue has been included in profit and loss account, all expenses incurred should be included in profit and loss account either paid or not.
- ✳ If any income has been earned but not received, its accounting should be in current year.
- ✳ If any income has been received but not earned, then its accounting should be in that year in which it will be earned and not in current year.
- ✳ Closing stock at the end of the accounting year should be treated as opening stock at the beginning of next year. Thus, expenses which are incurred on closing stock should be treated as expense of next year in which goods will be sold.

Application of matching concept in practice, however, is based with certain difficulties. There are some expenses like preliminary expenses, share issue expenses, advertisement expenses etc., which are not readily identifiable against the revenue of a

particular period. Similarly, how much of the capital expenditure should be written off by way of depreciation during the particular period poses the question of finding out the expected life of the asset.

8. Realization Concept

Revenue is meant by those amounts which are received by business from sales of goods and services. This Principle determines the time or the particular period in which the revenue is realized. Following basis may be taken for determining the period in which the revenue is realized.

(i) On the basis of sales: As per this concept, revenue is recognized at point of sales. Revenue is recognized when goods or services are transferred from seller to purchaser and purchaser is legally liable for payment.

(ii) On the basis of cash: Revenue is recognized when cash is actually received and not at the time of transfer of goods. This principle is useful when receipts of cash are doubtful. Like goods sold on hire purchase system only those installments which are actually received are treated as income.

(iii) On the basis of production: Revenue is recognized on the basis of production. In long term construction projects, it is difficult to revenue recognition up to completion of projects. In these conditions, revenue is recognized in that proportion or that part of contract which is completed at the end of the year.

Expenses are recognized when services are availed for revenue generation either cash is paid or not. On this basis, outstanding

expenses are treated as expenses. There is a difference between expenses and costs. Cost means that amount which is paid for purchase of goods, and expenses is that of cost which expires during the current accounting period. For example, a computer was purchased for Rs.60000/-. Its effective life is 12 years. Rs.60000/- will be treated as cost and Rs.5000 as depreciation will be treated as expenses.

9. Objective Evidence Concept

According to this concept, the recorded information in the books of accounts are correct, reliable and verifiable. The documentary evidence in support of transactions should be there in form of invoices, vouchers etc. Such evidences will minimize the chances of errors and biasness of the record keeper. Though in certain events like provision for discount on debtors, provision for doubtful debts, reserve for discount on creditors past experience and projections of market scenario are considered.

Every entry in the accounting records should to the extent practicable be backed up by objective evidence. Evidence should be presented in such a way it reduces the chances of human error and fraud.

10. Accrual Concept

In this concept revenue and costs are accrued, i.e., recognized as and when they are earned or incurred, irrespective of the fact whether or not money has been received or paid. Records are made in the financial statement as per the period to which they relate. In other words, rather of being recognized when it is received, revenue is recognized when it is earned. Expenses are

also reported when they are incurred rather than when they are paid for.

We record all expenses and incomes relevant to the accounting period, whether actual cash has been paid or received, to determine proper profit or loss for an accounting period and to show the true and fair financial position of the business at the conclusion of the accounting period. As a result of this accrual concept, outstanding expenses are taken into consideration while preparing final account of a company.

11. Principle of Timeliness

According to this principle, the business transactions should be recorded on proper time. Financial statements are prepared on the basis of accounting books. These financial statements provide important information to its users and important financial decisions are taken on the basis of these information. Hence, if these financial statements are not prepared at proper time then information will not reach to these users and they will face difficulties in taking decision. In case late and obsolete information is presented, appropriate, timely and rational decisions cannot be taken by the management.

Accounting Conventions

1. Convention of Consistency

According to this principle, for recording business transactions same accounting method should be followed every year so that profit and loss account and balance sheet of different years should become comparable. For example, there are different methods of valuation of closing stock, depreciation on fixed assets and provision for doubtful debts



on debtors. According to this, same accounting method should be followed every year. But principle of consistency does not mean that in the changing circumstances of business, there should be no change because the account will be inflexible. In this situation, the change should be mentioned while preparing balance sheet.

2. Convention of Full Disclosure

According to this, in accounting books and financial statements, all information should be presented fairly so that different parties interested in business may obtain complete knowledge of accounts. For preparing financial statements, complete amount of income and expenditure should not be disclosed fully but disclosed by dividing in different components such as manufacturing expenses, administration expenses, selling expenses, other expenses etc. The information which cannot be presented in balance sheet should be shown as notes.

3. Convention of Conservatism or Prudence

According to this approach, all unrealized gains should be ignored while projected losses should be recorded in the books of accounts. The contingent profit of business is recorded only when they are realized. For example, depreciation on fixed assets should be recorded but increase in the value of assets should be ignored. By following this principle, the financial position of business remains solid and it does not face financial problems in future.

The examples of this principle are:

- ✳ Valuation of closing stock should be on cost price or market price whichever is less

- ✳ Valuation of investments should be on cost price or market price whichever is less
- ✳ Provision of depreciation on fixed assets
- ✳ Provision for doubtful debts on debtors in future
- ✳ Provision for the dispute in the court against the firm pending judgment.

4. Convention of Materiality

This principle is an exception of principle of full disclosure. According to this principles, those items or facts which are not important for business, are not accounted. Hence, those facts are ignored. If these facts are accounted, then financial statement would appear unarranged. According to this principle, in lieu of opening separate accounts of different items of stationery such as pen, pencil, stapler, etc. only one stationery account is opened. Its accounting save time and money. According to Indian Companies Act, on the basis of principle of materiality, there is provision in the act that companies write the amount in nearest rupee in lieu of paisa.

Significance of Accounting Principles

1. To face competition: In the competitive world, it is necessary that every trader compares his financial statements with financial statements of other enterprises. It is only possible when financial statements of every business are framed on certain principles.

2. Comparative study of result of different years: Every trader can ascertain change in earning capacity and financial position of business by comparative study of results of different years. Whether his

business is going upward or downward, that can be compared and verified if accounts are maintained on certain principles. When any method of depreciation is used in one year and in some other year another method is used then results of financial statements of the organization would not be compared.

3. To depict true financial position: Those financial statements depict true financial position of business which is framed on certain principles. For example, if closing stock is not valued correctly then neither profit and loss account nor balance sheet will depict true position.

4. To make the information meaningful and comparative: For making the financial statements meaningful and comparative, it is necessary that they should be framed on certain principles.

Limitation of GAAP

1. Use of alternative policies and practices: For a particular item, GAAPs suggest alternative policies and practices for its treatment. Different institutions may adopt different policies, or even an institution may adopt different practices for different years.

It will create a lot of problems for the comparability of financial statements.

2. Adherence to historical accounting: GAAPs are based on historical accounting which finds itself quite unable to cope with changing economic conditions. For example, depreciation is charged on the historical cost of the fixed assets while the actual cost of the asset may be much higher than it.

3. Use of personal judgement: While applying different accounting principles, a lot of personal discretion is allowed by GAAPs. For example, according to the matching concept, the revenues of an accounting period are matched with the expenditure of the same period. In this connection, it is to be seen whether it is of capital nature or of revenue nature or deferred revenue expenditure, for which personal judgement may play an important role.

4. Lack of index GAAP: There is no such complete list of accounting concepts or postulates on which all the accounting experts throughout the world show their agreement. Hence, there is no generally accepted list of such postulates and above all we are not legally bound to apply them in actual practice.





Accounting Standard

Background

In order to improve the acceptability and transparency of the financial information shared by Indian corporates through their financial statements across the globe, the Indian Accounting Standard was introduced. The adoption of International Financial Reporting Standards (IFRS) was subsequently approved by the Indian government, and Shri Arun Jaitley, the country's honourable finance minister, made the announcement during his budget speech in July 2014.

“There is an urgent need to converge the current Indian accounting standards with the International Financial Reporting Standards (IFRS). Adoption of the new Indian Accounting Standards (Ind AS) by the Indian companies from the financial year 2015-16 voluntarily and from the financial year 2016-17 on a mandatory basis was proposed. Based on the international consensus, the regulators will separately notify the date of implementation of Indian Accounting Standard for the Banks, Insurance companies etc. Standards for the computation of tax would be notified separately”.

AS 1, Disclosure of Accounting Policies

AS 2, Valuation of Inventories

AS 3, Cash Flow Statements

AS 4, Contingencies and Events Occurring
After the Balance Sheet Date

AS 5, Net Profit or Loss for the Period, Prior
Period Items and Changes in
Accounting Policies

AS 7, Construction Contracts

AS 9, Revenue Recognition

AS 10, Property, Plant and Equipment

AS 11, The Effects of Changes in Foreign
Exchange Rates

AS 12, Accounting for Government Grants

AS 13, Accounting for Investments

AS 14, Accounting for Amalgamations

AS 15, Employee Benefits

AS 16, Borrowing Costs

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AS1, Disclosure of Accounting Policies

The disclosure of material accounting policies used in the preparation and presentation of financial statements is covered by this Standard. All important accounting policies used in the creation and presentation of financial statements must be disclosed in order to properly understand the financial statements. The financial statements ought to include this disclosure. Accounting Policies are the precise accounting principles and ways of putting them into practice that the company uses to prepare and report financial statements. Accounting policy disclosure or amendment cannot correct incorrect or inappropriate treatment of the item in the books of accounts.

Public funds may not be used for the advantage of a specific individual or group of individuals unless proper accounting policies is consideration, which are:

Primary Consideration-Financial statements should represent true and fair view, major considerations in achieving the primary consideration Prudence, Substance over form, Materiality.

Fundamental Accounting Assumptions to be disclosed, if not followed:

(a) Going Concern (b) Consistency (c) Accrual (d) Change in an Accounting Policy.

Identify any changes that have a major impact on the current period or that could reasonably be expected to do so in the future. Any item in the financial statements that is impacted by a change that has a major impact on the current period should be disclosed, to the extent that it is known. Indicate the fact if it can't be verified, either whole or in part.

AS 2, Valuation of Inventories

This standard relates to determining the cost of inventory and any write-downs to net realisable value, as well as the value at which inventories are reported in the financial statements.

Excluded inventories (not dealt with by AS 2)

Work-in-progress includes contracts for construction, projects arising from regular business operations, shares, debentures, and other financial instruments held as stock-in-trade, as well as inventories of producers of livestock, agricultural and forest products, mineral oils, ores, and gases, to the extent that these items are valued at net realisable value in accordance with accepted industry standards.

Measurement

Net realisable value is the estimated selling price less the estimated costs of completion and the expected costs necessary to make the sale, less the lower of cost. Each balance sheet date will require an assessment.

Cost of Inventories

All purchase, conversion, and other costs incurred to bring the inventories to their current state and location are included in the cost of inventory. The trade discounts, rebates, and similar items are excluded from the purchasing price of the inventories. The cost of inventory includes duties and taxes, except refundable duties and taxes, as well as freight inwards, transport, handling, and other expenses directly related to the procurement of raw materials, completed goods, and services. Costs directly



related to transforming raw materials into finished items are included in the cost of conversion of stocks. Both the fixed and variable costs of manufacturing are also included.

Materials and other supplies held for use in the construction of inventories are not written down below cost if it is anticipated that the final goods into which they will be included will be sold at or above cost.

Cost Formulas

The cost of stocks of goods or services produced and segregated for particular projects, as well as things that are not typically interchangeable, should be assigned by specifically identifying their individual costs. The first-in first-out (FIFO) or weighted average cost formulas can be used to determine the cost of other stocks, depending on which formula represents the closest approximation to the cost incurred in bringing the inventories to their current location and condition.

AS 3, Cash Flow Statements

Unless it is one-person, small, or dormant firm, every company must prepare a cash flow statement in accordance with the Companies Act of 2013, which is applicable to all businesses.

Entities in Level II and Level III for non-companies are exempt from the requirement to comply with AS 3.

In accordance with the Standard, a Cash Flow Statement must be used to report historical changes in an organization's cash and cash equivalents. This statement

categorizes cash flows for the period from operating, investing, and financing activities.

Presentation of a Cash Flow Statement

Cash flows from operating, investing, and financing operations should be broken down into separate categories in the Cash Flow Statement.

The cash flows related to extraordinary items ought to be categorised as coming from operating, investing, or financing operations, as necessary, and should be separately declared.

Operating activities

These are the main activities that generate income and other pursuits that are not related to investing or financing.

Investing activities

Purchase and sale of long-term property and other investments not classified as cash equivalents.

Financing activities

Borrowings and preference share capital, in the case of a firm, are examples of actions that alter the size and composition of the owners' capital.

AS 4, Contingencies and Events Occurring After the Balance Sheet Date

The consideration of uncertainties and occurrences after the balance sheet date is addressed by this Standard. A contingency is a state or circumstance whose final result, whether gain or loss, will be known or determined only by the occurrence or non-occurrence of one or more uncertain future events. The significant events, both favourable

and unfavourable, that take place between the balance sheet date and the day the financial statements are approved by the corresponding approving authority in the case of a company or the Board of Directors in the case of any other entity are referred to as events occurring after the balance sheet date.

Two types of events can be identified

Adjusting events are those that add to the evidence of the circumstances that existed at the balance sheet date, while non-adjusting events are those that point to circumstances that developed after the balance sheet date.

Accounting Treatment

A charge in the Statement of Profit and Loss should be made to account for a contingent loss rather than a contingent gain if the following conditions are met:

- a) It is likely that future events will confirm that, after accounting for any corresponding probable recovery, an asset has been impaired or a liability has been incurred as of the balance sheet date, and
- b) The resulting loss can be calculated with some degree of accuracy. A contingent loss should be disclosed in the financial statements if either of the aforementioned elements is not satisfied, unless it is highly unlikely that the loss would occur. Only the areas not covered by other Accounting Standards are subject to requirements relating to contingencies. This Standard applies, for instance, to the impairment of financial assets such as receivables, often referred to as provisions for bad and doubtful debts.

Events occurring after the Balance Sheet Date

Adjusting Events: Events that occur after the balance sheet date that provide additional information to aid in the estimation of amounts relating to conditions existing at the balance sheet date or that show the basic accounting assumption of Going Concern (i.e., the continuation of existence of the enterprise) is not appropriate should be taken into account when adjusting assets and liabilities.

Non-Adjusting Events: The events happening after the balance sheet date that reflect major changes and commitments affecting the financial condition of the firm should be disclosed in the report of the authorising authority.

Unless a statute dictates differently, proposed dividends that are declared after the balance sheet date will not be recognised as liabilities at that time. The notes should include a disclosure of such dividends.

AS 5, Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies

An organisation should follow this Standard when showing profit or loss from normal business operations, extraordinary items, and items from earlier periods in the Statement of Profit and Loss, when accounting for changes in accounting estimates, and when disclosing changes in accounting policies.

Any tasks carried out by a company as a regular component of doing business, as well as any associated tasks that are carried out as a result of, as a byproduct of, or as a result



of these regular tasks, are considered to be ordinary activities. Income or expenses that result from transactions or events that are obviously out of the norm for the business are referred to as extraordinary items. As a result, they are not anticipated to occur frequently or routinely. Income or expenses from earlier periods are those that were incurred during the current period as a result of mistakes or omissions made during the preparation of the financial statements of one or more prior periods.

Net Profit or Loss for the period

Unless an Accounting Standard specifies or permits otherwise, all items of revenue and expense that are recognised during a period should be taken into account for calculating net profit or loss for that period. The following items should be stated on the face of the Statement of Profit and Loss: profit or loss from ordinary activities; and unusual items. Together, these items make up the net profit or loss for the period.

Extraordinary items

When calculating net profit or loss for the period, extraordinary items should be included in the Statement of Profit and Loss. Each unusual item should be separately disclosed in the Statement of Profit and Loss with sufficient detail to enable readers to understand how it will affect the present profit or loss.

Example:- attachment of property of the enterprise, or an earthquake.

Profit or loss from ordinary activities

The nature and quantity of such items should be declared separately when elements

of income and expense included in profit or loss from ordinary activities are of a size, character, or incidence that their disclosure is relevant to explain the performance of the firm for the period.

Prior period items

In order to understand the impact on the current profit or loss of prior period items, their nature and amount should be individually disclosed in the Statement of Profit and Loss.

Changes in Accounting Policy

A change in an accounting policy should only be implemented when it is necessary to comply with a law, an accounting standard, or if it is thought that the change will result in a more acceptable presentation of the financial statements of the enterprise.

Changes in Accounting Estimates

For the purpose of creating financial statements, estimations must be used. Estimates can need to be updated if the situation on which they were based changes, or if fresh information, additional experience, or future events become available.

The impact of a change in an accounting estimate should be taken into account when calculating net profit or loss in the period of the change, or the period of the change and subsequent periods, if the change has an impact on both.

It is important to describe the kind of change and its impact on accounting estimates that have major effects now or are anticipated to do so in the future. It should be stated if it is not possible to measure the amount. In cases when it is impossible to differentiate between

a change in an accounting policy and a change in an accounting estimate, the change is handled as a change in an accounting estimate.

AS 7, Construction Contracts

This Standard specifies how construction contracts should be accounted for in contractors' financial statements. A construction contract is a contract that is particularly negotiated for the building of an asset or a group of assets that are closely related or dependent on one another in terms of its design, technology, function, or final usage.

Contract revenue: Contract revenue should include the original sum of money agreed upon in the contract as well as any variations in the work being performed, claims, and incentive payments, to the extent that it is likely that they will generate money and to the degree that they can be accurately measured.

AS 9, Revenue Recognition

This Standard addresses the criteria for recognising revenue in an enterprise's Statement of Profit and Loss. The Standard is focused on the recognition of income generated within the normal course of an enterprise's operations. Revenue is the total amount of money that an enterprise receives from sales of goods, the provision of services,

and the use of its resources by third parties that generates interest, royalties, and dividends during the normal course of business.

Measurement

The fees charged to customers or clients for the goods and services provided to them, as well as the fees and rewards resulting from their use of resources, are used to calculate revenue.

The income in an agency partnership is the commission received, not the gross amount of money received in cash or other forms of payment.

AS 10, Property, Plant and Equipment

This Standard's goal is to specify how property, plant, and equipment (PPE) should be treated financially.

Recognition: If it is likely that the organisation will get future financial advantages connected with the PPE item, the cost of the item should be recognised as an asset and be quantifiable at the time of recognition. An item of PPE that meets the requirements for asset recognition should be valued at its cost at the time of recognition.

Examples of Directly Attributable Costs

The costs of employee benefits resulting directly from the creation or acquisition of the

| Uncertainties | Effect |
|---|--|
| When the claim was made | To the extent of the uncertainty, postpone revenue recognition. When the final collection is practically certain, income should be recognised. |
| Subsequent to sale adjusted of goods/ rendering of services | Revenue already recognized should not be adjusted. Make separate provision to reflect uncertainty. |



PPE item, the costs of site preparation, the initial delivery and handling costs, the costs of installation and assembly, professional fees, and the costs of testing the asset's functionality after deducting any net proceeds from the sale of any products created while bringing the asset to that location and condition are examples of directly attributable costs.

Exclusions

Administration and other general overhead costs

- ❖ Costs associated with launching a new facility or company, such as inauguration fees.
- ❖ The cost of launching a new good or service including costs of advertising and promotional activities.
- ❖ Costs associated with starting a business in a new location or with a new type of client including costs of staff training.

PPE obtained in exchange for a non-monetary asset or assets, or a combination of a non-monetary asset and a monetary asset unless the cost of such a piece of PPE is not calculated at fair value.

The exchange transaction is not substantive from a business standpoint; or

Neither the asset(s) received nor the asset(s) given up have a reliably quantifiable fair measurable.

Even though an organisation cannot immediately de-recognize the asset given up, the acquired item(s) is/are measured in this way. The carrying amount of the asset(s) given up is used to determine the cost of the purchased item(s) if their fair value is not determined.

Deferred Payment Plan

If an item of PPE is purchased using a delayed payment schedule, the difference between the cash price equivalent and the total payment is recorded as interest throughout the credit term, unless it is capitalised in accordance with AS 16, Borrowing Costs.

Measurement after recognition

The accounting policy of an organisation should be either the cost model or the revaluation model, and it should be applied to the full class of PPE.



Single Entry & Double Entry System of Accounting

Accounting

Accounting is the process of keeping track of a company's financial transactions. Summarizing, analysing and reporting these transactions to oversight authorities, regulators and tax collection entities are all part of the accounting process.

Single Entry Accounting

Each financial transaction is recorded as a single entry in a journal or transaction in this method of book keeping and accounting.

Accounts prepared in single entry system

- * Cash Book
- * Personal Accounts

Following Information is Available

- * Transaction Date- date on which transaction occurs
- * Transaction Description-A brief description of the transaction
- * Transaction Value-The amount of the transaction, which can be either incoming (debit) or outgoing (credit)
- * Balance-The current total the cash balance

Advantages of Single Entry System

- * Does not require formal training and it is cost effective.

Disadvantages

- * Unscientific method and thus, profit/loss not accurate.
- * Not easy to detect errors/frauds, no balancing also.
- * Not fit for legal/statutory compliances

Double Entry Accounting System

It is a system of documenting transactions in which each business transaction is documented as a debit or credit in at least two accounts. Under this system, the accounting transactions are made in the following chronological manner:

- * Journal: Accounting book where transactions are recorded in chronological order.
- * Ledger: Book of final entries where transactions are divided and recorded in separate accounts
- * Trial Balance: Book keeping worksheet reflects credit & debit balance of all ledger accounts
- * Financial Statements: Balance Sheet, P&L A/C, I & E Accounts, Cash Flow statement

Accounting Equation

$$\text{ASSETS} = \text{LIABILITIES} + \text{EQUITY}$$

Assets- Money that company owns

Liabilities- Anything that business owes

Equity- Owner's investment in business

An error has occurred if the sum of all debits does not equal the equivalent sum of credit for all accounts at any moment.

Types of Account

Personal Account

- * Natural Personal Account such as Ram's and Sita's.
- * Artificial Personal Account i.e. accounts of artificial or legal person such as corporate, bank, and government accounts.



- ✳ Representative personal accounts- these accounts are referred to as representative personal account since they represent certain person, such as an outstanding expenses account or a received income account.

Types of Account

Real Account—A Real Account is a general ledger account that deals with assets and liabilities that are not related to people. These are accounts that are carried forward from year to year because they do not close at the end of the year. A Bank Account is an example of real account.

- ✳ Tangible Assets including things like a product account, a cash account, and a furniture account among others.
- ✳ Intangible Asset including things like goodwill, patents, copyrights, and trademarks.
- ✳ Liabilities— such as creditors, accounts payable etc.

Types of Account

Nominal Account: – Nominal or fictional accounts are accounts of expenses and losses as well as revenue and gains, that a company incurs over the course of its operation.

- ✳ **Income Account** – Accounts for revenue, income and gains, among other things.
- ✳ **Expenses account**—Account for losses such as bad debts with discount.

Two Approaches

Traditional Approach

- ✳ Real Account- Debit what comes in and credit what goes out
Example: Asset, Liabilities, Capital Amounts

- ✳ Personal Account- Debit the receiver and credit the giver

Example: Debtors and Creditors

- ✳ Nominal Account- Debit all expenses and losses and credit all incomes and gains

Example: Revenues, Expenses

Accounting Equation Approach

Assets Accounts-Debit Entry—Increase in Assets

Credit Entry – Decrease in Assets

Capital Account –Debit entry – Decrease in Capital

Credit Entry – Increase in Capital

Liabilities Accounts –Debit Entry –Liabilities are reduced as a result of debit entry

Credit Entry – Increase in Liabilities due to credit entry

Revenue Income Accounts—Debit entry – Loss of income or gain

Credit Entry – Increase in Income/ gain

Expenses or Losses Accounts –Debit entry –Increased expenses/losses as a result of debit entry

Credit Entry – Expenses reduction/ loss

Advantages of Double Entry System

- ✳ More complete picture for investors, banks and buyers.
- ✳ Easy to spot errors as debits & credits must always be the same.
- ✳ Extra information captured by double entry accounting needed for financial reporting.

Double Entry System of Accounting

Features of Double Entry System

- * Rules of recording
- * Scientific system
- * Recorded in two accounts
- * Recorded in reverse side
- * Preparation of Trial Balance
- * Preparation of Final Accounts

Books of Account under Double Entry

- * Memorandum Book
- * Journal
- * Subsidiary Book

Classification of Accounts under Double Entry System

- a. Personal Account
- b. Impersonal Account

Personal Account

- * Natural Personal Account
- * Artificial Personal Account
- * Representative Personal Account

Impersonal Account

- * Real Account: Tangible Assets and Intangible Assets
- * Nominal Account

Types of Accounts

- * Assets Accounts
- * Liabilities Accounts
- * Revenue Accounts
- * Expenses Accounts
- * Capital Accounts

Accounting Procedure under Double Entry System

- * Identification of Financial Transactions
- * Recording
- * Classifying
- * Summarizing
- * Analysis and interpretation

Advantages of Double Entry System

- * Keep a complete record of all financial transactions by documenting both sides of each transaction.
- * Accurate information about the amount owing to and owed by the business unit at any time by keeping a personal debtors and creditors account.
- * Arithmetical accuracy can be maintained by preparing Trial Balances from all the ledger accounts.
- * In case of disagreement of Trial Balance, rectification can be made through rectification of error procedures.
- * The profit and loss of a particular period can be ascertained accurately.
- * The true and fair view of the business unit can be found by preparing Balance Sheet on a particular date reflecting various assets and liabilities.
- * All the stakeholders like creditors, bankers, tax authority, Government can get information in time out of the financial report of the business unit.

Disadvantages of Double Entry System

- * Not practical for small concern
- * Costly system
- * Advanced Knowledge
- * Accounting Errors



Journal, Ledger & Trial Balance

Journal

A daily record of business transactions is referred to as journal. Because transactions are first documented in the journal and then posted to the ledger. Journal entry is the format in which it is documented, and journalizing is the process of documenting or entering a transaction in the journal. Journal is known as books of original entry. It is also a daily transaction log in which total credits equal total debits using a double entry accounting method and following the golden rules for accounting. Every debit will be matched by a credit, and vice versa.

Necessity of Journal

- ✳ Convenient transactions recording
- ✳ Maintaining and protecting transaction identification
- ✳ Ascertaining the true nature of transaction
- ✳ Keeping a permanent record of information.

Ledger

A Ledger is a summary of all the transactions involving a person, asset, expense, or revenue that occurred over a specified period of time. Ledger is a book that contains a set of accounts. It is the main book of accounts in which similar transactions belonging to the same person or things are recorded. It arranges the recorded transaction in the Journal into their respective heads.

Difference between Journal and Ledger

- ✳ A journal is a book with original entries, whereas a ledger is a book of second entry.
- ✳ In the journal, transactions are recorded in the chronological order as and when they occur, whereas transactions pertaining to a particular account appear at one place in the ledger.
- ✳ Journal is a subsidiary book which helps in preparing principal books of account or ledger.
- ✳ The process of recording financial transactions in the journal is called journalizing, whereas the process of recording transactions in the ledger is known as posting.
- ✳ The transaction is the unit of categorization for data in the journal, whereas the account is the unit of classification for data in the ledger.

Trial Balance is a statement that includes all the debit and credit balances of various accounts in the ledger as of a specific date with all assets, costs and losses recorded on the debit side and all liabilities, incomes and gains recorded on the credit side. At the end of the financial year or at any period of time, the balance of the ledger accounts are extracted and are written up in a statement known as Trial Balance, where total of debit side entries matches with the total of credit side entries. It is prepared to check the arithmetical accuracy of the books.

| Particulars | Debit Rs. | Credit Rs. |
|------------------|-----------|------------|
| Cash Account | 12000 | |
| Capital Account | | 10000 |
| Purchase Account | 4000 | |
| Ram | | 2000 |
| Sales Account | | 4000 |
| Total | 16000 | 16000 |

Trial Balance as on 31st January, 2021 (Example)

Objectives of Trial Balance Preparation

- ✳ Trial balance is used to verify the arithmetical accuracy of accounting entries.
- ✳ It serves as the foundation for financial statements such as Trading Account, Profit and Loss Account, and Balance Sheet
- ✳ It gives a quick overview of the entire ledger.

Objectives of Trial Balance

- ✳ To have balances of the entire ledger in order to avoid the necessity of going through all the ledger accounts.
- ✳ To check the arithmetical accuracy of the books of accounts.
- ✳ The profit & loss account and Balance Sheet can be prepared from the ledger balances available in the Trial Balance.

As per double entry system of accounting, every transaction has two accounts i.e., debit and credit and all the accounting entries are recorded by making entries either as per traditional approach or modern approach, which are given below:

Traditional Approach

Accounts are divided into three categories

1. Personal Accounts: These represent the accounts related to the individuals, firms, societies, clubs, hospital etc. It is further classified as:

a. Natural Personal Account: It relates to human being

b. Artificial Personal Account: It relates to artificial persons such as accounts of firms, clubs, companies, schools, colleges, universities, hospital, government offices, municipal corporations, trusts, banks etc.

c. Representative Personal Account: Accounts opened to represent indirectly a group of persons, such as wages outstanding account, prepaid expenses account, accrued income account etc.

2. Real Accounts: It represent the accounts related to the Tangible real account or Intangible real account as given below:

a. Tangible Real Accounts: These accounts relate to those assets which can be touched, felt, measured, purchased, sold etc. Example: All assets account including cash and stock.

b. Intangible Real Accounts: Accounts relate to those assets which cannot be seen, touched in physical sense. Accounts relate to Goodwill, Copy rights, Trade Marks, Patent rights etc.

3. Nominal Accounts: These accounts relate to expenses, losses, gains and incomes of the business such as salaries, wages, rent paid, loss of goods by theft, interest received, commission received etc.



| Nature of Account | Rules | Basis |
|-------------------|---|--|
| Personal Account | Debit is the Receiver Credit is the Giver | If the person receives something his account is debited and if he gives something that account is credited. |
| Real Account | Debit what Comes in Credit what goes out | If something comes into the business that account is debited and it goes out of the business that account is credited. |
| Nominal Account | Debit all expenses and losses Credit all incomes and gains | All the expenses and losses account of the business are debited, whereas all the incomes and profits of the business are credited. |

Modern Approach

| Nature of Account | Debit | Credit |
|---------------------|---|---|
| Assets | Increase in value of assets | Decrease in value of assets |
| Liabilities | Decrease in value of liability | Increase in value of liability |
| Capital | Decrease in amount of capital | Increase in amount of capital |
| Revenue | Decrease in the amount of revenue | Increase in amount of revenue |
| Expenses and Losses | Increase in the amount of expenses and losses | Decrease in the amount of expenses and losses |
| Any Provision | Decrease in amount of provision | Increase in amount of provision |

Debit Balance: The debit balance is the difference between the total of the debit and credit sides. All expenses and losses of the nominal account, assets of the real account and personal account of debtor and drawings account have debit balance.

Credit Balance: The excess of total of credit side over the total of debit side is called credit balance. All incomes of the nominal account, liabilities of the real account and personal account of debtor and capital account have credit balance.

Ledger Provides the Following information readily at a Glance

Debtors & Creditors: The debtor ledger tells us how much that person owes to the business and creditor tells how much the business owes to that individual.

Purchases, Sales, Returns: Total purchases can be ascertained from the purchase ledger and purchase return ledger, whereas total sales can be ascertained from the sales ledger and sales return ledger.

Value of Each Asset: The Book value of the Assets can be ascertained from each asset ledger.

Expenses and Incomes: Details of various expenses and losses can be found out from the ledger of these accounts.

Cash and Bank balance: The cash and bank balances can be ascertained either on daily, weekly, monthly or yearly basis from the cash or bank ledger.

The balancing figure of every account either shows debit balance or credit balance. Generally, the balancing figures of the following accounts reflect the debit or credit balance as mentioned below:

| Account Name | Debit Balance | Credit Balance |
|------------------------|---------------|----------------|
| Capital | | Credit Balance |
| Drawing | Debit Balance | |
| Sundry Debtor | Debit Balance | |
| Sundry Creditor | | Credit Balance |
| Bank | Debit Balance | |
| Cash | Debit Balance | |
| Purchase | Debit Balance | |
| Sales | | Credit Balance |
| Purchase Return | | Credit Balance |
| Sales Return | Debit Balance | |
| Opening Stock | Debit Balance | |
| Closing Stock | | Credit Balance |
| Assets | Debit Balance | |
| Investment | Debit Balance | |
| Bills Receivable | Debit Balance | |
| Bills Payable | | Credit Balance |
| Expenses and Losses | Debit Balance | |
| Income and gains | | Credit Balance |
| Provision and Reserves | | Credit Balance |





Receipt & Payment Account

The Cash Book is summarized in the Receipt and Payment Account. All cash receipts are recorded on the receipt side (Debit side) of the receipt & payment account and all the cash payments are recorded on the payment side (credit side). It is made up of cash and bank transactions that have been recorded in the cash book. It starts with the cash and bank opening balance and ends with cash and bank closing balances of (balancing figure) at the end of the accounting period. It keeps a track of all capital and revenue cash and bank transactions. It records not only cash and bank transactions for the current accounting period, but also cash and bank revenue receipts during the current accounting period that may be pertaining to the previous or next accounting period.

Features of Receipts and Payments Account

- ✳ It is an overview of cash book. On the debit side, all receipts are displayed, and on the credit side, all payments are reflected.
- ✳ It begins with the cash and bank opening balance and ends with the cash and bank closing balance.
- ✳ It is not a part of double entry system of book keeping.
- ✳ It records both revenue and capital nature items.
- ✳ It records only the actual amount received and paid during the year. Expenses outstanding and incomes due but not received are not recorded in it.

- ✳ This account records the cash received and cash paid during the current year whether related to previous year, current year or deficit.
- ✳ It does not record the non-cash incomes and expenses.
- ✳ No adjustments are made in this account.

Purpose of preparing the Receipts and Payments Account

- ✳ To find the closing balance of cash and bank balances
- ✳ To get an idea about the nature of various receipts and payments
- ✳ To prepare income and expenditure account and balance sheet.

Steps in Preparation of Receipt and Payment Account

Step 1: Take opening balance of cash in hand and cash at bank from the cash book and enter on the debit side of Receipts and Payments Account as its first item. Credit Balance, if any, of bank balance shall be shown on the credit side of Receipts and Payments Account as its first item.

Step 2: Take item wise aggregate of various receipts and enter on the debit side irrespective of their nature i.e., capital or revenue and ignoring the period (past, current or future) to which these receipts pertain.

Step 3: Take item wise aggregate of various payments and enter on the credit side

irrespective of their nature i.e., capital or revenue and ignoring the period (past, current or future) to which these payments pertain.

Step 4: Ignore the non-cash items like outstanding and prepaid items and contra items.

Step 5: Compute the difference between the total of debit side and total of credit side of the receipts and payments account and put the difference on the side which is short.

Difference between Receipt & Payment Account and Income & Expenditure Account

| Basis of Difference | Receipt & Payment Account | Income & Expenditure Account |
|---------------------|---|---|
| Nature | It is a list of all cash and bank transactions. | It provides a summary of income and expenses for the current year. |
| Revenue & Capital | It keeps a track of transactions that are both revenue and capital related. | It only keeps track of transactions that are relevant to revenue. |
| Debit Side | During an accounting period, the debit side of this account tracks cash and bank receipts. | The debit side reflects expenses and losses for the current accounting period. |
| Credit Side | This account's credit side keeps track of payments made in cash and by cheques. | The revenue & gain earned in the current accounting period are recorded on the credit side of this account. |
| Type of Account | It is a real account | It is a nominal account |
| Period | It keeps tracks of all receipts and payments made throughout the year that are relevant to the current accounting period or the preceding period and the succeeding period. | It only records income and expenditure made during the current accounting period. |
| Object | The cash status of a non-profit organization is depicted in this account. | This account reflects the net result of the business activity in terms of surplus or deficits during the year. |
| Opening Balance | It all starts with cash-in-hand, cash-at-bank, or overdraft balances. | Surplus or deficits carried forward from the previous accounting period (if not added to capital fund) can be shown as the opening balance of this account. |

| Basis of Difference | Receipt & Payment Account | Income & Expenditure Account |
|---------------------|---|---|
| Closing Balance | The closing balance of cash in hand and cash at bank or overdraft is used to calculate the account's balancing figure. | This account's balancing figure is expressed as either a surplus or deficit. |
| Depreciation | It excludes non-cash items like depreciation, bad debts, provision etc. | In order to determine the true net profits or net losses, it incorporates non-cash elements such as depreciation, bad debts, provision etc. |
| Adjustment | Receipts and Payments can be adjusted throughout the year before the final statements are prepared. | It is possible to make adjustments to both cash and non-cash transactions. |
| Transfer of Balance | The opening balance of this account is carried forward from the previous year's receipt and payment account to the current accounting period's balance sheet, and the closing balance is carried forward to the following year's receipt and payment account. | If the account's closing balance is positive, it is added to the capital fund, otherwise, it is deducted from the capital fund. |
| System | It is calculated on a cash basis. | It's calculated on an accrual basis. |

Limitation of Receipt and Payment Account:

- ✳ It is prepared on cash basis of accounting. It does not record non-cash expenses or incomes like depreciation, outstanding expenses, prepaid and accrued income.
- ✳ It records not only the expenses and incomes of the current year, but also the past and future expenses and incomes received and paid during the current year are also recorded in it.

- ✳ It does not make any distinction between capital receipt and revenue receipt and between capital payments and revenue payments.
- ✳ It is not a part of the double entry system of book keeping. The posting is not done to the respective ledger accounts from this account.
- ✳ As information about accrued, outstanding and prepaid items is not available from this account, it becomes difficult to prepare Balance sheet from this account.

Difference between Cash Book Vs. Receipt and Payment Account

| Basis of Distinction | Cash Book | Receipt and Payment Account |
|----------------------|---|--|
| Double Entry System | It forms a part of double entry book-keeping. | It does not form a part of double entry system. |
| Chronology | Transactions are recorded date wise in chronological order. | Transactions are recorded in summary form and not date wise. |
| Requirement | It is maintained by Trading and Manufacturing concern. | It is maintained by Non-Trading concern. |
| Number of Columns | It may have single column, double column and triple column. | It has only one column. |
| Contra Entry | Contra items are recorded in both side of the cash book. | Contra items are ignored in receipt and payment account. |
| Repetition | The transactions are recorded repeatedly. | All repetition of particular transactions are recorded once by totaling such transactions happened on different dates. |

Calculation of Revenue Expenses

| | |
|---|-----|
| Revenue Payments as per R&P Account | XXX |
| Add: Outstanding expenses at the end of FY | XXX |
| Less: Outstanding expenses at the beginning of FY | XXX |
| Add: Prepaid expenses at the beginning of FY | XXX |
| Less: Prepaid expenses at the end of FY | XXX |

Calculation of Revenue Income

| | |
|---|-----|
| Revenue receipts as per R&P Account | XXX |
| Add: Outstanding (Accrued) income at the end of FY | XXX |
| Less: Outstanding (Accrued) income at the beginning of FY | XXX |
| Add: Income received in advance (Unearned) at the beginning of FY | XXX |
| Less: Income received in advance (Unearned) at the end of FY | XXX |
| Income for the current FY | XXX |



Difference between Receipt and Income

| Basis of Distinction | Receipt | Income |
|----------------------|---|---|
| Capital & Revenue | It can be a capital receipt or a revenue receipt. Capital receipt may be a liability or a reduction in the asset | It is a revenue item only and is recorded. |
| Period of items | It is the amount received during the year whether related to past, present or future years. | It relates to the current year only, whether received or receivable. |
| Non Cash Items | It is the realisation in cash and cheques. It does not include accrued items. | It relates to cash and non-cash earnings (accrued) for the current year. |
| Nature of Account | It may result into reduction of asset, increase in liability or an income (i.e. real, personal or nominal accounts) | It is the item of income and expenditure account only (i.e. nominal account). It results out of the earnings of current year. |
| Treatment | Any cash received is regarded as receipt. It is reflected on the debit side of the cash. | It is shown on the credit side of the income and expenditure account. |

Difference between Payment and Expenditure

| Basis of Distinction | Payment | Expenditure |
|----------------------|--|--|
| Capital & Revenue | It can be a capital payment or a revenue payment. Capital payment may be an increase in the asset or reduction of liability. | It is a revenue item only and is recorded in income & expenditure account. |
| Period of items | It is the amount paid during the year whether related to past, present or future years. | It is the amount received and receivable for the year. |
| Non-Cash Items | It is the disbursement in cash and by cheques. | Expenditure includes both paid and outstanding items relating to the current year. |
| Nature of Account | It may result into increase in asset, decrease in liability or expenditure (i.e. real, personal or nominal accounts) | It is the item of income and expenditure account only (i.e. nominal account) |



Income and Expenditure Account & Profit and Loss Account

The income and expenditure account is analogous to a trade company's profit and loss account. All expenses of revenue nature for a particular period whether paid or outstanding are shown on the debit side and all revenue incomes whether received or accrued relating to a particular year are shown on the credit side. Then after necessary adjustment excess of income over expenditure or excess of expenditure over income or deficiency will be obtained.

Features of Income and Expenditure Account

- ✧ It is a nominal account.
- ✧ Revenue expenses and losses relating to the current year are recorded on the debit side after adjusting the outstanding and prepaid items.
- ✧ Revenue receipts relating to the current year are recorded on the credit side after adjusting the accrued and unearned items.
- ✧ Incomes and expenses of the previous year or succeeding year are not recorded.
- ✧ Capital expenditure and capital receipts are not recorded in income and expenditure account and these items go to the balance sheet.
- ✧ Adjustments such as depreciation, bad debts, loss on sale of fixed assets are recorded in this account.
- ✧ The excess of credit side over the debit side represents the surplus and in the reverse case it reflects the deficit.

A profit and loss account is created to determine the company's net profit or loss. For calculating the net profit or loss of a business, specific components of expenses and losses, as well as incomes and profits, must be taken into account. These expenses are indirect in nature and relate to a variety of actions carried out by the firm in order to make goods available to consumers. Profit and loss account is prepared from nominal accounts and its balance is transferred to capital account.

Nature of Profit and Loss Account

1. It is a periodic Account

It is generally prepared after a certain period usually after one year for ascertaining profit or loss of that period. It is not operated throughout the accounting period; hence it is called a periodic account.

2. It is an interim Report

When a business liquidates and transforms its assets into cash and pays off its obligations, determining its profit or loss is rather simple on a whole-life basis. However, the owners, investors, and the government as a whole are eager and do not want to wait until the corporate organisation is liquidated to learn what the results of its activities were. Therefore, profit and loss account can be stated as an interim report for an unambiguous final report can be available only on the liquidation of a business entity.



3. It is an absorbent account

At the end of accounting period all nominal accounts are absorbed in the profit and loss account for ascertaining profit or loss.

4. It is an allocation statement

Receipts and payments should be allocated between present and future periods for ascertaining profit or loss of a specific period. Profit or losses, incomes and expenses of a particular accounting period are allocated to the profit and loss account of that period and receipts and payments related to the future period are shown in the balance sheet. That is why profit and loss account is called a statement of allocated income and expenditure.

Importance of Profit and Loss Account

1. Information of Net Profit or Net Loss
2. Comparison of current profit with past profits
3. Comparison of Expenses
4. Helpful in preparation of Balance sheet
5. Helpful in future growth of business

Income & Expenditure Account

- ✳ It is prepared by the non profit making organization.
- ✳ It provides a summary of the entire year's income and expenses.
- ✳ It's similar to an accrual profit and loss statement.

- ✳ It is completed at the conclusion of the fiscal year and solely contains revenue items and not capital items.
- ✳ At the end, the balance indicates whether there is an excess of revenue over expenditure or vice versa.
- ✳ All expenses incurred and due are debited to the Profit and Loss Account, regardless of whether they are paid or not.
- ✳ Similarly, all incomes earned and due are credited to the Profit and Loss Account, regardless of whether they are received or not.
- ✳ All principles, concepts, conventions, accounting standards are applicable.

Profit & Loss Account

- ✳ Profit and Loss account is a financial statement and is part of the Annual Statement of Accounts.
- ✳ It is prepared to ascertain net profit of the organization.
- ✳ It is prepared at the end of the year by including revenue items only.
- ✳ It is computed by deducting expenses such as general, administrative, or selling and distribution expenses from gross profit.
- ✳ All expenses incurred and payable are debited to the Profit and Loss Account, whether they are actually paid for or not.
- ✳ Similarly, regardless of whether or not income is actually received, it is credited to the Profit and Loss Account.

Income & Expenditure A/c vs. Profit & Loss Account

| Difference | Income & Expenditure Account | Profit and Loss Account |
|----------------------|--|---|
| Requirement | It is prepared by No-trading organisation. | It is prepared by Trading or manufacturing concern. |
| Basis | It is prepared from receipt and payment account. | It is prepared from Trial Balance. |
| Objective | To find out excess of income over expenditure or vice-versa. | To find out net profit or loss. |
| Opening Balance | It does not have any opening balance. | It begins with either gross profit or gross loss. |
| Treatment of Balance | The balance of this account is added to capital fund in case of surplus and deducted from capital fund in case of deficit. | The net profit is added to capital and net loss is deducted from capital. |



Bank Reconciliation Statement

Operation of the Organization with the Bank

The organization does following operation with the bank for the day to day transactions:

1. It deposits cheques / draft received
2. It issues cheques
3. It opens letter of credit
4. It makes entries for bank charges levied by the bank
5. It makes entries for interest credited by the bank
6. It makes entries for any amount credited by the bank

In respect of 3 to 6 transactions as mentioned above, bank is expected to issue advice notes to the organization, when bank debits or credits the organization's account as per book of the bank. When bank does not issue advice and debits or credits the organization's account, then discrepancy arises between cash book of the organization and bank statement maintained by the bank.

The Bank Reconciliation Statement (BRS) compares the bank balance in the Cash Book to the balance in the Bank Pass Book by sorting out the difference between the two after ascertaining the reason for difference. It is a statement that is created on a monthly basis for the purpose of confirming and reconciling the bank balances shown by the cash book and the pass book on a specific date and incorporation for any discrepancies. The BRS is to be prepared by identifying the

differences between the Cash Book and Bank Statement. If all differences are identified, the reconciliation process becomes complete.

Sometimes, the balance as per cash book of the organization may not always match with the balance in the organization's account as per the bank statement. There are differences between bank balance as per pass book and as per the bank account maintained by the firm. These differences could be due to many reasons. The reasons for areas of difference in the bank book of the organization and bank statement of the bank are given below:

- ✳ Time gap between debit / credit entries in the organization's cash book and bank's pass book.
- ✳ Cheques deposited by organization but organization's account not credited by the bank due to dishonor of cheque by the bank, process of collection of cheque, awaiting for clearance of cheque etc.
- ✳ Cheques issued by the organization but organization's account not debited by bank due to non-presentation of the cheque by the vendor to the bank, dishonor of the cheque, process of collection of cheque etc.
- ✳ Interest credited by organization's account by bank without an advice but not taken in the cash book of the organization.
- ✳ Bank charges such as penalty, interest etc. levied and debited to organization's account by bank without an advice and reflected in the bank statement but not in the cash book of the organization.

- ❖ Direct deposits into organization's bank account by outsider's / customers / students for their dues to the organization and not advised by the bank and not reflected in the bank statement.
- ❖ Direct payment may be made by the bank for insurance premium, club fees etc. as per standing instructions from the client.
- ❖ Error committed either by the bank or by the customer such as wrong posting, wrong entry etc. while recording the transactions in their respective books will create disagreement between the two balances.

The following points are to be remembered while identifying the difference between cash book and bank's statement:

- ❖ Cash Book maintained in the firm/ organization will always have the Debit Balance.
- ❖ Credit Balance in the Cash Book means overdraft from the Bank.
- ❖ On the contrary, the Bank Statement will always have the Credit Balance.
- ❖ Debit Balance in the Bank Statement means overdraft from the Bank.

Accounting actions need to be taken by the Organization

- ❖ Entries in the cash book are to be made to reflect debits and credits by the bank for which advices have not been received. Examples of such transactions are: bank charges debited by the bank, interest credited by the bank, direct debits etc.
- ❖ After the validity period of the cheques is over (stale cheques), reverse entries are

to be made in the cash book for earlier entries.

- ❖ The status of the cheques deposited but not credited after a reasonable time period may be ascertained, if they have been dishonored, reverse entries are to be made in the cash book.
- ❖ Notice may be issued to the person / company about the dishonor and the concerned person may be instructed to remit the amount immediately, failing which appropriate action as deemed fit may be taken as per law.
- ❖ Monitoring continuously from successive bank statement the payment against cheques issued and realization and credit by the bank of the cheques / Demand Drafts deposited.
- ❖ If bank has adjusted margin money against letter of credit, necessary entries may be passed to show encashment of fixed deposit and payment against letter of credit for plant and machineries, equipment etc.
- ❖ Constant liaison with the bank is required.

Process of Preparation of Bank Reconciliation Statement

- ❖ Identify difference between cash book and bank statement.
- ❖ Tick cash book entries which are on the bank statement.
- ❖ Adjust cash book with items which are on the bank statement, but not in cash book.
- ❖ Prepare bank reconciliation indicating the difference between cash book and bank statement.



Effect of Non-Preparation of Bank Reconciliation Statement Regularly

- ❖ Non-detection of dishonored cheques.
- ❖ Non-detection of stale cheques.
- ❖ Wrong debit made by the bank.
- ❖ Wrong credit made by the bank.
- ❖ Non-accountal of legitimate expenditure (bank charges) and income (interest).
- ❖ Non-detection of frauds and embezzlements.



Depreciation & Reserves

Capital Expenditure

Capital expenditure is any expenditure that results in the acquisition of an asset, an increase in a business's earning potential, or an increase in the asset's efficiency. In a nutshell, if the advantages of an expenditure are expected to accumulate over a long period of time, the expenditure is classified as capital. Assets created by such expenditure stay with the business and can be used over and over again. Expenditure cannot be treated as capital expenditure merely because the amount is large, or the amount is paid on lump-sum or it is paid out of the fund received from sale of fixed assets. The assets acquired by capital expenditure can be divided into two:

Tangible Assets: Physically visible assets are known as tangible assets.

Example: Land, Building, Machinery, stock, cash etc.

Intangible Assets: These are legal rights and cannot be seen physically.

Example: Patents, copyrights, trademark, goodwill etc.

Revenue Expenditure

Revenue expenditures are those that have a benefit that expires within the year of expenditure and are solely intended to keep the business or assets in good functioning order. This type of expenditure does not improve the firm's efficiency or result in the acquisition of something permanent.

Examples: Salary, wages, repairs, rent, electricity etc.

Distinction between Capital and Revenue Expenditure

| Sl. No. | Capital Expenditure | Revenue Expenditure |
|---------|---|---|
| 1 | Expenses incurred for the purchase of fixed assets. | Expenses incurred on a day-to-day basis by the organization. |
| 2 | These are incurred in increasing the value of the fixed assets. | They do not increase the value of fixed assets. |
| 3 | They increase the earning capacity of the organization. | They are incurred to maintain the earning capacity of the organization. |
| 4 | The benefit of such expenditure extends to more than one year. | The benefit is limited to one year only. |
| 5 | These expenses are non-recurring in nature. | These expenses are of recurring in nature. |
| 6 | They are shown in the Balance Sheet. | They are shown in Trading & Profit & Loss Account. |



Expenditure seems to be revenue but treated as Capital Expenditure

All the expenses incurred to bring an asset into commercially working condition should be capitalized.

- ✳ Preliminary Expenses
- ✳ Expenses on acquisition and installation of assets
- ✳ Legal expenses to acquire the land
- ✳ Interest paid on loan taken for machinery till commercial production starts

Deferred Revenue Expenditure

Deferred revenue expenditures are those that have a benefit period of more than one year and such expenditure is written off over a period of two to three years and not wholly in the year in which it is incurred. It is originally revenue expenditure, but only in peculiar conditions it is treated as deferred revenue expenditure. The balance amount not written off appears in the asset side of the under miscellaneous expenses and losses not written off.

Examples:

- ✳ Heavy losses incurred due to unusual circumstances like long strike, flood, war etc. are deferred losses and are written off over a period of time.
- ✳ New firm may advertise very heavily in the beginning to capture a position in the market.
- ✳ The expenditure for removal of stock to new site is deferred revenue expenditure.

Depreciation

The term “depreciation” refers to the asset’s worth declining over time. “Depreciation is the permanent loss in the value of an asset due to use and/or the passage of time,” according to Chartered Institute of Management Accountants (CIMA), London. Depreciation is a phrase that is only applied to fixed assets. Provision for this loss of capital is an unavoidable expense of doing business during the asset’s effective commercial life, and it is unrelated to the amount of profit made.

Characteristics of Depreciation

- ✳ It is a non-cash expense.
- ✳ It may be physical or functional.
- ✳ It is a cost allocation process rather than valuation of fixed asset.
- ✳ It is charged in respect of fixed assets only.
- ✳ It is the gradual decrease in the utility of a fixed item until it reaches the end of its useful life.
- ✳ It is charged to the revenue to find out the net profit of the business.
- ✳ Once charged cannot be recouped afterwards.
- ✳ It is unaffected by fluctuations in an asset’s market value.
- ✳ Total depreciation must not exceed the depreciable value of the asset, i.e. cost less value.
- ✳ It is always charged whether the asset is carefully handled or neglected or it is idle.

Causes of Depreciation

A) Physical

Wear and tear: Due to normal wear and use, certain assets deteriorate physically. The higher the use of an asset, the greater the wear and tear.

Destruction: The utility value of an asset is reduced when it is physically destroyed. Destruction may have occurred as a result of an accident, such as a fire, flood, or other disasters.

Decay: It refers to a decrease in the utility of an asset as a result of natural factors such as rain, moisture, weather change, and other natural factors.

B) Functional

Obsolescence: Because of changing conditions, certain assets are discarded before they are worn out. For instance, an old working machine may need to be replaced with a new one since the latter is more efficient and cost-effective. Loss due to obsolescence is a word used to describe a loss caused by new inventions.

Inadequacy: Due to an increase in the amount of business activities, it refers to the termination of the usage of an asset. Although the asset is still usable, it has had its service life cut short due to its insufficiency for the current level of activity.

Effluxion of time: Some items depreciate in value simply due to the passage of time. After a certain period of time has passed, the value of such assets decreases. As a result, their cost is amortised over the course of their working lives. Leases, patents, licences, and copyrights are only a few examples.

Depletion: The value of oil wells, mines, and other such properties decreases when oil and minerals are extracted.

Exhaustion: Plantations, livestock, and other assets eventually lose their worth as time passes. They have their own age and lose worth once a certain period of time has passed.

Need for Charging Depreciation

1. Correct Calculation of Profit

The purpose of accounting is to determine the true profits of business. When depreciation is applied to the profit and loss statement as an expense, this goal is realised. The profit would be overestimated in the books if depreciation is not taken into account.

2. True and fair view in Balance Sheet

If depreciation is not recorded in the books of accounts, the fixed asset will be valued higher than its true worth in the Balance Sheet, resulting in an overvaluation. As a result, this overvaluation of fixed assets will not provide a realistic and accurate picture of the company's current state of affairs.

3. Accurate ascertainment of cost

Depreciation on plants, machinery, equipment etc. used for manufacture of goods is a factory overhead, which must be included to find out the cost of production accurately. If depreciation is excluded from cost of production, it will result in the non-recovery of depreciation at the time of selling of goods.

4. Distribution of dividend out of profit only

When depreciation is charged to profit and loss account, the profit is reduced and the

balance of profit left after depreciation is available for distribution as dividend to shareholders. If depreciation is not provided out of profit and loss account, the profits will be more and the excess dividend will be paid out of capital.

5. Replacement of assets

When assets used in the firm reach the end of their useful life, they must be replaced. To replace old assets, sufficient funds are necessary. The use of the right depreciation method will make it easier to plan for asset replacement when its useful life has expired.

6. Saving in income tax

When depreciation is debited to profit and loss account, the profits are reduced, consequently the tax liability on profit is also reduced.

Factors determining the Amount of Depreciation

1. Cost of the Assets

The original cost of the asset paid or payable on acquisition of asset is increased with the amount spent on installation, freight, loading and unloading charges, transit insurance, octroi, import duty etc. The aggregate amount is called cost of assets.

2. Estimated working life

Estimating an asset's operating life necessitates technical knowledge. The asset's life is influenced by the conditions under which it is maintained and preserved. The estimated life of the assets can be expressed in years, months, days, hours, production (unit and weight), kilometre, and so on.

3. Salvage/Residual/Scrap Value

When an asset is sold, disposed, or exchanged for a new asset at the end of its useful life, this is the expected value that will be realised. The depreciable amount is the cost of the asset minus its residual value, which is charged throughout the item's useful life.

4. Provision for repairs and renewals

Repairs and renewals carried out at regular periods help to preserve the asset in good working order. The asset's life is shortened as a result of poor handling and carelessness. As a result, this element must be considered when evaluating the amount of depreciation.

5. Depreciation in case of obsolescence

More depreciation should be paid if the asset is anticipated to be worthless due to new inventions. The shorter the time period, the greater the amount of depreciation. If an asset is predicted to become obsolete in six years, the corporation will have to divide its worth over six years. With more rapid obsolescence, the amount of depreciation charged over each year will rise.

6. Legal provisions

If there are any legal provisions that allow for asset depreciation, they should be taken into account. In this case, the provisions of the Companies Act of 2013/1956 and the Income Tax Act of 1961 are pertinent.

7. Addition to Assets

Any capital expenditures made to extend or add to existing machinery will be depreciated in the year in which the addition is made to the asset.

The term of depreciation is to be distinguished from other terms.

Depletion: It refers to the extraction of a readily available yet irreplaceable resource, such as coal from a mine or oil from an oil well. Both Depletion and depreciation are shown in the profit and loss account as revenue expenses.

Amortization: The process of depreciating intangible assets including as goodwill, patents, trademarks, and licences is referred to as depreciation or amortization. These intangible assets have value based on the rights and privileges those belong to owner. It is an expense account and appears on the debit side of income statement.

Dilapidation

The damage done to a building or other property during tenancy is referred to as dilapidation. When the leased property is returned to the landlord, he may request that the lessee maintain it in the same condition as it was when it was leased out. To cover the cost of such dilapidation, a provision can be made by debiting the property account and crediting the provision for dilapidation account with the expected amount of dilapidation. Depreciation can then be applied to the asset's total cost as determined. Any payments made after the dilapidation account has been debited may be deducted from the provision for dilapidation account. If there is any remaining balance, it can be transferred to the profit and loss account.

Obsolescence: When an asset becomes out of date or it goes out of use due to new or improved technology or invention, this is called obsolescence. It means reduction or loss of usefulness of an old asset due to new inventions or improved design of an existing asset. Obsolescence may be due to various factors:

- * Change in the method of production
- * Change in production design
- * Change in model
- * Change in demand of product

Fluctuation

Fluctuation is a temporary upward or downward variation in the market price of fixed asset on account of operation of the market mechanism of demand and supply. Fluctuation does not affect the profit and it is not taken into consideration. This is so because depreciation is concerned with the original cost of asset.

Methods for Recording Depreciation

A) When no provision for Depreciation Account is maintained

B) When provision for Depreciation Account is maintained

When no provision for Depreciation Account is maintained

Depreciation is directly charged against the asset with this method, which eliminates the need for a depreciation account.



| Events | When no provision for Depreciation Account is maintained | When provision for Depreciation Account is maintained |
|------------------------------|--|--|
| Purchase of Assets | Asset A/c Dr To Bank A/c | Asset A/c Dr To Bank A/c |
| Providing Depreciation | Depreciation A/c Dr To Asset A/c | Depreciation A/c Dr To Provision for Depreciation A/c |
| Transferring of Depreciation | Profit & Loss A/c Dr. To Depreciation | Profit & Loss A/c Dr. To Depreciation |
| Sale of Assets at Loss | Bank A/c Dr. Depreciation A/c Dr. Profit & Loss A/c Dr. To Asset A/c | Bank A/c Dr. Provision for Depreciation A/c Dr. Profit & Loss A/c Dr. To Asset A/c |
| Sale of Assets at Profit | Bank A/c Dr. Depreciation A/c Dr. To Asset A/c To Profit & Loss A/c | Bank A/c Dr. Provision for Depreciation A/c Dr. To Asset A/c To Profit & Loss A/c |

Methods for Providing Depreciation

- * Straight Line Method
- * Reducing Balance Method
- * Annuity Method
- * Depreciation Fund Method
- * Depletion Method
- * Sum of Years Digit Method
- * Machine Hour Rate Method
- * Revaluation Method

2. Diminishing Balance Method

This method applies a defined rate or percentage of depreciation to the asset's declining value each year until it reaches scrap value.

1. Fixed installment method (straight line or original cost method)

This strategy writes down a defined percentage of the asset's initial cost each year, reducing the asset's value in the books to zero or residual value by the time it wears out.

$$\text{Depreciation} = \frac{\text{Original cost of fixed assets} - \text{estimated scrap value}}{\text{Estimated life of asset in years}}$$

| Straight Line Method | Reducing Balance Method |
|---|--|
| The rate and amount of depreciation remains same each year. | The rate remains same but amount of depreciation reduces each year. |
| Depreciation rate percent is calculated on the original cost of asset | Depreciation rate is applied on the book value of asset each year. |
| The asset's value is decreased to zero or scrap value at the end of its useful life. | Value of asset never reduces to zero at the end of its life. |
| The cost of repair rises with the age of the yet the amount of depreciation remains constant year after year. | The amount of depreciation decreases asset, gradually, while the cost of repair increases. |
| Computation of depreciation is comparatively and simple. | Depreciation may be calculated without easy trouble, but it is not as straightforward as it appears. |

3. Annuity Method

The depreciation is computed using the annuity table and the amount required to replace the asset in this way. The amount of depreciation is constant throughout the years.

4. Depreciation Fund Method

The depreciation amount is calculated using the straight line or annuity method. The annual depreciation amount is set aside in an account called Depreciation Fund Account and it is invested in safe and liquid securities. The annual depreciation amount is decided in such a way that total amount accumulated from the depreciation and the income from the investments is nearly equal to the amount required to replace the assets at the end of the useful life.

5. Depletion Method

The depreciation per unit of the asset is calculated based on the availability of total units. Each year depreciation is calculated according to the number of units extracted out of the asset.

6. Sum of Years Digit Method

The amount of depreciation to be charged goes on decreasing every year. The formula used to calculate depreciation:

$$\text{Depreciation} = \frac{\text{Remaining life of an asset} \times \text{incl. current year} \times \text{original cost}}{\text{Sum of all digits of the life of assets in all years}}$$

7. Machine Hour Rate Method

This method is used when the life of the asset can be known in terms of its usage in number of hours. Depreciation is calculated as:

$$\text{Depreciation} = \frac{\text{Original cost of assets} - \text{scrap value}}{\text{Life of asset in hours}}$$

8. Revaluation Method

This strategy is utilised for objects like loose tools, jigs, and other similar goods. At the end of the year, the market value of the asset is calculated. Depreciation is taken as the difference between the value of assets at the beginning of the year and at the end of the year.

Practices followed for some other assets

- ✳ No depreciation is charged on the Goodwill. It is generally written off over a number of years.
- ✳ In case of freehold land, livestock also, no depreciation is charged.

Reserve

The amount of reserve is an appropriation of profits. As a result, profits kept in the firm that do not have any of the characteristics of a provision should be classified as reserves. These are meant to strengthen the financial position of a business and to meet contingencies which are indeterminate at the time of making the provision. The excess provision after meeting the specific liability is also treated as reserve and hence, the excess provision is written back and credited to profit and loss appropriation account.

Objects of Creating Reserves

- ✳ Expansion of business through internal sources i.e, ploughing back of profits
- ✳ To improve the financial situation of the company



- ❖ To boost the company's working capital
- ❖ To prepare for future contingencies
- ❖ To prepare for any unknown liability or loss
- ❖ To replace a wasting asset
- ❖ To make uniform declaration of dividend from year to year, in case of companies

Characteristics of Reserve

- ❖ Reserves are appropriation of profits and they do not affect the current year's profit
- ❖ Reserves are documented on the liability side of the Balance Sheet and can be classed as general or specific.
- ❖ A reserve fund is created when a portion of a reserve is invested outside the firm in the acquisition of securities.
- ❖ The amount representing the reserve does not constitute any liability or provision for depreciation.

Reserves

A) Open/Published Reserves

1. Capital Reserve
2. Revenue Reserve: General Reserve/
Specific Reserve/Reserve Fund

B) Secret/ Unpublished Reserves

Open/Published Reserve: Published reserves or open reserves are those that are produced specifically by debiting the profit and loss account and reported specifically on the liability side of the balance sheet.

Capital Reserve: Profit can come from places other than usual commercial activity, and this type of profit is referred to as capital

profit. Capital reserve refers to any reserve built from such earnings. It is used to compensate for capital losses. Profit can be obtained in the following ways:

- ❖ Sale of fixed assets
- ❖ Asset and liability revaluation
- ❖ Premium issuing of shares and debentures
- ❖ Share forfeiture and reissue
- ❖ Profits prior to incorporation.
- ❖ Redemption of debentures at discount

Revenue Reserve

The profit and loss account is used to determine the profits produced by a business through its usual operations at the end of the year. Revenue reserve refers to the portion of a profit that is not paid to the proprietor but set aside.

General Reserve

The term "general reserve" refers to a reserve that is created for the aim of strengthening the financial situation of a company. Reserve, reserve fund, or contingency reserve are all examples of reserves. As a result, the business owner is allowed to take it as a portion of his profit. Hence, it's also known as a "free reserve."

Specific Reserve

A specific reserve is one developed for a specific reason, such as dividend equalisation reserve or debt redemption reserve. This reserve is put to good use for the purpose for which it was established.

Reserve Fund

Reserve fund refers to the amount of reserve that is invested outside of the firm in government securities or other gilt-edged securities. It is called reserve fund. It is retention of profit for strengthening financial position of business.

Secret/Unpublished Reserves

The term “secret reserve” refers to a reserve that is hidden from view in the Balance Sheet. The term “hidden reserve” or “internal reserve” is also used to describe

secret reserves. A reserve like this isn’t shown on the balance sheet.

Provisions

Provision refers to making provisions for a potential loss or responsibility whose amount cannot be calculated precisely, such as provision for doubtful debts. Because it’s impossible to predict exactly how much of this year’s debt will default next year. If it is possible to determine it exactly, there would have been no necessity for certain provision- the amount would be straight away written off as loss.



Rectification of Errors

Causes of Accounting Errors

Lack of Knowledge: Accounting is based on a set of rules and principles. Accounting errors may occur due to a lack of understanding of the principles and standards.

Carelessness: Accounting errors can also be caused by a lack of attention to detail. Errors may occur if the individual in charge of keeping the books of accounts is not vigilant.

Ineffective internal check: Ineffective internal check system may also cause accounting errors as it does not help in preventing accounting errors, rather it encourages them.

Dishonesty: If the person responsible for keeping books of accounts is dishonest, he or she may intentionally commit errors in the books of accounts for the purpose of taking undue advantage from the business.

Error Management

The whole idea of error management can be executed in three steps:

i. Prevention of errors: By implementing an effective internal control system, management may avoid errors of this sort. It should not enable prejudice and bias into accounts where it is possible to avoid it.

ii. Detection of errors

iii. Rectification of errors

Types of Accounting Error

1. Errors that have no bearing on the Trial Balance (errors on both sides): These are difficult to find. They are frequently discovered when a business receives or sends

a statement of accounts to its clients, or during an internal or external audit, and occasionally by mistake.

- i. Errors of Omission
- ii. Errors of Principles
- iii. Errors of recording to a wrong account
- iv. Errors of Commission
- v. Compensatory Errors

2. Errors which affect the Trial Balance (Errors with only one side of entry): Because such faults are detected at early stage, they are easier to locate. The accountant might start looking for problems as soon as the trial balance doesn't tally.

- i. Errors in posting
- ii. Errors in calculating an account's balance
- iii. Errors in totaling the subsidiary books
- iv. Errors made during the preparation of the Trial Balance

Errors of Omission

Error of Omission occurs when a transaction is completely omitted from being documented in the journal, subsidiary books, or ledger. An omission error occurs when a transaction is not fully or partially documented in the books. It could be due to a failure to enter a transaction in the original entry books or a failure to post a transaction from the original entry books to the relevant account in the ledger. The aforesaid error will be corrected by writing correct journal entries for this transaction.

Example: Rs.10000 received from Mr. Rajdeep is left unrecorded.

Errors of Principles

The term “error of principle” refers to an error that occurs as a result of non-compliance with accounting principles. It is a principle error when a transaction is recorded in violation of accounting’s fundamental principles.

Example: Whether revenue expenditures be treated as capital expenditures or vice versa. Repair charges paid on machinery, if wrongly debited to machinery account.

Example: Rs.5.00 lakh worth of furniture debited to purchases Account.

Wrong Entry: (1) Purchases A/c —
Rs.5.00 lakh
To Cash/Bank A/c —
Rs.5.00 lakh

Errors of recording to a wrong account

In this type of error, the journal entry is written correctly, but when it is posted, instead of giving the effect to the correct account, it is given to another account by mistake. The Trial Balance is unaffected by debiting or crediting an incorrect account with the correct amount on the correct side.

Example: Rs.50000/- received from Manish is credited to Mr. Tanish Account.

Errors of Commission

An error of commission occurs when an entry is improperly recorded, either entirely or partially, or when publishing, totaling, or balancing is inaccurate. Some of the errors of commission affect the trial balance can be revealed by representing a trial balance.

- ✳ The transaction was recorded in the incorrect subsidiary book with the incorrect amount. For example, goods acquired from Mr. Akash for Rs.90000 are incorrectly recorded in the sales book as Rs.9000/-.
- ✳ Less money transactions recorded in the correct book.
For example, goods supplied to Amir for Rs.15520 are mistakenly recorded as Rs.15250.
- ✳ Transactions recorded in correct book with more amount-Example: Goods of Rs.10570 purchased from Mahesh is recorded as Rs.10750
- ✳ Transactions recorded in wrong subsidiary book-Example: Goods of Rs.50000 purchased from Anil is recorded in sales book.

Compensatory Errors

An error is sometimes counter-balanced by another error in such a way that the trial balance does not reveal it. Compensatory errors occur in books when more than one error exists yet their consequences on the debit and credit sides cancel each other out, causing the Trial Balance to balance.

Example: The total purchase book is covered by Rs.50000, and Mr. Nayak’s receipt of Rs.50000 is posted to his account as Rs.1,000,000.

From the point of view of rectification of the errors, these are:

(a) Errors affecting one account only

- ✳ Totaling error
- ✳ Error of posting



- * Wrong carry forward
- * Wrong balancing
- * Omission from trial balance

(b) Errors affecting two or more account

- * Omissions
- * Posting in wrong account but on correct side
- * Violation of the principles of accounting.

(1) Errors in the posting Process

- * Omission of posting
- * Posting twice in an account
- * Posting of a wrong amount in an account
- * Posting in an account on the wrong side
- * Posting wrong amount on wrong side of an account

Omission of posting

If a posting is omitted in any account by mistake while posting a transaction in a journal or subsidiary book, it is known as an error of omission of posting, and the Trial Balance will not tally.

Example: Goods purchased from Mr. Dillip are duly rerecorded in the purchase book, but the posting to Mr. Dillip's account is omitted. The error will be corrected by posting the money to Mr. Dillip's account on the credit side.

Posting twice in an account

If any one of the two accounts is affected, the Trial Balance will not tally if the posting is done correctly on one side but twice by a mistake.

Example: Goods worth Rs.70,000 sold to Satish are correctly recorded in the sales book, but they are posted twice in Satish's account by mistake. This issue will be corrected by having the reverse effect in the account where the transaction amount is posted twice. The error will be corrected by writing Rs.70,000 on Satish's credit side of the account. Thus by writing Rs.70000 on credit side of Satish's Account the error will be rectified.

Posting of a wrong amount in an account

If an erroneous amount is posted in any account while posting from the preliminary books, the trial balance does not tally. The error is corrected by writing the difference amount on the other side.

Posting in an account on the wrong side

The trial balance does not tally if the amount is recorded on the wrong side (i.e., on the credit side instead of the debit side or vice versa) while posting from the primary books. This mistake will be corrected by writing twice as much on the correct side.

Posting wrong amount on the wrong side of an account

In this situation, the posting is made to the wrong account and for the wrong amount.

(2) Errors regarding balance of an account

i. Error in finding out the balance of an account

The trial balance does not tally if the balance of any account is discovered to be greater or lesser. If the balance is figured out incorrectly, the error will be corrected by

writing the extra amount on the account's opposite side.

ii. Balance of an account is written on the wrong side

The trial balance will not tally if the balance of any account is written on the wrong side (i.e., on the credit side instead of the debit side, and vice versa).

iii. Balance of an account is omitted to be recorded

The trial balance does not tally if any account's opening balance is not recorded.

iv. Error in writing the balance of an account

The balance is calculated correctly in this scenario, but when it is brought forward, it is written with the incorrect amount, causing the trial balance to be incorrect. If the opening balance is increased, the inaccuracies will be corrected by writing the difference on the opposite side of the account's respective balance.

v. Balance of an account is written on the wrong side with a wrong amount

If the balance of any account is written on the wrong side with the wrong amount, the Trial Balance will not tally.

(3) Errors in totaling the Subsidiary Book

If an error is made while summing subsidiary books such as purchase books, sales books, purchases return books, cash books, and so on, the Trial Balance will not tally. This error will be corrected by adding a note to the appropriate account. This type of error does not necessitate a journal entry.

For instance, the total cost of the purchasing book is undercast by Rs.15000/-.

(4) Error committed while preparing Trial Balance

There is a chance that an error will occur during the preparation of the trial balance, such as an error in totaling the trial balance, the balance of an account being omitted to be recorded or recorded twice with the wrong amount, or the trial balance being recorded on the wrong side or recorded on the wrong side with the wrong amount. There is no requirement for a journal entry to pass in order to correct these types of problems. Following the correction of the inaccuracies, a new trial balance is created and tallied.

Suspense Account

When the trial balance does not tally due to accounting errors, and it takes longer to detect and correct such errors, but there is a deadline for preparing final accounts, the difference in the trial balance is temporarily transferred to one account in order to get it tallied, and that account is known as a suspense account.

Stages of correction of Errors

All types of errors in accounts can be rectified at three stages:

- ✧ Before preparing trial balance
- ✧ After preparing trial balance but before preparation of final accounts
- ✧ After the preparation of final accounts

Rectification before preparing trial balance

The correct approach of correcting an error is to pass journal entries in such a way that

they both rectify the mistake and give effect to the entry that should have been passed. However, while errors are corrected prior to the compilation of the trial balance, in some situations the correction cannot be done with the help of journal entry due to the nature of the errors.

Procedure of rectification before preparation of trial balance

A) Correction of errors affecting one side of an account

Because they only influence one side of one account, such errors prevent the trial balance from agreeing. As a result, if rectification is required prior to the compilation of the trial balance, these cannot be corrected using journal entry. As a result, the appropriate amount is placed on the debit or credit side of the relevant account, as the situation may be:

- ✳ Sales book undercast by Rs.5000/-: The entry has to be made on the credit side of the sales account.
- ✳ Discount allowed not posted to discount account:-Discount account should be debited.
- ✳ Goods sold to X wrongly debited in sales account: - Double the amount of transaction should be credited on the credit side of the transaction.
- ✳ Amount of Rs.5000/- paid to Y not debited to his personal account: - Amount should be debited to the personal account of Y.

B) Correction of errors affecting one side of an account:

The correction can be made through journal entries when the following accounting steps are followed:

Step 1: Write the wrong entry that has been reflected in the books of accounts

Step 2: Write reverse of the wrong entry to nullify

Step 3: Write the correct entry for the transaction

Step 4: Ascertain the net effect of reverse entry and correct entry which is regulated as the rectifying entry.

Example: Purchase of machinery for Rs. 2,000/- has been entered in purchase book

| | |
|------------------------|---------------------------------|
| Wrong Entry | Purchase A/c To Supplier A/c |
| Reverse of wrong entry | Supplier A/c To Purchase A/c |
| Correct Entry | Machine A/c To Supplier |
| Rectifying Entry | Machine A/c To Purchase A/c |

Example: Rs.2000 received from Kamal has been credited to the account of Krishna

| | |
|------------------------|-----------------------------|
| Wrong Entry | Cash A/c To Krishna A/c |
| Reverse of wrong entry | Krishna A/c To Cash A/c |
| Correct Entry | Cash A/c To Kamal A/c |
| Rectifying Entry | Krishna A/c To Kamal A/c |

Example: Sale of old machinery for has been entered in the sales book

Rectification after preparing trial balance but before Final Accounts

When trial balance does not agree, efforts are made to locate the errors to rectify them. When all efforts of an accountant fail to locate the errors, the difference in trial balance is put to in a shorter side to a newly opened account, known as Suspense Account.

Correcting the errors through Suspense Account

If errors were identified only after the trial balance was prepared and the difference arising out of the errors are transferred to a suspense account, then the rectification should be carried using the suspense account. This is a dummy account opened to transfer the difference in trial balance. It's a temporary account to which the difference in the trial balance has been transferred. The suspense account will be credited if the credit side of the trial balance is less. If the debit side is short, this account will be debited. Although, the trial balance is temporarily tallied, the errors which have led to the difference in trial balance still remain and have to be located and rectified. The following steps are observed while rectifying errors through suspense account:

- ✳ Suspense account is there in the shorter side
- ✳ Suspense account is closed by reversing suspense account and debiting/crediting the respective account.

Rectification after preparing Final Accounts

A mistake in the nominal and goods accounts will have an impact on the net profit. Errors in these accounts have the potential to enhance or decrease net profit. If earnings or losses are altered as a result of an error, it will have an impact on the capital account, causing capital to increase or decrease. Because capital is shown on the liabilities side of the balance sheet, any mistake in the nominal account will have an impact on the balance sheet.

Example:

- ✳ Old machinery is overhauled but the amount debited to repairing of machinery account.
- ✳ Rent paid to land lord but the amount debited to the personal account of land lord.
- ✳ Commission received is omitted to be posted to the credit of the commission account.

Errors Affecting Balance Sheet only

If a mistake is made in a real or personal account, it will affect the firm's assets, liabilities, debtors, or creditors, and as a result, it will affect the balance sheet alone, because these items are only shown in the balance sheet, and the balance sheet is prepared after the profit and loss account. As a result, any error in the cash, bank, asset, or liabilities accounts will only influence the balance sheet.



Balance Sheet

Balance Sheet is a financial strength of an organization on a particular day. It is prepared on any particular day, wherein the summary of all the assets and liabilities on that day are reflected. It is statement of Assets and Liabilities of an organization which is prepared as on date particularly on the last date of the financial year. It is a statement of balances including the balances in the income and expenditure account. All balances other than those reflected in the Income & Expenditure Account are exhibited in the Balance Sheet. Balance Sheet shows the financial position of the organization indicators of which are what the organization owns i.e., Assets and what it owes i.e., Liabilities. Balance Sheet comprises of all the assets and liabilities of a business/organization. In context of Balance Sheet, an asset is anything owned by a business which has value e.g. land & buildings, machinery etc.

A liability is anything owed by the business/organization e.g. a loan, or an overdraft

Balance Sheet Accounting Equation:
$$\text{Assets} = \text{Capital} + \text{Liability}$$

Assets

The classification of Assets depends upon the nature of the assets. The various types of assets are given below:

1. Current Assets: The current assets can be easily realised and readily available to discharge liabilities within one year. These assets are smaller and easy to turn into cash within the year like Cash, Bank, Accounts Receivable, Supplies, Inventories, Term Deposit with Bank, imprest, advances to

employees (interest bearing), prepaid expenses, income accrued & due, income accrued but not due, claims receivable, miscellaneous expenditure to the extent not written off, deposit etc.

2. Fixed Assets: Fixed assets are assets that are bought and held continuously in a firm and are utilised for the purpose of earning profits. Examples are: Free hold land, lease hold land; buildings; roads, bridges, & culverts; sewerage & drainage; tube well & water supply; plant & machinery; electrical installation & equipment; scientific & laboratory equipment; office equipment; computer & peripherals; audio visual equipment; furniture, fixtures & fittings; vehicles; library; work in progress; capital work in progress etc.

3. Tangible Assets: These assets can be seen, touched and the presence of these assets can be easily felt. Examples of such assets are: plant, machinery, building, furniture, cash, stock, computer etc.

4. Investments: Term deposits, securities etc.

5. Intangible Assets: Intangible assets cannot be seen, touched such as Patents, Trademark, copyright, Goodwill, licences, trademarks etc.

6. Wasting Assets: Those fixed assets which have a fixed contract like mines, quarries etc. that become exhausted or reduce over the period of time are called wasting assets.

7. Working Capital: as working capital.

8. Accounts Receivable: It is inclusive of sundry debtors and bills receivable.

Liabilities

A liability is the obligation of the organisation to pay. It may be classified into four categories:

1. Fixed Liabilities: These liabilities which are payable only on the termination of the business.

2. Long-Term Liabilities: Those liabilities that will be due in the next five to ten years but will not be due in the next accounting period. Debentures, mortgages, and long-term bank loans are among examples.

3. Current Liabilities: Those liabilities that must be paid within the following accounting period, or within a year. Various creditors, invoices payable, short-term bank overdraft, and so on are examples.

4. Contingent liabilities: Contingent liability is a liability to an existing condition or situation that may arise in the future as a result of one or more unpredictable events occurring or not occurring.

Characteristics of a Balance Sheet

The characteristics of a Balance Sheet are given below:

- ✳ It is completed on a specific date, such as the last day of the fiscal year.
- ✳ The asset side of the Balance sheet must tally with that of the liability side.
- ✳ It is the statement of balances including the balance in the income & expenditure account.
- ✳ It shows the financial position of the organisation indicators of which are what the organisation owns and what it owes i.e., its assets and liabilities.



Significant Accounting Policies of ICAR

Basis for preparation of accounts

Historical cost convention unless otherwise stated and on accrual basis

Revenue Recognition

Accrual Basis

- * Pension & Leave Salary Contribution
- * Interest on Investments
- * Interest on loan to staff — on diminishing balance method

Income recognized on Collection/ Receipt

- * Sale of publications; water & electricity charges; Farm produce income; Guest House charges; Interest on Bank Account etc.

Insurance against third party purely on cash basis

Fixed Assets & Depreciation

- * Fixed assets are valued at cost of acquisition, which includes inbound freight, taxes and levies, as well as incidental/direct acquisition, installation, and other costs.

- * Livestock progeny are set up as assets after they are born by assigning values, which is enhanced by expenditure incurred on prenatal/ post-natal care, upkeep & feed. Capitalized by credit to capital reserve as stated in SAP or under capital fund.

- * Fixed assets are valued at cost of acquisition or manufacturing cost and depreciated on annual basis using Straight line method as per Companies Act. ICAR's depreciation rates have been revised slightly taking basis of the Companies Act which was approved in its 236th GB meeting in 2016.

- * No Depreciation is provided on Land and Livestock.

- * Full depreciation is provided on addition during the year.

- * Assets of small values are depreciation on 100% retaining a residual value.

- * The rate of depreciation for various items are given below:

| Item of Fixed Assets | Rate of Depreciation |
|---|----------------------|
| Buildings | 2% |
| Roads, Bridges, Sewerage & Drainage | 5% |
| Electrical Installation & equipment | 10% |
| Plant & Machinery | 6% |
| Vehicle & Vessels | 15% |
| Office equipment | 10% |
| Computers/ Peripherals / Accessories | 20% |
| Furniture & Fixture | 10% |
| Audio visual equipment | 10% |
| Laboratory apparatus & Scientific equipment | 10% |
| Library Books | 10% |
| Tube wells | 10% |

Amortization on Leasehold Land

- ❖ Land leased for 99 years or more is considered “Leasehold Land”.
- ❖ Land leased for a shorter term is amortized over the lease period until it is zero.
- ❖ Stocks of spare parts, chemicals, glassware etc. are only worth what they cost.
- ❖ Animals used in research are treated as a financial expense when purchased. When held in large no. and issued, are classified as inventory.
- ❖ Retirement benefits (gratuity, pension, leave encashment) are taken into accounts on cash basis.
- ❖ Investments (For ICAR HQs only) are valued at the lower end of the cost and fair/market value spectrum.

Earmarked funds-Staff welfare fund

- ❖ Represents intellectual fee levied and recovered from Sponsored projects etc.
- ❖ Utilized for ex-gratia payments, scholarships, cash awards etc.
- ❖ Balance of fund is invested and added back to the fund.

Interest accrued is also accounted for.

Government Grants

- ❖ Govt. Grants - Capital expenditure is capitalized to the credit to Capital Fund.
- ❖ Govt. Grants - Revenue Expenditure are treated as income to the extent utilized.
- ❖ Unutilized Grants are treated as liability and refunded every year.

Revolving Funds

- ❖ Loans to ICAR units, SAUs/NGOs.
- ❖ Assets to ICAR HQs and Liability for the units. Gets set off during consolidation.
- ❖ Revenue Expenditure incurred and income are accounted under respective financial heads.

Sponsored Projects

- ❖ Amount received is treated as Liabilities and is reduced to the extent expenditure incurred.
- ❖ Intellectual Fee (share of the council) is treated as income of the Council.
- ❖ Net figure is shown under Current Liabilities side.

Assets created out of Sponsored Projects are capitalized to the credit to Capital Fund.

- ❖ Contingent Liabilities (court cases, PIL etc.), Letter of Credit opened on Council's behalf by a bank, estimated value of contracts still to be completed on capital accounts and not provided for, are depicted in Schedule 23.
- ❖ GPF Annual Accounts are prepared separately.
- ❖ Depreciation on all assets categorized as ‘others’ shall be charged @10% p.a. under straight line method
- ❖ Details of all assets categorized as ‘others’ should be specified separately in Notes to Accounts.



- ❖ Anything other than SAP or any adjustments being carried out should be mentioned in Notes on Accounts.
- ❖ Details of encroached/disputed land are to be depicted in Schedule 23.
- ❖ In the Accounts, the details of Land (Leasehold/Freehold) are shown as Rs.1/- instead of 'nil' (if applicable).
- ❖ Asset Register: All units are directed to reconcile the Fixed Assets figures given in their annual reports with the Fixed Asset Register kept at the institute level. Figures that have been reconciled must be entered into the accounts and attested in the notes to the accounts.
- ❖ Accrued Interest: In Notes to Accounts, a certificate stating the amount of accrued interest reported in Schedule-7 against Schedule-13 should be provided.
- ❖ Interest-Bearing Advances: In Notes to Accounts, a certificate stating the amount of accrued interest reported in the Annual Accounts should be provided.



Accounting of Externally Aided Projects

Externally Aided Projects (EAPs)

Sponsored projects, including foreign aided projects for which funds are mandatorily routed through council, consultancy projects and grant-in-aid projects received from Ministries/ Department other than Department of Agricultural Research & Education (DARE).

Projects funded by other Departments/Agencies

In this case, the projects are funded by other departments/agencies but not by ICAR. The funding is done for a specific period and the projects get terminated once the specified period, for which the sanction accorded, is over. Extension of project is accorded by sponsoring agency in case the project objectives or targeted study remains incomplete or additional study is added at a later stage.

All international projects where funding is received in foreign exchange is to be routed through Council. Funds may not be accounted directly by the institute.

Accounting of EAPs in Annual Account of ICAR

Para 12 of the Significant Accounting Policy (SAP) makes a mention of the sponsored projects including foreign aided projects, consultancy projects and grant-in-aid projects- accounting of their receipts and disbursements. Further, mention has been made about earmarked funds / welfare funds of 'Schedule-3' of Annual Account in Para 3

of the SAP. The portion of institutional income out of consultancy projects termed as 'Staff Welfare Funds' is accounted in Schedule-3.

Externally Aided Projects (EAPs) are shown in annual accounts in Schedule-4 as 'current liability'. Sub-schedule to Schedule-4 gives a detail of project wise status report of all receipts and payments during a financial year.

Income from 'Professional Services' is accounted in Schedule-8 under 'Income from Services' which comprises of training, consultancy, contract research, contract services, other contract services includes analytical testing fee, pre-shipment testing fee, quarantine fee & other services. The sponsorship/client money is credited to the head "current liabilities- receipts against sponsored projects/consultancy projects".

As and when expenses/advances are incurred/paid against such projects, entries are passed for credit to overhead recoveries, intellectual fees, and other items by debiting the relevant project account under the heading "assets current assets."

In the income and expenditure account, the fractions of intellectual fee that belong to the council are treated as income. Overhead and equipment utilisation recoveries are recognised as revenue expenditure abatement for the year.

When the expenditure on a sponsored scheme booked under 'sundry debtors' is less than the receipt (opening balance plus receipts during the year) for the scheme under the



heading 'current liabilities' at the end of the year, the figure under 'sundry debtors' will be set off against the figures in the liabilities side in respect of that scheme, and the net figure will be shown under 'current liabilities' (Schedule-4) of the balance sheet.

When the expenditure for a sponsored scheme exceeds the receipts (opening balance in the case of sponsored schemes, where the expenditure exceeds the receipts (opening balance plus receipts during the year), the figure on the liabilities side will be set off against the figure on the assets side, with the net amount shown as recoverable from the sponsors in the balance sheet under "current assets-sundry debtors (Schedule-7)".

Common error

The common error in preparation of accounts is netting the figures of the sub-schedule 4 and taking this figure as the consolidated closing balance and as 'current liability' in Schedule- 4.

Impact

Netting the amount and taking the closing balance of Sub-schedule-4 to Schedule-4 results in reduction in 'current liability'. Simultaneously, it also impacts the Schedule-7 'current assets' where it is not reflected as receivable from sponsoring agency and it thus result in an understatement of 'current assets'.

Remedy

Netting is not permitted. All projects with negative closing balance, figures thereof must be shown as: Receivable under Schedule-7: 'current assets'.

Likewise, projects with positive closing balance, the figures thereof should be shown as 'current liability' in Schedule-4. Funds pertaining to deposit schemes (Schedule-4) accounted in grant account (Schedule-9a)

It has been observed in the annual accounts of a number of ICAR Institutes that funds received from various funding agencies mostly Department of Agriculture & Cooperation is accounted in Schedule-9a instead of Schedule-4 pertaining to EAP.

Impact

Accounting EAP funds in Schedule-9a will result in overstatement of grant account. However, since the amount of grant-in-aid received by ICAR through DARE is known, it becomes a tedious exercise, while consolidating ICAR annual account to identify the institute at the last moment where such a mistake has occurred, this leads to passing of an adjustment entry in consolidated annual account.

Common Error

The source of funding based on scheme code that appears in PFMS should be carefully identified. In case it does not tally with any of the scheme code of DARE /ICAR, the same must be shown under Schedule-4 as EAP and not under Schedule-9a as government grant. This mostly happen in inter-institutional transfer of funds in absence of details of inward advice of receipts.

Impact

Grant-in-aid funds received through DARE/ICAR in Schedule-4 instead of Schedule-9a results in overstatement of

‘current liability’ in Schedule-4 and understatement in Schedule-9a. It is reiterated that since the total funds received by ICAR in Revised Estimate (R.E.) is known, this figure is fixed. But such wrong reporting by institute will result in a mismatch and it will be rectified by passing an adjustment entry in the consolidated annual account.

Remedy

Institute must carefully identify the source of funding. This can be easily identified on the basis of scheme code that appears in PFMS. In case the PFMS codes show funds

pertaining to any of the scheme code of ICAR, the same must be accounted in Schedule-9a and not in Schedule-4.

It may be noted that funds are received by ICAR through DARE in 12 schemes and one non-scheme. Any fund other than these 12 schemes and one no schemes are to be accounted under EAP.

The 12 schemes and the non-scheme are well mentioned in the annual accounts format which is provided/uploaded every year for preparation of annual accounts.

List of Schemes and Non-schemes

| Sl. No. | Name of the Scheme | PFMS Code |
|---------|--|-----------|
| 1. | Agricultural Engineering Division | 0080 |
| 2. | Crop Science Division | 0085 |
| 3. | Horticulture Science Division | 0086 |
| 4. | Animal Science Division | 0089 |
| 5. | Fisheries Division | 0090 |
| 6. | Economics Statistics & Management Division | 0091 |
| 7. | Agricultural Extension Division | 0092 |
| 8. | Agricultural Education Division | 0093 |
| 9. | NASF | 0097 |
| 10. | CRA-NICRA | 1410 |
| 11. | National Agricultural Higher Education Project (NAHEP) | 3533 |
| 12. | Natural Resource Management (NRM) Division | 1271 |
| 13. | ICAR HQs. (Non-Scheme) | 1270 |

Other issues in accounting of EAP

- ✳ Institutes are required to open a separate ledger for each EAP.
- ✳ Separate savings/current account for each EAP is not permitted by council.
- ✳ Institutes need to account interest in respect to each EAP and reflect it in respective ledgers of each EAP.
- ✳ Unspent balances including interest needs to be returned to the sponsoring agency after completion of project.



- ❖ A letter of approval for retaining capital acquired under EAP must be obtained from the sponsoring agency on completion of the project.
- ❖ Proper importance to Sub-schedule-4 of Schedule-4 needs to be given.
- ❖ Complete name of the project needs to be properly reflected instead of abbreviated version.
- ❖ Name of the sponsoring agency needs to be mentioned.
- ❖ Reflecting the name of the Projects with names such as 'GSLIS', 'revenue receipts', 'grant for laptop', 'interest earned on term deposit' may be avoided in Sub-schedule-4 of Schedule-4 of Annual Accounts of the institutes.
- ❖ Terminated projects still appear in the statement.
- ❖ Projects with negative closing balance are left without any effort whatsoever to get the receivable from the sponsoring agency to settle the accounts.

Upcoming Issues

The funds received from ministries/ departments may also come under the ambit of Treasury Single Account (TSA) and accordingly the same may not be available on closure of a financial year and will lapse automatically. This would require enhancing monitoring of funds under such schemes for which funding is provided by Ministries/ Departments.

Opening of separate bank account is permitted with the approval of competent authority in council in cases where funds are received through State Nodal Agency (SNA)

as per guidelines recently issued. It may be borne in mind that SNA is involved where the funding is under centrally sponsored scheme and not under central sector scheme.

Centrally sponsored schemes are schemes where the funds are pooled both by the central government and the state government. Central sector schemes are fully funded by the central government. All ICAR schemes are central sector schemes. Institute need to identify whether funds are received through SNA or directly and forward proposal accordingly.

Usage of Institutional income

The director of the institute or the appropriate competent authority shall have full authority to use the component of institutional income for a variety of purposes, including the strengthening of existing facilities, infrastructure upgrades, and any other justified use of contingency for meeting overhead expenses, taking specific technical intervention for farmers.

(Para 1.3.17.4 of the Policy Framework Guidelines)

Utilization of institutional income of Staff Welfare Fund

The fund of the staff welfare fund can be utilized towards the following purposes:

- ❖ Upgrading/creating canteen facility.
- ❖ Upgrading/creating recreational facility.
- ❖ Succor to the families of staff who die in harness.
- ❖ Any other purpose which the IMC considers is in larger interest of Staff Welfare.

(Para 1.3.17.5 of Policy Framework Guidelines)

Approval of consultancy amount

| Ceiling of Consultancy Amount | Competent Authority |
|--|---|
| National Agencies Up to Rs.50 lakhs | Director of the institute |
| National Agencies beyond Rs.50 lakhs and to Rs.250 lakhs | Director of the Deemed University or Up concerned DDG |
| National/Agencies beyond Rs.250 lakhs | Director General, ICAR |
| Proposal involving foreign agency, multinational companies | Director General, ICAR |

Delegation of Power/Ceiling on benefit sharing payments

The benefit sharing amount can be sanctioned by the various authorities as per the ceiling given below:

| Ceiling of Consultancy Authority | Competent Amount |
|----------------------------------|---------------------------|
| Up to Rs.10 lakhs per annum | Director of the institute |
| More than Rs.10 lakh per annum | ICAR HQs. |
| International Training | Director General, ICAR |

(Para 1.3.19 of Policy Framework Guidelines)

Staff welfare funds

The surplus income out of the benefit sharing will be distributed as follows:

I. Institute = 70%: (a) Institute Income = 65%, (b) Institute Staff Welfare = 5%

II. ICAR = 30%:

(a) ICAR Income from Intellectual assets = 25%

(b) ICAR Staff Welfare Fund=5%



Financial Statements of ICAR

The different financial statements in Annual Accounts of ICAR are

- ❖ Receipts & Payments Accounts (Old Format)
 - Annexure A to G to Receipts & Payments A/c (Old Format)
- ❖ Receipts & Payments Accounts (New Format)
 - Annexure to Receipts & Payments A/c (New Format)
- ❖ Balance Sheet
- ❖ Income & Expenditure Account

Different Schedules of Annual Accounts

- ❖ Total 23 Schedules
- ❖ Balance Sheet - Schedule 1 to Schedule 7
- ❖ Income & Expenditure Account – Schedule 8 to Schedule 21
- ❖ Significant Accounting Policies – Schedule 22
- ❖ Contingent Liabilities & Notes to Accounts – Schedule 23

Balance Sheet – Schedules

Corpus/Capital Fund & Liabilities

- ❖ Capital Fund (Schedule 1)
- ❖ Reserves (Schedule 2)
- ❖ Earmarked /Endowment Funds (Schedule 3 with Annexure)
- ❖ Current Liabilities & Provisions (Schedule 4 with Annexure)

Assets

- ❖ Fixed Assets (Schedule 5 with sub-schedules A-E & X)
- ❖ Investments – Earmarked /Endowment Funds (Schedule 6)
- ❖ Current Assets, Loans & Advances (Schedule 7(a) & 7(b) with Annexure)

Income & Expenditure Account-Schedules

The different Schedules of income account are

- ❖ Income from Sales / Services (Schedule 8)
- ❖ Grants in aid/ Subsidies (Schedule 9 with sub-schedules A & B)
- ❖ Fees/ Subscription (Schedule 10)
- ❖ Income from Investments (Schedule 11)
- ❖ Income from Royalty, Publications (Schedule 12)
- ❖ Interest Earned (Schedule 13)
- ❖ Other Income (Schedule 14)
- ❖ Prior Period Income (Schedule 15)

The different Schedules of Expenditure account are

- ❖ Establishment Expenses (Schedule 16)
- ❖ Research & Operational Expenses (Schedule 17)
- ❖ Administrative Expenses (Schedule 18)
- ❖ Grants and Subsidies (Schedule 19 with Annexure)



- ❄ Miscellaneous Expenses (Schedule 20)
- ❄ Prior Period Expenses (Schedule 21)
- ❄ Depreciation (Schedule 5)

Conversion from Receipt & Payment Account

- ❄ The different Annexure of Receipts & Payments Accounts (Old Format) are:
- ❄ Annexure A >>> Statement of Income => Schedule 8,10,11,12,13,14

- ❄ Annexure B >>> Expenditure Statement => Schedule 5, 9, 16, 17, 18, 19, 20
- ❄ Annexure C >>> Schedule 4, 5, 9 / 9A, 16, 17, 18, 19, 20
- ❄ Annexure E >>> Schedule 19
- ❄ Annexure F >>> Details of Remittance => Schedule 9/ 9A / 9B
- ❄ Annexure G >>> Schedules of Assets & Liabilities (Schedule 3, 4, 5, 7)



Important Points on Accrual Accounting

Outstanding Expenses

- ✳ Added to the expenses concerned in the Trading and Profit and Loss Account.
- ✳ Shown as a liability in the Balance Sheet.

Prepaid Expenses

- ✳ Deducted from the expenses concerned in the Trading and Profit and Loss Account.
- ✳ Shown as an asset in the Balance Sheet.

Accrued Income/Outstanding

- ✳ In the Profit and Loss Account, it is added to the relevant income.
- ✳ In the Balance Sheet, it is shown as an asset.

Income received in Advance / Unearned

- ✳ Deducted from the concerned income in the Profit and Loss Account.
- ✳ Shown as a liability in the Balance Sheet.

Depreciation

- ✳ Expenses are recorded on the debit side of the Profit and Loss Account.
- ✳ It is deducted from the asset in the Balance Sheet.

Interest on Capital

- ✳ It is shown as an expense in the debit side of the Profit and Loss Account.
- ✳ Added to the capital in the Balance Sheet.

Interest on Drawings

- ✳ It's recorded on the credit side of the Profit and Loss Account.

- ✳ It's added to draws before being taken from capital on the Balance Sheet.

Stationery Consumed

- ✳ Actual stationery consumed will appear on the debit side of the Profit and Loss Account.
- ✳ The closing stock of stationery will appear in the Balance Sheet as an asset.
- ✳ Stationery Consumed is calculated as:
Opening stock of stationery+ purchase of Stationery-Closing stock of stationery

Bad Debt

- ✳ Appears in the debit side of the Profit and Loss Account.
- ✳ Deducted from the debtors in the Balance Sheet.

Provision for Bad Debt

- ✳ Debited to the Profit and Loss Account.
- ✳ Deducted from sundry debtors in the Balance Sheet.

Provision for Discount on Debtors

- ✳ Debited to the Profit and Loss Account.
- ✳ Deducted from sundry debtors in the Balance Sheet after deducting further bad debt and new provision created on debtors.

Provision for Discount on Creditors

- ✳ Credited to the Profit and Loss Account.
- ✳ Deducted from the creditors in the Balance Sheet.

Goods withdrawn by the Proprietor for personal use

- ✳ Cost price of the goods withdrawn is deducted from purchase in the Trading Account.
- ✳ Added to the existing drawings and then deducted from capital in the Balance Sheet.

Goods distributed as free sample or charity

- ✳ Cost price of the goods distributed is deducted from purchase in the Trading Account.
- ✳ Added to advertisement account/charity and debited to the Profit and Loss Account.

Payment of Income Tax and Life Insurance Premium of the Proprietor

- ✳ Being drawings deducted from capital in the Balance Sheet.
- ✳ Cash/Bank balance is also reduced in the Balance Sheet.

Goods or materials used for making of fixed assets

- ✳ Increase in the Asset account.
- ✳ Decrease both purchases and wages in the trading account.

Manager's Commission

- ✳ It appears on the debit side of the Profit and Loss Account.
- ✳ Commission outstanding is reflected on the liability side of the Balance Sheet.

Loss of stock by fire, theft etc.

Stock not insured or insured but the claim is not admitted at all

- ✳ Stock losses are recorded on the credit side of Trading Account.
- ✳ It is recorded on the debit side of the Profit and Loss Account.

Stock insured but claim is admitted partially

- ✳ The full of the goods lost is shown on the credit side of the Trading Account.
- ✳ The unrecoverable amount is debited to Profit and Loss Account.
- ✳ The claim admitted is shown in the asset side of the Balance Sheet.

Claim is admitted fully by Insurance Company

- ✳ The amount of claim admitted is credited to Trading Account.
- ✳ Insurance claim is shown in the Balance Sheet as an asset.

Creation of Reserve Fund

- ✳ It appears on the debit side of the Profit and Loss Account.
- ✳ It is reflected on the liability side of the Balance Sheet.

Treating Capital Expenditure as Revenue Expenditure

- ✳ Net profit will be reduced.
- ✳ Asset side of the Balance Sheet will be understated.

Treating a capital receipt as revenue receipt

- ✳ Net profit will be increased.
- ✳ Assets will be overstated.



Audit of Central Autonomous Bodies

Mandate

The functions of the Comptroller and Auditor General of India (C & A G) are primarily derived from Articles 149 to 151 of the Indian Constitution.

The Comptroller and Auditor General shall execute such responsibilities and wield such powers in respect to the accounts of the Union, the States, and any other authority or body as may be required by or under any law adopted by Parliament, according to Article 149 (Sections 14, 15, 19, and 20 of the Act).

Sections 14, 19(2), (3), and 20 of the Comptroller & Auditor General's (Duties, Powers, and Conditions of Service) Act, 1971, contain provisions relating to the audit of Statutory Corporations, Autonomous Bodies, and Authorities.

Formats of Accounts of Autonomous Bodies

Autonomous Bodies under the Government of India are expected to produce their accounts in the Uniform Format of Accounts as given below beginning with the financial year 2001-02.

- * The concept of the accrual method of accounting
- * Depreciation on fixed assets
- * Schedules as part of financial statements
- * True and fair picture of accounts of the organization

Component of Financial Statements

The Component of Financial Statements is stated below:

- * Balance Sheet
- * Income and Expenditure Account
- * Schedules to the above Financial Statements
- * Disclosure of 'Significant Accounting Policies'
- * Disclosure of other information through 'Notes to Accounts'
- * Statement of Receipts and Payments

Accounting Standard

The accounting standards provided by the Institute of Chartered Accountants of India (ICAI) have been included into the common format of accounts (ICAI). Accounting standards are designed to ensure that financial statements are prepared in conformity with Generally Accepted Accounting Principles (GAAP). As a result, the understanding of these accounting standards is required of auditors of autonomous organisations.

Certification of Accounts by C&AG

"The independent inspection and expression of an opinion on the financial statement of an entity" is what certification of accounts entails. The accounts are certified by the C&AG, who serves as the sole auditor

of a body or authority that has been assigned a mandate.

Approval & Authentication of Accounts

The approval of accounts by the governing body / competent authority is required in every case of solo audit under Section 19 (2)/ 19 (3)/ 20 (1) of the Act. It will be examined by field audit offices in accordance with the entity's Act, Rules, and Byelaws. Field offices should not conduct audits until the autonomous body's responsible authority has approved the accounts.

Essential Features of Audit of Financial Statements

The following are the main characteristics of an audit of accounts:

- a) Conduct a critical examination of the bookkeeping, accounting, and internal control methods;
- b) Conduct such tests and inquiries as the auditors deem required to establish an opinion on the records' dependability as a foundation for preparing financial statements.
- c) To check accounts against books of accounts, such as ledgers, journals, and other subsidiary and supporting records, to ensure that the accounts match the books of accounts.
- d) To conduct a critical examination of the Income and Expenditure Account and the Balance Sheet in order to issue a report stating whether, in the opinion of the auditors, the financial statements are presented in accordance with generally

accepted accounting principles, and the items therein are described in such a way as to present a true and fair view of the entity's financial position and results of operations.

Revision of Accounts

When the autonomous body makes changes to the accounts as a result of an audit, this information should be disclosed, either in the audit report or in the accounts themselves via a "note" in the notes to accounts.

Separate Audit Reports

After completing each audit assignment, the auditor is required to report the findings in a written report called a Separate Audit Report (SAR), which must include the audit findings and conclusions in the proper format. Only "comments on accounts" should be included in the Separate Audit Report.

Format of Separate Audit Report

The content of the Separate Audit Reports of Autonomous Bodies must include:

- (i) Introduction;
- (ii) Comments on accounts;
- (iii) Impact of comments on the accounts.

The order of the financial statements in the consistent format of accounts should be followed while arranging comments in SAR as Balance Sheet, Income & Expenditure Account, Receipts & Payments Account, Significant Accounting Policies, Notes to Accounts etc.

Comments must be associated with the relevant account heads displayed in the financial statements or schedules that they influence.

The name of the account head as listed in the financial statements under the main head, sub-head, schedule, etc., along with the amount, must always be provided in the beginning of the comment in draft SAR in order to better comprehend the comments and their impact on the financial statements.

Contents of Separate Audit Reports

Only “comments on accounts” that meet the criteria for materiality and significance should be included in the SAR, which may include the following:

- ✳ Failure to follow the Common Format of Accounts’ on guidelines or accounting standards.
- ✳ Corrections, rectifications, or adjustments made in response to an audit.
- ✳ Situations in which promises of correction are not made even after a few years.
- ✳ Even after the management has taken action to address issues brought to their attention by the auditors, it may still be essential for the auditors to submit specific cases to the Governing body, such as those involving fraud or embezzlement that was committed but was reimbursed by authorities.
- ✳ Lack of financial control & maintenance of financial records.

Incorporation of Comments in Annexure to SAR

The following comments are included in the Annexure to SAR:

- ✳ The effectiveness of the internal audit system.

- ✳ The effectiveness of the internal control system
- ✳ The physical verification of inventory
- ✳ The physical verification of fixed assets
- ✳ The regular payment of statutory dues
- ✳ CPWD payments

Significance of Annexure

The significance of the Annexure to SAR is mentioned below:

1. Adequacy of Internal Audit and Control System

To determine whether the Autonomous Body’s internal audit and control system is sufficient and appropriate for its size.

The system’s shortcomings and weaknesses could be discussed and suggestions made for strengthening or improving the system.

2. System of Physical Verification of Fixed Assets and Inventory

To ensure whether inventories and fixed assets have been physically checked by management at appropriate times. Any significant deficiencies, if discovered, have either been adequately addressed in the books of accounts or not.

3. Regularity in payment of Statutory Dues

Whether the Autonomous Body consistently deposits the uncontested statutory dues, such as PF, ESI, Income Tax, Goods & Service Tax, etc. If not, comments to the extent of the statutory dues that were unpaid as of the end of the financial year after being due for more than six months.

Management Letter

The field offices' suggested that SARs often include comments on the accounts that do not always highlight the impact on accounts, i.e., the comments are not related to the yearly accounts. A "management letter" should be produced in addition to the SAR or audit certificate to address this issue. In these circumstances, the auditor provides a thorough report to management in the form of a "management letter" outlining the procedures, systems, internal control vulnerabilities, etc. The Chief Executive Officer of the autonomous entity must receive the management letter. It could be made sure that the "management letter" is only given out after the autonomous body or ministry receives the final SAR. Although headquarters won't need to approve the "management letter," a copy should still be sent along with the draft SAR.

Submission of Draft SAR to the Council

The reports and accounts as audited must be presented to Headquarters office for prior approval before being given to the Government concerned for placement before Parliament / State Legislature in all situations, with the exception of cases when it is finished by the respective field office.

Provision for Approval of the draft SAR from the Council

Prior to submitting the draft SAR to the Council for approval, it should be given to the relevant Autonomous Body to get their feedback on the many observations it contains. Responses must be considered and, if necessary, incorporated into the SAR that is planned to be published.

Any facts in the SAR that management disputes should have their accuracy double-

checked. If the responses are rejected, the grounds for the rejection should be stated in aide-memoire and a brief rebuttal should be included in the SAR.

The draft SAR should be finalised and the fact that no responses were provided should be noted in the SAR, if no responses are received to the draft SAR within the allotted time. After that, provide the following data/ documents to the headquarters together with the draft or final separate audit report:

- ✳ Two draft SARs and a key connecting the figures.
- ✳ Two copies of the proposed draft audit certificates.
- ✳ One authenticated annual account copy that the audit office will certify.

The following information may also be provided for autonomous bodies with branches or units:

- a) The number of autonomous body units.
- b) The number, name, and location of the units chosen for audit.
- c) The names of the units whose remarks were included in the SAR.
- d) A concise observation on the assessment of the autonomous body's internal control system.
- e) Any management letter.
- f) Management letter, if any.

Following receipt of an authorised SAR from the headquarters, a copy should be provided to the relevant ministry and the head of the autonomous body. The notification that the SAR will be sent to the relevant ministry and autonomous body, as well as the responses to the observations made by the head office in annotated form, must also be provided to the head office.

Challenge in Audit of Autonomous Bodies

The difficulties faced by autonomous bodies are given below:

- ✳ Delay in the Governing Body's acceptance and verification of the accounts
- ✳ Delay in completion of the accounts, or
- ✳ Delay in the presentation of the SAR to both Houses of Parliament could have an impact on the grant.
- ✳ Delay in the management's submission of responses to the draft SAR and Utilisation Certifications.
- ✳ In order to prevent the delay from being attributed to audit, the head of the department in question should directly raise the issue of the delay to the attention of the autonomous body's chief executive in a demi-official capacity.
- ✳ Many autonomous bodies fail to submit their accounts for many years: This could be interpreted as a lack of oversight and a lack of a financial reporting system for these autonomous bodies. As a result, when the Autonomous Bodies fail to submit their accounts, they not only violate the Act's stipulations but also run the risk of committing fraud or mismanagement.
- ✳ Delay in presentation before both the House of the Parliament: The Comptroller and Auditor General of India must deliver the audited accounts of Central Autonomous Bodies to Parliament within nine months, or by December of the next fiscal year. It was discovered that many audited accounts had not been delivered to Parliament in a timely manner.

- ✳ Delay in submission of Utilisation Certifications: According to the General Financial Rules, the entities or organisations in question must provide certifications so as to use for grants given to Autonomous Bodies within 12 months of the financial year's end.

Timelines for Audit

The following time schedule should be followed for conducting the audit and finalization and issue of SAR

1. The autonomous body must provide the relevant audit office with approved and authenticated annual accounts before the audit of the annual accounts: 30th June
2. Issuance of draft SAR to the Chief Executive of the autonomous body: 31st August
3. Receipt of reply to draft SAR from the management (two weeks from the date of issue of draft SAR): 14th September
4. Submitting draft SAR to the headquarters for approval, with or without including responses from the autonomous bodies: 21st September
5. Sending approved SAR by Headquarters to the Field office (two weeks from the date of receipt of draft SAR at Headquarters): 21st October
6. Release of the final SAR in English with an audit certificate to the relevant autonomous entity or government: 31st October
7. Release of the Hindi version of final SAR, where this is done by AG/Pr. Director of Audit themselves with a copy of the final SAR to the Headquarters: 15th November.



Accounting through TSA/PFMS in ICAR

Consolidating and controlling government financial resources via Treasury Single Account (TSA) is crucial for minimizing borrowing costs. It requires that transactions under all the sub-accounts are aggregated in a centralized single account, which is normally held with the central bank of the country. The centralized account normally held in domestic currency and foreign currency is obtained from the central bank, whenever needed.

The TSA was established specifically to bring about a unified federal financial system. Its purpose is to give the Ministry of Finance and Treasury full control over all cash resources, including real-time oversight of government cash movements into and out of these bank accounts by using through Just in Time (JIT) principle, if electronic banking is in place.

TSA system is a system in which money of member Autonomous Body (AB) is available with Reserve Bank of India (RBI), which on the advice from AB/Sub Autonomous Body (SAB) pay directly in the vendor or client account. Hence, in this system, money is not transferred to commercial accounts of different ABs/SABs. However, this does not cease the operation of commercial bank account.

TSA significantly reduces the government debt servicing cost, lowers liquidity reserve needs, and helps maximize the return on investment of surplus cash. Initially, it was implemented in IIT Delhi and ICMR. Subsequently, it was decided by the

government to implement in 18 Autonomous Bodies (ABs). Few more autonomous bodies have been covered.

Effective date of implementation of TSA in ICAR was 1st August 2020.

Objectives of TSA

- ✳ Use of JIT to increase efficiency of fund flow to AB
- ✳ To avoid parking fund with AB
- ✳ To decrease interest burden by decreasing borrowing

Players in TSA

L1: Program Division (PD), Drawing and Disbursement Officer (DDO), Pay and Accounts Officer (PAO)

L2: Autonomous Body (AB), Sub Autonomous Body (SAB)

L3: RBI, Public Financial Management System (PFMS)

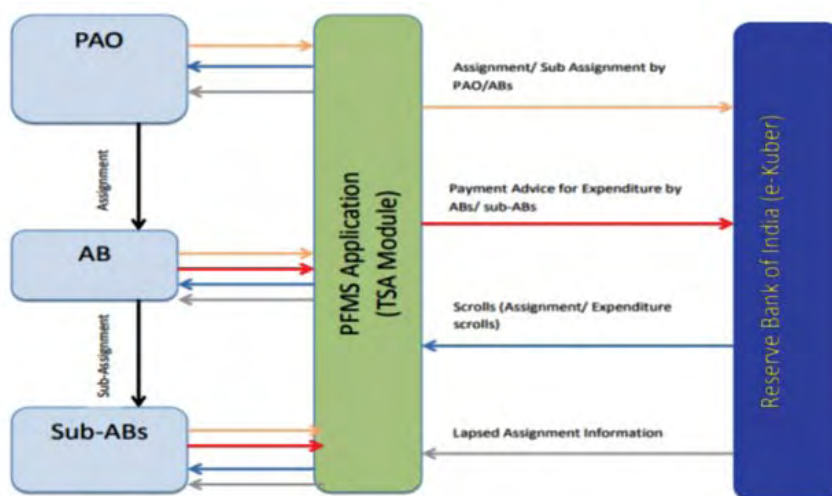
Specific Terminology and Concepts

- ✳ Assignment Advice
- ✳ Assignment account (different from commercial AC)
- ✳ Payment advice
- ✳ Autonomous and sub autonomous bodies
- ✳ PFMS is interface between RBI and other players
- ✳ Acknowledged and negative acknowledged
- ✳ Scroll
- ✳ Lapsed assignment information

TSA Mechanism

- ✧ Submitting an account opening form with a specimen signature that has been properly signed by the Head of AB or Sub-AB in the manner required, together with KYC.
- ✧ The Nodal Officer of AB must authenticate all documents before submitting them to the Pay & Accounts Officer (PAO).
- ✧ Verification/certification of the documents to be sent to the RBI through PAO.
- ✧ The documents will be signed and stamped by the PAO before being sent to the RBI for account opening.
- ✧ Mapping of the Account opened with the RBI in the Public Financial Management System (PFMS) at Council.
- ✧ Final validation through the PAO.
- ✧ The enrollment of digital signatures by authorised signatories of autonomous entities/sub-autonomous bodies in PFMS, if not already done.

Process of TSA



PDs of the concerned Ministries/ Departments (Parent Ministry)

- ✧ Creates ABs agency in PFMS
- ✧ Process and issue Sanction through PFMS

DDO of the concerned Ministry/ Department

- ✧ Generate bill in PFMS
- ✧ Submit bill to PAO through PFMS

PAO of the concerned Ministry/ Department

- ✧ Configure the ABs and Sub-ABs bank account in PFMS; issue 'Assignment Advice' in PFMS
- ✧ Reconcile scroll, make accounting adjustments

Autonomous Bodies

- ✧ Open bank account in RBI & enroll with PFMS
- ✧ Issue and Validate Payment Advice
- ✧ Issue sub-Assignment Advice
- ✧ Reconciling Scroll from RBI

Sub Autonomous Bodies (SABs)

- ❖ Open bank account in RBI & enroll with PFMS
- ❖ Issue and Validate Payment Advice
- ❖ Reconciling Scroll from RBI

No payment through Cheque. Fund transfer to commercial account of ABs is allowed for personal purpose only.

Reserve Bank of India (RBI)

- ❖ Open Assignment Account and maintain individual ledger for each AB/SAB.
- ❖ Put necessary validation in the system for not honouring any Payment Advice.
- ❖ Issue scrolls to PFMS, ABs and SABs regularly.
- ❖ To lapse all the unutilized balance by year end.
- ❖ Inform failure, success and failure after success.

PFMS

- ❖ Issue assignment advice
- ❖ Provide digital signing platform
- ❖ Generate 'Assignment Advice Number'
- ❖ Category-wise assignment/expenditure, viz. GIA general

Prerequisite for AB/SAB

- ❖ Open Account with RBI
- ❖ Attach account in PFMS with PD / AB
- ❖ Approval from PD / AB
- ❖ Enroll digital signature in PFMS

Opening account with RBI

- ❖ Head of AB submits form with respect to self and to AB to the Nodal officer in PD/ AB
- ❖ Nodal Officer Verify of form
- ❖ Nodal Officer attest and submit form to PAO of PD / AB
- ❖ PAO Sign and stamp document
- ❖ PAO send this to RBI

Issuing assignment by PAO to ABs

- ❖ PD generate assignment advice
- ❖ DDO generate Bill
- ❖ PAO pass and digitally sign bills
- ❖ Payment file is sent to RBI which issues ACK / NACK
- ❖ ACK–fund is available for expenditure at AB level
- ❖ NACK–permanent cancellation of assignment advice

Initial steps at AB/SAB

- ❖ Linking TSA with scheme
- ❖ Approval by PD /AB
- ❖ Activating this PFMS account digital payment
- ❖ Creating operator and approver (By PFMS Admin)
- ❖ DSC enrolment (by PFMS Admin)
- ❖ Assigning hierarchy levels for DSC

Configuring TSA account with Agency in PFMS

- ✳ By Agency Admin: -Registration of the (Linking) scheme with TSA account
- ✳ My scheme –manage: -The new scheme and account is reflected in PFMS
- ✳ By PD: - Approval of newly added scheme

Configuring TSA account with Agency in PFMS –Screen Guidance

- ✳ My scheme -Manage
- ✳ Register new scheme
- ✳ Select concerned scheme
- ✳ Fill Bank detail
- ✳ Select bulk
- ✳ Complete component mapping
- ✳ Press save and select TSA as yes
- ✳ Select concerned PAO and click submit
- ✳ PD / AB will approve RBI Account

Registering DSC in PFMS-Screen Guidance prerequisite–internet explorer and JAVA

- ✳ Data approver opens Master in PFMS
- ✳ DSC Management –enroll DSC
- ✳ Insert DSC in USB –Digital Certificate Enrolment
- ✳ Click ok on pop up screen
- ✳ Another pop up screen –press continue
- ✳ Another pop up screen –press Run
- ✳ Another pop up screen –press Don't Block
- ✳ Another pop up screen –press Run
- ✳ Input PIN and click ok -message 'Enrolled will appear'
- ✳ Press 'view certificate and proceed for enrolment
- ✳ New window –select Scheme and Purpose
- ✳ Click 'Enroll'

Steps to Approve DSC in PFMS for Data Admin

Master → Approve DSC → Approve



| | User Name | Enrolled Date | Owner Name | Owner Organization | Owner Organization Unit | Issuer Organization | Valid From | Valid Upto | Registration From | Registration Upto | Status |
|-------------------------------------|-----------|------------------------|--|--------------------|-------------------------|---------------------|------------|------------|-------------------|-------------------|---------|
| <input checked="" type="checkbox"/> | shant | 04/05/2016 11:04:05 | (N23DC0E- 5178-4038- X0C)- 690C8P931A7) | | | | 17/12/2015 | 16/12/2016 | 17/12/2015 | 16/12/2016 | Created |

Approve Reject Reason For Rejection: --Select--

Steps to Create DSC Approver Hierarchy (Bank → Signatory Configuration) (Set Min & Max Amt, No. of Levels-2) (Select Signatory Level, Designation, Select Approver, Select Period of Activation)

SIGNATORY CONFIGURATION

Note: Only those Accounts will appear on this page which are activated for E-Payment Digital Mode.

Scheme : 1536 - Indian Council of Medical Research, New Delhi

Agency Account Choices : ☒ Self ☐ Parent Agency

Account Number : 026720101095 - CANARA BANK

| | Minimum Amount(Per Batch) | Maximum Amount(Per Batch) | No. Of Level |
|---|---------------------------|---------------------------|--------------|
| 1 | | 1000000 | 1 |
| 2 | 1000001 | 1000000000000000 | 2 |

| Signatory Level | Designation | User | From Date | To Date | Status |
|-----------------|-------------|-----------------|------------|------------|----------|
| 2 | AO | Ram Lal(AOICMR) | 05/08/2020 | 31/03/2021 | Activate |

Add

Introduction to TSA

Revised PFMS Module with TAS

- ✳ Assignment: Expenditure using TSA
- ✳ Transfer Assignment
- ✳ Advance

Steps to prepare Bill Movement Hierarchy

- ✳ Data Operator (Bill preparation) => Data Approver (Bill passing) => DSC Signatory

Process flow of Expenditure at AB/Sub AB level

- ✳ Expenditure Module is used for capturing of all expenses incurred directly by the implementing agency.
- ✳ Creation of Vendor/ Beneficiary, if not already done. (clicking on Masters > Vendors > Add New link.)
- ✳ While expenditure Booking, the Data Operator will be entering expenditure voucher details as per details given below:
- ✳ Go to Expenditure>Add TSA New Expenditure Entry.

Expenditure → TSA New Expenditure Entry

- Home
- Scholarship Management
- My Account
- Users
- E-Payment
- Health Module
- Sanctions
- Reports
- My Details
- Master
- My Schemes
- Agencies
- LAI RGS Process
- My Funds
- Transfers
- Advances
- Expenditures
- Bank
- Misc. Deduction Filing
- Utilisation Certificate
- Accounting System Integration

Name
Rajiv Mishra

Expenditures

Bank

Misc. Deduction Filing

Utilisation Certificate

Accounting System Integration

Add New

Manage

TSA New Expenditure Entry

Manage Bulk

Transfer Previous Expenditure

The instrument type may be selected as E-Payment Digital Signature:

Select Instrument Type

- Users
- E-Payment
- Health Module
- Sanctions
- Reports
- My Details
- Master
- My Schemes
- Agencies
- LAI RGS Process
- My Funds
- Transfers
- Advances
- Expenditures
- Bank
- Misc. Deduction Filing
- Utilisation Certificate
- Accounting System Integration

Status: None

Amount: 8787144.00

Created By: rajiv

Modified By:

Purpose for Expenditure: RECURRING GRANT

Bank name: RESERVE BANK OF INDIA

Remarks:

Created On: 01/01/2019

Modified On:

Uploaded Sanction Letter:

Scheme Component Details:

| Component Name | Amount | Tax Amount for Global Component | Balance Amount |
|-----------------|------------|---------------------------------|----------------|
| [1] ODA General | 8787144.00 | N/A | 8787144.00 |

Linked Sanctions:

| Sanction Number | Received Amount | Transaction Amount |
|--------------------|-----------------|--------------------|
| R.15012/06/2018-WR | 8787144.00 | 8787144.00 |

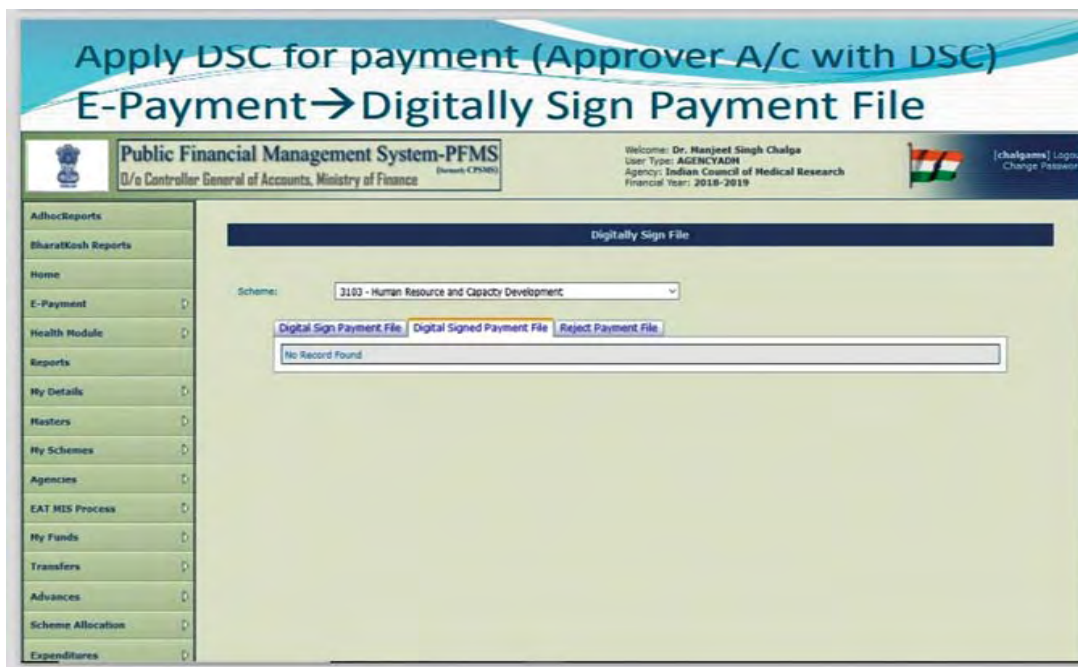
Instrument Type

Instrument Type: E-PaymentUsingDigitalSignature
-Select-
E-PaymentUsingDigitalSignature

Add

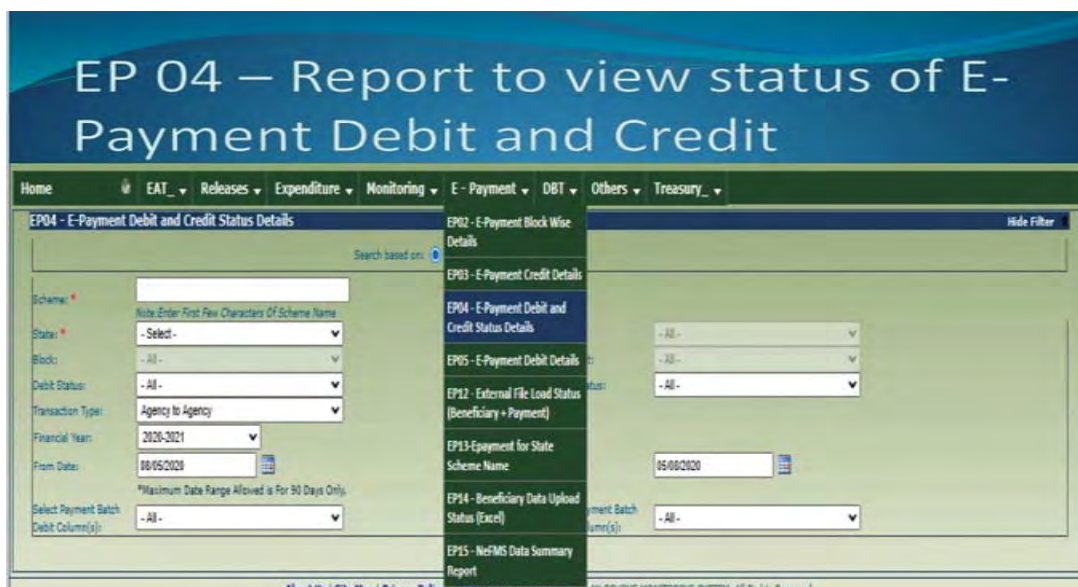
Confirm

Back



Reports available to ABs (developed/ under development)

- ✳ EP 04 E-Payment Debit and Credit status details.
- ✳ TSA01 Summary of balances, expenditure/ transfer.
- ✳ TSA02, Expenditure/transfer details.
- ✳ TSA03, Failed Credit Report.
- ✳ TSA04, TSA Transfer report.
- ✳ TSA05, TSA institute wise summarized report.





Issuing sub assignment by AB to SAB

- ✳ Agency DDO will login in PFMS
- ✳ Transfer –assignment limit to TSA
- ✳ Select scheme, bank account, and sanction
- ✳ Transfer Voucher Number is generated
- ✳ Enter payee detail and submit for approval
- ✳ Approver will approve and digitally sign the transfer

Expectations (Using Existing Bank Account)

- ✳ TDS
- ✳ Income Tax
- ✳ Opening of Letter of Credit (Foreign Suppliers)
- ✳ Scholarship to Foreign Students
- ✳ Court Attachment
- ✳ Permanent Imprest

Treatment for deduction amount

All of the withdrawals from a salary account that are to be remitted to an external organisation, such as income tax, GPF, GSLIS etc., such a sum may be moved to an ordinary bank account and then forwarded to the relevant authority.

Limitations/Issues related to TSA

- ✳ TSA does not have any provision for transfer.
- ✳ There is no provision for return of fund at the level of Sub-ABs.
- ✳ There is no provision for advances as well as settlement in TSA.

- ✳ There is no provision for transfer of funds at the level of Sub-ABs.
- ✳ There is no provision for payment of statutory dues such as TDS/GST etc.
- ✳ Sanction not displayed while approving the Bills Generated in TSA causing constraints in tracing of the bills linked to correct sanction.
- ✳ Sometimes digital Signature takes lot of time in TSA due to which the urgent and time bound payment becomes difficult.

Futuristic view of TSA

- ✳ It will get applied in all autonomous bodies.
- ✳ It will get implemented in all Ministries and Departments.
- ✳ It will get implemented in all state governments and other organizations of the Government also.

Areas of concern for TSA

- ✳ Technical glitches and incidences of TSA remaining non-functional occasionally and at crucial times.
- ✳ Inadequate response or delayed response and sometime no response from RBI, TSA/PFMS.
- ✳ Issues raised are not addressed despite reminders.
- ✳ Maintaining both TSA and Non-TSA accounts.
- ✳ TSA is on cash basis only and it does not support our accounting system. In other words, it is non-compliant to the system of accrual accounting.



Different Types of Advances

Personal Advances

Interest Bearing

- * Computer Advance
- * House Building Advance
- * Vehicle Advance (Motor Car or Two Wheeler)

Non-Interest Bearing

- * Festival Advance
- * Advance of Pay on Transfer

Departmental Advances

- * Advances to CPWD and Other Government Agencies like DAVP/BOP etc.
- * Advances to Suppliers/Contractors
- * Contingent Advances to Employees
- * Permanent Advance (Imprest)

Other Advances

- * TA
- * LTC
- * Medical

Interest Bearing Advances

Computer Advance

Eligibility

- * All government employees are eligible for grant of Personal Computer Advance of Rs. 50,000 or actual price of the Personal Computer, whichever is lower.

- * A second or subsequent advance can be granted after the expiry of three years from the date of drawal of earlier advance.
- * Maximum of five times throughout the entire service

Repayment

- * In not more than 150 monthly installments.
- * Total recoveries on account of all advances including computer advance shall not exceed 50% of total emoluments.

House Building Advance

Eligibility

- * Permanent employees
- * All other employees also who have 5 years of continuous service.

Maximum Amount

- * 34 months' basic pay subject to least of Maximum of Rs.25 lakhs (Rs.10 lakhs in case of expansion of existing house) or Cost of the house/Cost of expansion or Amount according to repaying capacity.

Other Crucial Aspects

- * Can be used to pay off a bank loan that was obtained to finance the construction of a home or the purchase of a new apartment.
- * Only one advance in entire service.
- * The cost of the house built or purchased shouldn't be more than 139 times of the basic pay (excluding the cost of the plot) subject to maximum of Rs.1 crore.



- * Cost ceiling limits will be ascertained including of GPF advance if taken for house building.
- * No enhancement of HBA in case of subsequent revision of Death-cum-Retirement Gratuity (DCRG).
- * The advance carries simple interest from the date of payment of installment.
- * Within one month of the day the HBA was released, the government employee must present the HBA utilization certificate.

Repayment

- * First, the principle will be repaid over the course of the first fifteen years in 180 monthly installments, followed by the interest over the next five years in 60 monthly installments.
- * The official may elect to repay in a shorter period than that agreed to.
- * Repayment capacity will be computed as below:

| | Length of remaining service | Repaying capacity |
|---|---|---|
| A | If an employee retires from service after 20 years. | 40% of Basic Pay |
| B | When an employee retires after 10 years, but before 20 years. | Up to 40% of basic pay. 65% of DCRG may also be adjusted |
| C | If a person leaves their job within 10 years | Up to 50% basic pay. DCRG up to 75% can be adjusted |

Other Interest Bearing Advances

| Kind of Advance | Eligible Amount | Recovery |
|---|--|--|
| Advance for purchase of Car | The lowest among the following amounts are offered: Rs.1,80,000 on the first occasion and 1,60,000 after that Basic pay corresponding to 8 months Anticipated price of the vehicle | Recoverable in maximum of 200 monthly installments |
| Advance for Scooter, Motorcycle, or Moped | The lowest among the following amounts are offered: Rs. 30,000 on the first occasion and 24,000 after that Basic pay corresponding to 4 months Anticipated price of the scooter, motorcycle, or moped | Recoverable in maximum of 70 monthly installments |

Non-Interest Bearing Advances

Festival Advance

The festival interest-free loan is intended to meet the unexpected expenses incurred during the festivities. However, seventh pay commission suggested abolishing the advance. As a one-time measure, the special festival advance scheme was resurrected. Employees can now receive an advance of Rs. 10,000 interest-free, repayable in a maximum of 10 instalments. It can be given through “RuPay card” only.

Advance of Pay

Eligibility

- * All employees who have been transferred in public interest from one headquarter to another.
- * No advance of pay is payable in case of temporary transfer.

Under this clause, a government employee may not receive an advance of more than:

- a) One month's pay that he is currently receiving or one month's pay to which he will be entitled after transfer, whichever is less;
- b) Two months' pay in the case of a government employee in an office whose headquarters are relocated due to government policy; and
- c) The amount of an advance of pay granted to a government employee must be repaid in no more than three equal monthly installments.

7th CPC Advance: Government Servants who die while in Service

The amount of advance to the families of Government Servants who die while in Service may be granted under Rule 79 shall not exceed Rs. 25,000, which can be adjusted from Death Gratuity. The earlier limit was Rs. 8,000.

List of Abolished Advances after 7th Pay Commission

Government of India decision on 7th CPC recommendations on Advances to Central Government employees: -

- * Bicycle Advance
- * Warm Clothing Advance
- * Advance of Pay on Transfer
- * Festival Advance
- * Natural Calamity Advance
- * Advance of Leave Salary
- * Advance for Law Suits

Departmental Advances

Advance to CPWD

- * ICAR is a pre-deposit party with regard to works being executed through CPWD.
- * Works can be broadly categorized under two heads:
 - Original Works
 - Annual Repair & Maintenance /Special Repair & Maintenance

Original Works

- * An advance of 33.33% will be released to CPWD.



- ✳ Subsequently, the monthly Statement of Expenditure received from CPWD needs to be reimbursed, till remaining 66.67% payment is reimbursed.
- ✳ The advance of 33.33% shall be adjusted against the full & final Statement of expenditure from CPWD and after handing over taking over of the Work.

ARMO/ Special Repair & Maintenance

- ✳ 100% advance can be released to CPWD, as per their demand.
- ✳ CPWD authorities may be closely pursued to furnish the adjustment account of advances given to them.
- ✳ The unspent balance of one Work may not be adjusted against the payment of other Work. It may be ensured that CPWD refunds the unspent balance at the earliest.

Advance payment to Bureau of Outreach Communication (BOC) erstwhile DAVP

- ✳ Advances to BOC is released for publishing the Advertisements in Newspapers.
- ✳ 100% advance can be released as per rules of BOC.
- ✳ The advance may be settled immediately after publication of Advertisement.

Advance payment to other Govt. Departments and Private Suppliers

- ✳ Payments for supplies or services should often only be released when the items or services have been provided. However, the

following situations might necessitate making an advance payment:

- i. Advance payments are required by companies with maintenance agreements for the servicing of air conditioners, computers, and other expensive equipment, etc.
- ii. Advance payments are required by businesses for fabrication contracts, turn-key contracts, and other agreements & so on.
 - a) Such advance payments should not exceed 30% of the contract value to private firms and 40% of the contract value to a state or central Government agency or PSU.
 - b) The amount shall not be greater than the amount payable for the six months of the maintenance contract;
 - c) In extreme circumstances, and with the previous approval of the integrated finance, the Administrative Department may relax the aforementioned ceilings.

Advance payment to other Govt. Departments and Private Suppliers

- ✳ Any advance payments made as described above should be accompanied by appropriate insurance, such as a bank guarantee, from the company.
- ✳ Furthermore, such advance payments should often incur interest, with appropriate percentages to be set on a case-by-case basis.
- ✳ The requirement of insurance should always be included in the terms and

conditions in any situation where advance payment or payment against dispatch documents is to be made.

- ✳ Such advance payments shall be adjusted immediately on receipt of goods/services.

Contingent Advances to Employees

- ✳ Advance granted under order of the Competent Authority to Council Officers for the purpose of procurement of goods or services or any other special purpose which are urgently required and not available in store and for low value purchase/service.
- ✳ Since each Institute has a store and an administrative system, contingent advances are by their very nature unusual and should only be used in the most extreme situations.
- ✳ For prompt recovery or adjustment of the advance, the head of office is accountable.
- ✳ The officer with the equivalent of gazetted status shall receive the advance.
- ✳ An officer whose account for the previous advance is still pending should not receive an advance.
- ✳ If it becomes absolutely necessary to give an officer a second advance due to urgent requirements, the same should be approved with the explicit prior consent of the Director of the Institute.
- ✳ If the account for the advance is not submitted within 15 days of the drawal date, the advance or remaining amount will be deducted from the officer's subsequent salary.

Permanent Advance or Cash Imprest

- ✳ Permanent Advance sanctioned by the Competent Authority to meet urgent and unforeseen expenditure.
- ✳ Amount of imprest be kept as low as possible and it is varied from time to time. The amount of the imprest is kept as low as feasible and is occasionally changed.
- ✳ F&AO of the Institute should review the imprest account.
- ✳ Cash imprest will continue to be included in the Cash Book's balance and won't be assigned to any head of accounts.
- ✳ At the end of financial year, the imprest holder should submit a certificate regarding balance available under imprest.

Other Advances

Travelling Allowance

TA/DA entitlement as per CCS (Revised Pay) Rules 2016 (Basic Pay in the Pay Level in the Pay Matrix and NPA not to be included) Daily Allowance–DA on Tour (SR 51)

Reimbursement of Hotel Charges: As per ceiling (amount of claim without production of vouchers (self-certified claim) for Pay levels 8 and below. For stay in class 'X' cities for all employees – ceiling is Rs.1000 per day but in the form of reimbursement on production of vouchers)

Reimbursement of Travelling charges: As per ceiling

Reimbursement of Food Charges: No separate reimbursement – Lump sum amount payable (As per ceiling)



| Pay Level in Pay Matrix | Entitlement |
|-------------------------|--|
| 14 and above | Reimbursement for hotel accommodation/guest house of up to Rs.7500 per day. Reimbursement of AC taxi charges as per actual expenditure related to official engagements for travel within the city. Reimbursement of food bills not exceeding Rs.1200 per day |
| 12 and 13 | Reimbursement for hotel accommodation/guest house of up to Rs.4500 per day. Reimbursement of AC taxi charges of up to 50 km per day for travel within the city. Reimbursement of food bills not exceeding Rs.1000 per day |
| 9 to 11 | Reimbursement for hotel accommodation/guest house of up to Rs.2250 per day. Reimbursement of non-AC taxi charges of up to Rs.338 per day for travel within the city. Reimbursement of food bills not exceeding of Rs.900 per day |
| 6 to 8 | Reimbursement for hotel accommodation / guest house of up to Rs.750 per day. Reimbursement of non-AC taxi charges of up to Rs.225 per day for travel within the city. Reimbursement of food bills not exceeding Rs.800 per day |
| 5 and below | Reimbursement for hotel accommodation / guest house of up to Rs. 450 per day. Reimbursement of non-AC taxi charges of upto Rs.113 per day for travel within the city. Reimbursement of food bills not exceeding Rs.500 per day. |

Changes in HRA/TA/DA and other allowances due to increase of 25% in dearness allowance

| | Length of Absence | Amount Payable |
|---|--|----------------------------|
| A | If absence from headquarters is <6 hours | A. 30% of Lump sum amount |
| B | If absence from headquarters is between 6-12 hours | B. 70% of Lump sum amount |
| C | If absence from headquarters is > 12 hours | C. 100% of Lump sum amount |

TA on Tour (SR 46)

- ❖ Fare for journeys by rail/road/air/sea
- ❖ Road mileage for road journey
- ❖ D.A. for absence from Headquarters

Travel Entitlements

| Pay Level in Pay Matrix | Travel Entitlement |
|-------------------------|---|
| 14 and above | Business/club class by air or AC-I by train |
| 12 and 13-A | Economy class by air or AC-I by train |
| 6 to 11 | Economy class by air or AC-II by train |
| 5 and below | First class/AC-III/AC chair car by train |
| Pay Level in Pay Matrix | Travel Entitlement in Premium/ Premium Tatkal/ Suvidha/Shatabdi/ Rajdhani/ Duronto/ Trains |
| 12 and above | Executive/AC 1st class (In case of Premium/ Premium Tatkal/Suvidha/Shatabdi/Rajdhani/Trains) as per available highest class |
| 6 to 11 | AC 2nd Class/Chair Car (in Shatabdi Trains) |
| 5 and below | AC 3rd Class/Chair Car |

- * Entitlement for journey by Sea or by River Steamer (SR 40)
- * Mileage Allowance for Journeys by Road (SR 46)
- * Journeys by Air (SR 48 B)
- * Air Travel by Air India Only
- * Relaxation because of operational or other reasons or on account of non-availability of Air India – As per Delegation of powers
- * Purchased of Air Ticket from Authorised Agent
- * Submission of boarding pass along with the TA claim
- * T.A. for Local Journeys (SR 71)
- * Journey on duty beyond 8 km from the duty point at Headquarters.
- * Option to claim reimbursement of conveyance hire or Mileage allowance + 50% admissible DA

Time Limit for submission of claims for Travelling Allowances

| Claim | Time Limit for Submission |
|-----------------------------------|---------------------------|
| T.A./DA on Tour/Training/Transfer | 60 days |
| T.A. on Retirement | 180 days |

T.A. when deputed for training (SR 164)

| | |
|--|--|
| When boarding & Lodging not provided – First 180 days Beyond 180 days | Full D.A.Nil |
| When boarding & lodging provided – First 30 days Next 150 days Beyond 180 days | Full D.A. 50% of D.A. Nil |
| If training exceeds 180 days | Option to draw either the Tour T.A. plus DA or TA as on Transfer |
| Training at the Headquarters | No T.A./DA is admissible |



T.A. on Temporary Transfer (SR 114)

- ✳ Treated as on tour -T.A./D. A is admissible for first 180 days and Joining Time is not admissible T.A. on Transfer (SR 116)
- ✳ Admissible only if transfer is in public interest
- ✳ Composite Transfer Grant
- ✳ Travelling Allowance as per entitlement
- ✳ Road mileage for travel by road between locations not serviced by train
- ✳ Cost of transportation of personal effects from residence to residence
- ✳ Cost of transportation of conveyance

Transfer at the same station

- ✳ No TA if no change of residence
- ✳ If change of residence - Actual cost of conveyance limited to the road mileage
- ✳ Actual cost of transportation of personal effects as per prescribed limits
- ✳ One third of 80% of basic pay as Composite Transfer Grant

Transfer Between two stations at short distance of not more than 20 km

- ✳ No TA, if there isn't a change of address.
- ✳ Full Transfer T.A. in the event of change of residence.
- ✳ One third of 80% of basic pay as Composite Transfer Grant

Travel by road between places not connected by rail

- ✳ Mileage allowance is admissible if journey is performed otherwise than by public bus.

Travel by road between places connected by rail

- ✳ Road mileage is limited by the entitled class to rail mileage.

T.A. on Retirement

- ✳ Retired personnel establish themselves in a station other than their last place of employment
- ✳ Admissibility/entitlement same as on transfer

Advance of T.A. on Tour

- ✳ Sufficient amount to cover the travelling expenses
- ✳ Adjustment within fifteen days of completion of the tour

Leave Travel Concession

LTC Eligibility

- ✳ One Year of continuous service

LTC to Home Town

- ✳ Admissible for declared Home Town – change of HT once during entire service
- ✳ Permitted just once per two calendar years

LTC to Any place in India

- ✳ Acceptable in place of one of the two Home Town concessions in a four-year period
- ✳ Carry forward of Block years of LTC (Grace Period)
- ✳ The first year in the following block of two or four years can be used to obtain a particular block of two or four years.

The first year in the following block of two or four years can be used to obtain a particular block of two or four years.

LTC Entitlement

- * Journey by Air/rail/steamer – As per Tour/Transfer except by air LTC from Pay Level 9 and above
- * Journey by Road – As per journey on transfer –Journey performed in a vehicle operated by the government/corporation in the public sector
- * Journey performed between places not connect by any public transport – Reimbursement of 100 km covered by a private /personal transport based on a self-certification

Journey by Air

- * Travel by Air India only (Except in permissible Sectors)
- * Booking of tickets from authorized source/agents.
- * Govt. servant not entitled to travel by air may travel by any airlines in specified sectors subject to restriction of rail fare of entitled class.

Special scheme -Relaxation to visit NER, A&N and J&K

- * Against the conversion of one Home Town LTC
- * Not admissible in case Home Town and Headquarters/place of posting is the same
- * Government Servant entitled to travel by air may travel from any airlines subject to maximum fare limit of LTC -80

LTC Advance

- * Up to 90% of the fare of entitled class for both onward and outward journey
- * Time Limit for drawal of LTC advance
- * Journey by train -125 days

- * Journey by air/sea/road -65 days
- * Railway ticket numbers, PNR No to be produced within 10 days of drawal of the advance
- * Government employees and their family members can draw the advance separately.

Adjustment of LTC Advances

- * LTC Claim (if advance drawn) to be submitted within one month from the date of completion of return journey.
- * When no LTC advance is drawn, the claim must be presented within 60 days on the date the return trip was completed, or the claim would be forfeited.
- * Outstanding LTC advance may be recovered in one lump sum along with the penal interest if LTC not availed.
- * Unutilized portion of LTC advance to be recovered along with the interest from the date of drawal of advance.

LTC Reimbursement

- * Fares for journeys between duty station and declared place of visit reimbursable.
- * No daily allowance and any incidental expenses and expenditure on local journeys not reimbursable.

Misuse of LTC

- * If found guilty - Disciplinary action
- * Withholding of disputed claim
- * Further LTC not allowed
- * Next two sets – one to Home Town and one to any place in India – Forfeited

Encashment of Earned Leave for LTC

- * Limited to maximum 10 days of EL on each occasion and total 60 days in the entire career.



- * Admissible to both Home town and anywhere in India.
- * The credit balance must be at least 30 days after the leave for encashment has been subtracted.

Medical Advances

- * Admissible to all employees irrespective of pay limit.
- * For Indoor Treatment
90% Medical Advance of the approved package rates for indoor treatments, on receipt of a certificate from the treating Physician of government/recognized hospital.

- * For Outdoor Treatment

Advance is limited to 90% of the total estimated expenditure, if total estimate of expenditure including tests/investigation is more than Rs.10000/-.

Advance to be released within 10 days of receipt of the request for advance.

80 percent of the anticipated cost or Rs.36,000, whichever is less, can be released for TB treatments lasting more than three months.

Adjustment of Advance

- * The employee must submit the adjustment invoices for final settlement within one month of the date of discharge from hospital when the advance is paid directly to the hospital. If there is any unused balance, the head of office will communicate directly with the hospital to refund the unutilized amount.

- * Advance can be applied by wife/other legal heir if government servant is too ill to apply.

TA for Medical Attendance and Treatment

- * Travel by air, sea, rail, and road.
- * The patient either a government employee or a member of his family is entitled to T.A. plus D.A. for the duration of the trip, as well as the attendant, if advised. D.A. cannot be admitted for a halt.
- * More than 8 kilometres each way is covered within the same city.
- * Actual transportation costs are only reimbursed as a mileage allowance at tour rates for government employees and at half the tour rates for family members.

Ambulance Charges

- * Ambulance should be used within the same city and belong to government or local fund or a social service organization
- * When a patient needs to travel between hospitals for a specific medical examination or to a centre of treatment, an ambulance is used.
- * A statement from the treating physician stating that moving the patient by any other method would undoubtedly put their life in danger

TA to Attendant /Escort

If it is determined that it is risky for the patient to travel alone and that an attendant or escort is required to accompany to the location of treatment, T.A. for family member for travel both ways is payable.



Goods & Service Tax- A Destination Based Consumption Tax

- ❖ GST is a consumption tax with a destination component, thus income will flow to the state where the goods or services are actually used.
- ❖ Thus, it is very much important to track the trail of goods and services, i.e. where they are produced and where they are consumed.
- ❖ In case of transaction by a registered person, tracking of goods and services is possible.
- ❖ However, in case of unregistered person, this tracking is not possible.
- ❖ To ensure, this tracking, GST requires that If the supply has a value larger than Rs. 50,000 and the recipient is not registered, the invoice should include the recipient's name and address, the delivery address, the state name, and the state code.
- ❖ The purpose is to transfer proper share of revenue to the relevant state.

Sharing of revenue in GST

- ❖ Under GST, there is 1:1 sharing of revenue between Centre and State
- ❖ In case of Intra-state transaction CGST + SGST shall be levied and in case of Inter-state transaction, IGST shall be levied
- ❖ Centre will compensate States for any loss of revenue for five years at revenue neutral rate (RNR), keeping 2015-16 the base year

Distribution of IGST

- ❖ The exporting State will transmit to the Center any unused SGST credit that was used to pay the IGST.
- ❖ The importing State will receive a transfer from the Center of the IGST credit utilised to pay the SGST.

Illustration

- ❖ A of Haryana sells goods worth Rs. 1,00,000 to B of U.P. The Rate of GST being 10%
- ❖ B will pay Rs. 1,00,000 plus 10,000 (IGST) to A
- ❖ Now suppose A has already debit balance of Rs. 6,000 of SGST (Haryana)
- ❖ A will deposit $(10,000 - 6,000) = \text{Rs. } 4,000$ IGST to Government
- ❖ Now Haryana will transfer Rs. 6,000 to Centre, being SGST set off against IGST
- ❖ Now total IGST fund becomes $(4,000 + 6,000) = 10,000$
- ❖ Now suppose B sells the goods to C of U.P. for Rs. 1,50,000
- ❖ C will pay to B Rs. $1,50,000 + 7,500$ CGST + $7,500$ SGST = $1,65,000$
- ❖ Suppose B will pay to Government $7,500 - 5,000 = 2,500$ SGST and $7500 - 5,000 = 2500$ CGST, after setting of Rs. 10,000 already paid as IGST

- ✳ Now Centre will transfer Rs. 5,000 to U.P., being IGST used for payment of SGST.
- ✳ Thus, Total revenue to U.P. = 2,500 + 5,000 = 7,500, i.e 50% of 15,000
- ✳ Revenue to Haryana = NIL
- ✳ Revenue to Centre (10,000 - 5,000 + 2500) = 7,500 (2500 CGST, 5,000 IGST)

Registration, Payment, Tax invoice

Liability to take Registration

- ✳ One registration in each State even if the PAN is same.
- ✳ There is no notion of central registration. [Section 23 (1)]
- ✳ A person with many company verticals within a State is offered the option of registering separately for each one. [Section 25 (2)]
- ✳ The tax authority may proceed to register a person who is required to register but does not do so, for example, by giving a temporary registration in enforcement cases that later converts to a PAN-based registration [Section 25(8)].

Documents for registration under GST



Who is liable to be registered

- ✳ In order to be taxed as a normal taxable person, a firm must register if its annual revenue exceeds the threshold of Rs. 20 lakhs (Rs. 10 lakhs for North Eastern and hill states).
- ✳ For certain businesses, registration under GST is mandatory irrespective of aggregate turnover.

Meaning of Aggregate Turnover

- ✳ “Aggregate turnover” refers to the total cost of all taxable supplies excluding the value of inward supplies on which tax is payable by a person on reverse charge basis.
- ✳ Exports of commodities, services, or a combination of the three.
- ✳ Likewise, supplies of individuals with the same PAN that cross state lines.
- ✳ To be calculated using an all-Indian basis.
- ✳ However, central tax, state tax, union territory tax, integrated tax, and cess are not included.

Payment of GST

The following two methods are available for paying GST:

1ST Payment Method “Credit Ledger”

By debiting the taxpayer’s credit ledger, which is kept on the common portal:

- * The only payment option is tax.
- * In the credit ledger, debit payments for interest, penalties, and fees are not permitted.
- * No CGST input tax credit may be applied on SGST payments, and vice versa. It would be possible to pay for IGST, CGST, and SGST in that sequence using the credit from IGST.
- * *CGST > CGST > IGST*
- * *SGST > SGST > IGST*
- * *IGST > CGST > SGST*

2ND Payment Method “Cash Ledger”

In cash through a debit entry in the taxpayer’s Cash Ledger kept on the Common Portal. There are several ways to deposit money into the Cash Ledger, including:

- * Electronic payments (through Internet banking, credit or debit card);
- * National Electronic Fund Transfer (NEFT) and Real Time Gross Settlement (RTGS);
- * Cash payments made in person at bank branches that are permitted to receive GST deposits.

However, there is a limit of Rs. 10,000/- per challan, for over the counter payment through authorized banks.

Invoice under GST

- * The tax invoice referred to in section 31 of the CGST Act, 2017, is referred to as a “invoice” or “tax invoice” under the GST regime.
- * This provision requires the issuance of a bill of supply (exempt supply) or an invoice (taxable supply) for each supply of goods or services.

A payment voucher and a tax invoice must be issued by any registered person who purchases goods or services from an unregistered person.

Mandatory fields for a GST Invoice

To charge the tax and transfer the input tax credit, a tax invoice is typically provided. The following required fields must be present on a GST invoice:

- * Number & date on the Invoice
- * Name of the Customer
- * Address for both shipping and billing
- * GSTIN of both the Customer and taxpayer’s GSTIN (if registered)**
- * Location of supply
- * Harmonized System of Nomenclature (HSN) code or Service Accounting Code (SAC) code
- * Information about the item, such as its description, number, unit (metre, kg, etc.), and total price
- * Discount and taxable value
- * Rate and amount of taxes i.e. CGST/SGST/IGST
- * The reverse charge basis for GST payment.
- * The supplier’s signature

**The invoice should include the following information if the recipient is not registered and the value exceeds Rs. 50,000:

- i. Recipient's name and address,
- ii. Location of delivery,
- iii. State name and code of the State code

Meaning and Scope of Supply

Supply as Taxable event

- * The supply of commodities or services, or both, is the taxable event under the GST
- * Several taxable events, such as production, sale, service provision, purchase, admission into a state's territory, etc., have been eliminated in favour of a single event, namely supply.

According to the constitution, a "Goods and Services Tax" is any tax imposed on the provision of either goods or services, or both, with the exception of taxes imposed on the provision of alcoholic beverages for human use.

Nil rated Vs. Zero rated

- * Nil rated : Goods or services having 0% GST (Fresh Milk, Eggs, Vegetables)
- * Zero rated: Used for export where ultimately tax effect is zero. There are two alternatives for zero-rated supplies. He can either export under a bond or Letter of Undertaking (LUT) and request a refund of his accrued input tax credits, or he can export after paying integrated taxes and request a refund in accordance with Section 54 of the CGST Act, 2017.
- * Non-GST: Human use of alcoholic beverages.

Supply?

According to Section 7 (1) of the CGST Act of 2017, the term "supply" comprises –

- * Any type of supply of goods, services, or both
- * Such as sale, transfer, barter, exchange, licence, rental, lease or disposal
- * Made or agreed to be made
- * For a consideration
- * By a person
- * In the course or furtherance of business

Six parameters of supply

1. Supply of products or services rendered, as agreed, or rendered
2. Supply should be made in exchange for consideration
3. Supply must be made for the purpose of conducting business or advancing it.
4. A taxable person must provide the good or service.
5. A taxable supply should be provided.
6. Supply must occur within the taxable area.

Meaning of Service

Anything other than products, money, and securities is referred to as "services". But also acts involving the use of money or the exchange of money for which a separate compensation is charged.

Some cases of supply

- * Disposal of scrap is a supply of goods
- * Supply of SIM card is a supply of service
- * Development of software is a service

Nature & Place of Supply

Nature of supply

- ✳ In light of our nation's federal structure, a "Dual GST" approach has been implemented.
- ✳ Nature of supply decides whether the supply is inter-state or intra-state.
- ✳ Wrong classification between inter and intra state may create hardship to tax payer.
- ✳ If the supply is interstate, IGST must be charged; if it is intrastate, CGST plus SGST must be charged.
- ✳ The IGST rate would broadly be equal to CGST rate plus SGST rate.

Intra-state supply

Whenever the supplier's location and the site of supply are either:

- (a) Contained within the same State,
- (b) Contained within the same Union territory

These supplies will be regarded as those made as part of intra-State trade or commerce.

So, it doesn't matter where the recipient is located.

Inter-state supply

If the supplier and the site of supply are located in:

- (a) two distinct States;
- (b) two different Union territories; or
- (c) a State and a Union Territory.

The provision of such products or services shall be deemed to have occurred in the course of interstate trade or commerce.

Location of supplier

- ✳ In general, it refers to the supplier's fixed establishment or registered place of business from which the supply is made.
- ✳ A service provider may occasionally need to travel to the client's location to deliver service. But, such a location wouldn't be regarded as the supplier's location.
- ✳ It must be an established establishment or a registered place of business.

Place of supply

- ✳ The location of supply has been designed with the destination/consumption principle in mind.
- ✳ Typically, the location of the delivery of the items becomes the location of supply.
- ✳ Due to the intangible nature of services, it can be challenging to pinpoint the precise location where they are purchased, used, and consumed.
- ✳ The location of supply is determined with reference to a proxy for several categories of services.

Tax Deducted as Source (TDS)

Philosophies behind TDS

- ✳ As it allows for the establishment of an audit trail, it functions as a potent tool to deter tax evasion and widens the revenue base.
- ✳ It also makes sure that the government receives consistent cash inflows.
- ✳ The authority and process for "Tax Deduction at Source" are specified in Section 51 of the CGST Act, 2017, which governs the GST regime.



TDS : Liability

- ✳ When the value of the supply of goods and/or services exceeds Rs. 2.5 lakhs, a department or establishment of the Central or State Government, local governments, government agencies, and other specified categories of persons are required to deduct tax sources.
- ✳ Individual supply may therefore cost less than Rs. 2,50,000, but if the contract value is greater than Rs. 2,50,000, TDS must be subtracted.

TDS: Rate

- ✳ TDS will be applied at a rate of 1% CGST, 1% SGST, and 2% IGST for intrastate supplies and 3% IGST for interstate deliveries.
- ✳ The value of supply will be determined by subtracting the amount from the invoiced amount that includes any applicable Central tax, State tax, Union territory tax, Integrated tax, and Cess.

However, additional costs like transportation will be covered.

One illustration

- ✳ The selling price for 10 PCs at Rs. 30,000 is Rs. 3,00,000. If the computer-related GST rate is 10% and the supply is intra-state,
- ✳ CGST @ 5%: Rs. 15,000.00
- ✳ SGST @ 5%: Rs. 15,000.00
- ✳ Rs. 3,30,000.00 is the total invoice amount.

In this example, CGST at 1% and SGST at 1% must be subtracted from TDS.

Tax amount to be subtracted=

CGST 1% on Rs. 3,00,000 = Rs. 3,000.00

SGST 1% on Rs. 3,00,000 = Rs. 3,000.00

Final payment to supplier = Rs. 330,000 – 6000 = 3,24,000

TDS: Registration & Return

- ✳ Regardless of the threshold limit, anybody who is required to deduct at source must register voluntarily under the GST statute.
- ✳ The deductor has the option of registering under GST without needing a PAN. Using his Tax Deduction and Collection Account Number (TAN) given under the Income Tax Act of 1961, he can register.
- ✳ The TDS return must be submitted in form GSTR-7 within 10 days of the end of the month in which deductions were made.
- ✳ If the supplier is not registered, the GSTIN must be replaced with the supplier's name in the return.

TDS: Other requirements

- ✳ The sum thus withheld must be credited to the government account within ten days of the next month.
- ✳ If the tax deduction is not paid within the required time frame, the deductor may be required to pay interest.
- ✳ The deductor is also required to issue certificate of deduction in form GSTR-7A within 5 days of amount being credited to Govt. to the deductees.
- ✳ The amount so deducted shall be reflected in electronic cash ledger of the deductee, which may be used by him for paying taxes, interest, penalty or other charges in this Act.

Interest & Penalty

| Instances | Interest & Penalty |
|--|--|
| TDS not deducted | Interest to be paid along with the TDS amount |
| TDS certificate not issued or delayed longer than the allotted five days | 100 rupees each day, up to a maximum of 5000 rupees, will be charged as a late fee. |
| TDS is deducted, but not paid to the government right away, or it is paid after the tenth of the next month. | Interest must be paid in addition to the TDS amount. |
| Late TDS return filing | For each day that the failure persists, there will be a late fee of Rs. 100, up to a maximum of Rs. 5,000. |



Provision of Income Tax in Accrual Accounting

History of Income Tax in India

The sage Manu's ancient book of laws, 'Manusmriti', and the well-known economics treatise "Arthashastra" by Kautilya are where the history of income tax may be found. Kautilya himself recognises that he drew heavily from 'Manusmriti', one of the oldest books in India on the fundamentals of governance.

Even James Wilson, the first finance minister of British India, used a passage from Manu when he introduced the Income Tax Act in 1860. According to Manusmriti, the fundamental tenets of taxation are:

- ✳ The underlying idea is that taxes should allow the king to carry out his obligations and economic actors and traders to make and keep money.
- ✳ Taxes should be imposed with the protection of both the existing and the expanding population in mind. This indicates that the tax base must be protected and expanded in accordance with the fundamental principles of taxes.
- ✳ The tax ought to be collected every year.
- ✳ Collection work should be done by trustworthy staff.
- ✳ Taxation needs to be fair.
- ✳ Take care to avoid paying too much in taxes.

Sir James Wilson enacted the Tax for the first time in 1860 in India. James Wilson, the pre-independence finance minister, introduced

the first "Union Budget" on April 7, 1860. To make up for the losses the government suffered as a result of the military mutiny of 1857, the Indian Income Tax Act of 1860 was put into effect. With occasional changes, this law remained in effect until 1918. A new income tax was enacted in 1918, and it was again repealed by a new legislation that was enacted in 1922. With various modifications, this Act was still in effect for the assessment year 1961–1962.

On April 1, 1962, the Income Tax Act of 1961 became operative. The Union Budget has annually since 1962 made a number of significant revisions to the Income Tax Act.

Present Income Tax Act

The present Income Tax Act includes 298 sections, 14 Schedules and more than 6 Appendices. The vast literature of case laws starting from at the level of Appellate tribunals, High Courts to Supreme Court with several Reports, Analyses, Notifications and circulars.

Income Tax and its Administration

Every person's income is subject to this tax, which is imposed by the Indian government. The 1961 Income Tax Act contains the rules controlling income tax. The Ministry of Finance oversees the government of India's revenue-related operations. The Central Board of Direct Taxes (CBDT) has been entrusted by the Finance Ministry with the responsibility of administering direct taxes including income tax, wealth tax & other tax.

The Ministry of Finance's Department of Revenue includes the CBDT. Direct tax laws are administered by the Income-tax Department with assistance from CBDT, which also provides critical contributions for direct tax policy development and planning. As a result, the Income Tax Department administers the Income Tax Law under the direction and authority of the CBDT.

Year and Person

A person's yearly income is subject to income tax. The time period covered by the Income Tax Law runs from April 1 through March 31 of the following year. The year is categorised by the Income-tax Law as (1) Previous year and (2) Assessment year. The year that income is earned is referred to as the prior year, and the year that it is taxed is referred to as the assessment year. For instance, revenue collected between 1 April 2019 and 31 March 2020 is recognised as income from the prior fiscal year 2019–20. The following year, or the assessment year 2020–21, will be when the income from the prior year 2019–20 will be taxed. Every person is required to pay income tax.

According to section 2(3) of the Income Tax Act, both natural and artificial individuals fall under the definition of "person." For the purposes of assessing income tax, a "person" is defined as an individual, a Hindu Undivided Family (HUF), an association of persons (AOP), a body of individuals (BOI), a firm, an LLP, a company, a local authority, and any artificial juridical person not included in any of the aforementioned categories.

As a result, it is clear from the definition of the term "person" that any artificial entity, in addition to a natural person, or an individual, will be required to pay income tax.

Accrual Accounting & Income Tax

A transaction's income or expense is recorded when it happens, rather than when a payment is paid or received, under the accounting system known as accrual accounting. Revenues and expenses should be recognised in the same period under the matching concept, which is followed by the technique.

By combining current cash inflows and outflows with anticipated future cash inflows and outflows, this strategy can provide a more realistic view of an entity's current financial situation. Cash accounting, which only records transactions when money is exchanged, is different from accrual accounting.

Ind AS 12 on Income Taxes

Income taxes are all domestic and foreign taxes levied in accordance with the taxable profits standard. Taxes paid by a subsidiary, associate, or joint venture on payments to the reporting business are also included in income taxes, such as withholding taxes. The accounting for government grants and disclosure of government assistance techniques covered by Ind AS 20 and investment tax credits are not covered by this Standard. This Standard, however, does address the accounting for momentary disparities that may result from such grants or investment tax credits.

Recognition of current tax liabilities and current tax assets – IndAS 12

Current tax for both the current and past periods must be recognised as a liability to the degree it is unpaid. If there is a difference between the amount paid and the amount owed for a certain time, the excess must be recorded as an asset. An asset must be recognised for the benefit attributable to a carrybackable tax loss that can be used to offset current tax from a prior period.

Certain assets may be carried at fair value or revalued under Indian Accounting Standards, depending on the circumstances (Ind AS 16 on Property, Plant and Equipment, Ind AS 38 on Intangible Assets and Ind AS 39 on Financial Instruments: Recognition and Measurement.).

Income Tax in ICAR context

- ✳ The budget of ICAR is largely funded by Government Grants.
- ✳ There is no profit element involved except some segments.
- ✳ Income Tax Returns to be filed as per provisions of the Act.
- ✳ TDS and its deposit is a major component of taxation in ICAR.
- ✳ TDS is levied on salaries paid to regular employees.
- ✳ TDS is levied on payments to suppliers & contractors.
- ✳ TDS suffered on receipts with regard to technology licensing, royalty, Contract Research etc.

- ✳ TDS not deposited to be shown as current liability in the Balance Sheet.
- ✳ Annual Financial statements are to be prepared on accrual basis.

What is “Income”?

The term “income” has a very wide and broad definition under the income tax legislation. When someone is paid a salary, anything they receive from their employer-in kind, financially, or as a benefit-is counted as income. A businessman’s income will be made up of his net profit. Investments may also generate income in the form of dividends, interest, commission, etc. Additionally, income may be generated by the selling of capital assets like gold, buildings, etc. Income must be calculated in accordance with the applicable provisions of the Income Tax Act of 1961, which establishes specific criteria for calculating income subject to tax under various types of income.

Exempt income and taxable income?

Income that is specifically excluded from tax under income tax law is not subject to taxation. Taxable incomes are defined as earnings that are subject to tax.

Revenue receipt and Capital Receipt

Two categories of receipts exist: A) capital receipts and B) revenue receipts. Like a salary, a business profit, interest income, etc., revenue receipts have a periodic aspect. Capital receipts typically have an isolated nature, such as a receipt for the sale of a home or a piece of jewellery, for example. According to the

general rule of income tax law, all receipts of revenue are subject to taxation unless they are expressly exempt from it, and all receipts of capital are exempt from taxation unless there is a special provision for taxing them.

Broad heads of Income

There are five main categories of income, including wage, rental income, company and professional revenue, capital gains, and other sources.

Scope of Total Income – Section 5 – Income Tax Act

The Income Tax Act of 1961, Section 5, specifies the scope of total income for residents, non-residents, and those who are not habitually residents of India. Income can originate from any source that is (a) received or is deemed to be received in India in that year by that person or on their behalf; (b) accrues or arises or is deemed to accrue or arise to him in India in that year; or (c) accrues or arises to him outside of India in that year.

Case Studies -Section 5 - Basic principles of income accrual

Liability to pay tax not dependent on computation by tax authorities

According to the Indian Income Tax Act, the obligation to pay income tax starts when the income is earned, not when the taxing authorities computes it during the assessment process. It occurs at a time not later than the end of the accounting year, according to *Kalwa Devadattam v. Union of India* [1963] 49 ITR 165 (SC).

Tax liability is based on accrual or arising of income and receipt is not the only test

The two words ‘accrue’ and ‘arise’ are used to contradistinguish the word ‘receive’. The terms “accrue” and “arise” are employed to contrast the word “receive.” Income is said to be received when it comes into contact with the assessee; it is said to accrue or originate when the assessee gains ownership of the right to receive the income. This accrual may be based on the terms of particular statutes or agreements that may give rise to such a right. In *CIT v. Ashokbhai Chimanbhai* [1965] 56 ITR 42 (SC) and *CIT v. A.B.V. Gowda* [1986] 157 ITR 697, it is stated that receipt is not the only factor in determining tax chargeability (Kar.).

Accrual of income is not to be decided with reference to method of accounting

The issue of whether revenue is accrued or not, as well as the related issue of when income is accrued, must be resolved only in accordance with fiscal principles, not in accordance with any particular accounting technique that is fashionable or that the assessors may use. *P. Mariappa Gounder*, Case in Point [1984] *CIT v. Kerala Financial Corporation Ltd.*, 147 ITR 676 (Mad.) [1985] *CIT v. Punjab Tractors Co-operative Multipurpose Society Ltd.*, 155 ITR 246 (Ker.), 95 Taxman 579 (1997). (Punj. & Har.)

Income accrues when assessee acquires right to receive it

An assessee may get income even though they haven’t really received it. Although the income may be obtained later, upon its determination, it might be deemed to have

accrued to the assessee if he gains a right to receive it. In the cases of CIT v. Shri Goverdhan Ltd. (1968) 69 ITR 675 (SC) and CIT v. Nandram Hunatram (1976) 103 ITR, respectively (Ori.).

In order for income to be considered to have accrued to or earned by the assessee, the assessee must not only have contributed to its accrual or arising through the provision of services or in another manner, but also have incurred a debt in his favour. He must have accrued a right to receive payment and a debt must have been established. It cannot be stated that any income had accrued to him until his contribution or parenting is successful in creating a debt or a right to receive payment - E.D. Sassoon & Co. Ltd. v. CIT [1954] 26 ITR 27 (SC).

Each year is self-contained and future profits/losses are not relevant

According to Sir Kikabhai Premchand v. CIT [1953] 24 ITR 506, every year is a self-contained accounting period for income-tax purposes, and the revenue authorities can consider income, profits, and gains without worrying about potential profits that may be made in a subsequent year or worrying about losses that may arise in the future (SC).

Entitlement to deductions not dependent on book entries

If an assessee forgets to enter something in the books of accounts although knowing that it is required by law for the ITO to do so, the assessee will not forfeit their right to claim the deduction or be disqualified from receiving

it. According to Kedarnath Jute Mfg. Co. Ltd. v. CIT [1971] 82 ITR 363 (SC) and Sutlej Cotton Mills Ltd. v. CIT [1979] 116 ITR 1, the existence or absence of entries in the books of account cannot be conclusive or decisive in the matter as to whether the assessee is entitled to a particular deduction or not. Rather, it depends on the law's provision relating to it (SC).

Profits accrue by comparison of assets at two stated points

'Profits' are determined by comparing assets at two specified points rather than accruing day by day or even month by month. The destination of earnings must be established by the title to them on the day they originate since without the right to profits, there is no accrual of gains. Ashokbhai Chimanbhai, CIT v., 1956 ITR 42 (SC).

Profits can be ascertained even before a trade adventure is completed

Saying that it is impossible to determine the assessee's earnings even if the trading adventure's transaction is assumed to have fallen through is incorrect. P.M. Mohammed Meerakhan v. CIT [1969] 73 ITR 735 states that profits can be calculated even if a specific trade adventure is not completed (SC).

Collection of Income Tax and Rates

The three methods listed below are how the government collects taxes:

- a) Voluntary contributions made by taxpayers to various banks that have been designated. For instance, taxpayers who have paid advance tax and self-assessment tax,

- b) The income of the recipient is taxed at source (TDS), and
- c) TCS, or taxes collected at source.

Every person who earns money has a fundamental duty to accurately calculate their income and pay their taxes.

Applicable tax rates

The Finance Act, which is enacted by Parliament each year, contains information on income tax and corporate tax rates. Using the free online tax calculator at www.incometaxindia.gov.in, you can also determine your tax liability.

Books of Account

A person engaged in business or in a profession that is not specifically defined is not required under the Income-tax Act to keep any particular books of accounts. However, if the income from a business or profession and gross receipts are above a specific threshold, such a person is required to keep and maintain such a book of account and other records that may enable the Assessing Officer to compute his total income in compliance with the Act's provisions.

The Companies Act specifies the books of account for corporations. Additionally, the Institute of Chartered Accountants of India has established a number of accounting rules and norms that company companies must adhere to.

Regarding the keeping of accounting records by a specialist practising their chosen

job, if his yearly earnings from his profession exceeded Rs.1,50,000 in each of the three years immediately prior to the previous year, he was required to keep certain prescribed books of accounts. However, if the profession was just established, his annual earnings were probably greater than Rs.1,50,000. Legal, medical, engineering, architectural, accounting, corporate secretary, technical consultancy, interior decorator, authorised representative, film artist, or information technology are examples of specified professions.

Return of Income

A person's income received during a financial year and the taxes paid on it must be reported to the income-tax department using the required form known as an Income Tax Return (ITR). Additionally, it permits carrying over losses and requesting a reimbursement from the income tax division. For submitting returns for different statuses and types of income, various forms of income returns are required. You can get these forms from www.incometaxindia.gov.in.

Benefits of filing of income tax return

Each Indian citizen is required to file a return, and doing so confers honour for voluntarily advancing the country. In addition, the income-tax returns verify a person's creditworthiness in the eyes of financial institutions and enable them to access a variety of financial advantages including bank credits and other facilities.

Complexity of TDS

Currently, the Income-tax Act has 36 provisions which require deduction of tax at source from various payments. The number is increased to 38 by the Finance Act, 2021. If all these provisions are projected in a table, they may look like a Periodic Table of Elements. There are a few transactions or payments which may be covered under multiple provisions and to find out the relevant provision, the deductor will have to solve a complex theorem. One such transaction is sale or purchase of goods exceeding Rs.50 lakhs.

Tax Deducted at Source (TDS)

With the intention of collecting tax from the source of revenue itself, the TDS idea was introduced. According to this idea, a person (deductor) who is required to make a payment of a specific sort to another person (deductee) must withhold tax at source and submit the money to the federal government.

The deductee from whom income tax was withheld at source would be eligible to get credit for the amount withheld based on form 26AS or a TDS certificate issued by the withholding agent. Taxes must be withheld at the rates outlined in the applicable Act provisions or the first schedule to the Finance Act. However, when making payments to non-residents, the withholding tax rates outlined in the agreements to avoid double taxation must also be taken into account. Tax Deducted at Source (TDS) (incometaxindia.gov.in).

TDS, which stands for tax deducted at source, is an acronym used to collect taxes

from the place where revenue is created. By taxing money as soon as it is earned rather than at a later time, the government can reduce tax evasion by using TDS as a tool to collect taxes. Before making a payment to the recipient of a specified payment, such as a salary, commission, professional fee, interest, rent, etc., the payer is obligated to deduct tax and deposit it with the government, pursuant to the terms of the Income Tax Act.

Anyone who is subject to an audit under Section 44AB of the Income Tax Act of 1961 is required to withhold TDS in accordance with the applicable rules. In this situation, TDS must be withheld by all businesses.

There are numerous other situations that vary from case to case when TDS must be withheld even though the person is not subject to audit.

Tax Deduction Account Number (TAN)

TDS must be deducted using a Tax Deduction Account (TAN). In order to deduct TDS, the deductor must have a TAN, which must be referenced on all TDS Certificates, Challans, Quarterly Statements, Correspondence, etc. If the deductor does not quote the TAN as above, he may face penalty.

Circumstances under which TAN is not required for deduction of TDS

Permanent Account Number (PAN) may be used in place of TAN by a person who is deducting TDS for sales of immovable property other than agricultural property for considerations greater than Rs. 50 lakhs.

TDS Rate of Old Regime Vs New Regime

| Particulars | TDS Rate (%) | Old Regime TDS Rates from April 1, 2020, to May 13, 2020 | New Regime TDS Rates from 14 May 2020 to 31 March 2021 |
|---|------------------|---|--|
| Paying salaries under Section 192 | Normal Slab Rate | Normal Slab Rate | Normal Slab Rate |
| Section 192A: Early EPF withdrawal | 10 | 10 | 10 |
| Dividends not included in the dividends mentioned in Section 115-O covered by Section 194. | 10 | 10 | 7.5 |
| Income from sources other than “Interest on Securities” covered by Section 194A. | 10 | 10 | 7.5 |
| Lotteries, crossword puzzles, card games, and other types of games’ profits covered by Section 194B. | 30 | 30 | 30 |
| Section 194C: Payment to contractor/sub-contractors. | | | |
| a) HUF/Individuals | 1 | 1 | 0.75 |
| b) Others | 2 | 2 | 1.50 |

Duties of Persons Deducting TDS

1. Deduction of TDS and deposit to the government account

The person who is responsible for deducting TDS must deduct the tax at the time of making such payments, which must be submitted with the government on or before the seventh day of the month after TDS has been deducted. For the month of March, it must be submitted by April 30 at the latest.

2. Issue of TDS Certificate

The individual from whose TDS has been deducted must receive a certificate in form 16 for salaried persons and 16A for other than salaried persons from the deductor following the deduction of TDS.

3. Filing of Prescribed Return/Quarterly Statement

Quarterly TDS statements must be filed by anybody in charge of withholding taxes.

The deductor benefits from filing the TDS return electronically since it takes less time to prepare, requires less paperwork, and is less expensive to comply with. Additionally, it will make it easier for the government to correlate taxes deducted with taxes that are ultimately deposited in banks and credits for TDS claimed by deductees.

Failure to deduct Tax, failure to deposit the tax with government after deduction and failure to file TDS returns within due date carry penalties.

Tax paid by a seller and collected at the moment of sale from the buyer is known as tax collected at source (TCS). The items on which the seller is required to collect tax from the customers are governed by Section 206C of the Income-tax Act.

The taxes are not due when the mentioned commodities are used in the production, manufacturing, or processing of goods or for personal consumption. The same products must be taxed if they are used for trading. The seller collects the tax due at the point of sale. For products listed under various categories, the TCS rate varies.

- ✳ The seller must submit the TCS amount in Challan 281 no later than one week after the final day of the month in which the tax was collected. Any authorised bank, including the RBI, SBI, and others, have branches where this payment may be made. It may also be made electronically.
- ✳ Every amount that a government office collects must be deposited the same day it is collected.

Each tax collector is required to submit a quarterly TCS return, or Form 27EQ, for the taxes they have collected during a given

quarter. Before filing the return, the interest on the TCS payment that was delayed to the government must be paid.

Every tax collector is required to file a quarterly TCS return, which is defined as any additional tax that is collected from a buyer at the time of a sale of certain products by the seller and paid to the government. In accordance with the Income Tax Act of 1961, certain individuals who are sellers are required to withhold a predetermined proportion of tax at the earlier of the time when they receive payment from their purchasers or when they debit the buyer's account. The details of the commodities on which tax must be collected from buyers are listed in Section 206C of the Income Tax Act.

TDS on Foreign Remittance – Section 195

“The objective is to ensure, as best as possible, that the tax liability on the income element, on the amount paid is got deducted at source itself so that the department is not put to the hassles of recovering it from the non-resident whose connections with India may be transient or whose assets in India may not be sufficient to meet the tax liability”

“The object of Section 195 is to ensure that tax due from nonresident persons is secured at the earliest point of time so that there is no difficulty in collection of tax subsequently at the time of regular assessment.”

Section 195(1)

Any person responsible for paying to a non-resident who is not a company or a foreign company, any interest that is not interest referred to in sections 194LB, LC, or LD, or any other sum chargeable under the provisions of the Act (other than the income chargeable

under the head salaries), shall, at the time of crediting such income to the payee's account or at the time of payment therein in cash, by issuing a check or draft, or by any other mode.

Special features of Section 195 as compared to other TDS provisions

Unlike personal payments that are excluded under sections 194C and other laws, there is no exception for the same in section 195 (all payments are covered, barring salaries as long as there is chargeability). An example of this would be paying a foreign architect to design a residential building.

No basic restriction in Section 195 is covered, in contrast to threshold conditions provided in Section 194C etc.

In contrast to other Chapter XVII (TDS provisions) provisions, section 195 makes use of the unique phrase "chargeable to tax under the Act."

Digitalization in legal prosecution

A significant move that might end the harassment of tax payers is the creation of the assessment unit for tax proceedings to deal

with individual and corporate taxpayers. Tax collectors and taxpayers will only ever communicate digitally. Additionally, each digital communication must have a distinct document identification number.

Amendment

The New Direct Tax Code has been created in such a way that, to the extent possible, the core and general concepts of the statute have been reflected, and the specific details are found in the rules and schedules.

New Regime vs Old Regime on Tax Rate

Taxpayers who choose concessional rates under the new tax law will have to give up some exemptions and deductions that were previously accessible.

There are roughly 70 deductions and exemptions that are prohibited, including LTA, HRA, the standard deduction for salaries, interest on mortgages, professional taxes, and many others.

New regime offers seven lower income tax slabs.

| Taxable Income | Rate as per New Regime | Rate as per Old Regime |
|---------------------------|--------------------------------------|--|
| Up to Rs. 2.50 lakhs | Nil | Nil |
| Rs. 2.50 to 5.00 | 5% | 5% |
| Rs. 5.00 to 7.50 | 10% | 20% |
| Rs.7.50 to 10.00 | 15% | 20% |
| Rs.10.00 to 12.50 | 20% | 30% |
| Rs.12.50 to 15.00 | 25% | 30% |
| Rs.15 lakh and above | 30% | 30% |
| Exemption | No deductions & exemptions | Rebate of Rs.12,500/- under 87A if taxable income less than 5 lakhs |
| Health and Education cess | Health and education cess @4% of Tax | Health and education cess @4% of Tax Deductions & exemptions allowed Surcharge applicable if income exceeds 50 lakhs |

New in AY 2021-22 & FY 2020-21

The Honourable Finance Minister of India, Mrs. Nirmala Sitharaman, tabled the Finance Bill, 2021, on February 1st. More than 100 amendments to the law have been proposed as it is being brought before the Lok Sabha for approval. On March 28, 2021, the amended measure obtained presidential approval and became law.

As a taxpayer or even if you are not a taxpayer, you should be aware of the numerous significant changes to the income-tax laws that are relevant for the current year as we have already slipped into the next fiscal year, or FY 2021–2022. The following are some significant income tax-related changes that will take effect in FY 2021–2022:

- ✳ Starting on April 1, 2021, non-salary payments will be subject to original (higher) rate TDS/TCS deductions and collections.
- ✳ For the period beginning on May 14, 2020, and ending on March 31, 2021, the rates of TDS/TCS on the majority of payments and receipts were decreased by 25% due to the Covid-19 epidemic. Taxpayers could only take advantage of this respite through the end of March 2021. Beginning on April 1, 2021, the taxpayer must deduct TDS and collect TCS at the original rates, i.e., without taking into account the 25 percent rate concession.
- ✳ Beginning on July 1, 2021, high TDS/TCS rates will apply to people who do not file an income tax return.

Due to the recently added Section 206AB of the Income-tax Act of 1961 (the “Act”), TDS at the higher of the following rates would need to be withheld from any amount paid,

due, or credited by a taxpayer to a specified person.

Two times the rate stated by the Act’s provisions, two times the rate or rates in effect, or 5%.

Specified person

A person who failed to file an Income Tax Return (ITR) for each of the two years that immediately preceded the year for which tax was required to be deducted from or collected, as the case may be; whose ITR filing deadline under Section 139(1) of the Act has passed for both of these assessment years; whose TDS and TCS totaled at least Rs. 50,000 in each of these two years; and who does not include a non-resident who does not have a permanent establishment.

Death of a Bad Tax

A direct tax law that fully repeals the infamous 2012 retrospective modification to tax indirect transfers of Indian assets was approved by the Lok Sabha on August 6, 2021.

In order to overturn a Supreme Court decision about the tax claim made by the Government of India over Vodafone International’s indirect purchase of a majority share in an Indian telecom company, the retro amendment was enacted. More harm to India’s reputation has resulted from the retrospective change from 2012 than from any other action since 1991.

Government of India has used the parliamentary route to irrevocably bury the 2012 amendment. It has a direct bearing on 17 cases where income tax demand had been raised. Most significant are Vodafone and Cairn Energy, where Government of India has lost international arbitration proceedings.



Concept of Financial Management

Meaning of Financial Management

The term “financial management” refers to the organisation, planning, direction, and control of an organization’s financial activities, including the raising and use of funds. To do this, the enterprise’s financial resources must be managed according to general management principles.

Scope/Elements of Financial Management

The following list contains the components of financial management:

- ✳ Investment decisions- Capital budgeting decisions fall under the category of investments, which also include purchases of fixed assets. Working capital decisions, which are a subset of investment decisions, also include investments in current assets.
- ✳ Financial decisions - They deal with obtaining funding from various sources, which will rely on the choice of source, the length of the financing, the cost of the financing, and the results obtained.
- ✳ Dividend decision - The distribution of the net profit is a decision that the finance management must make. Net profits are typically split into two categories:
 - i. Dividend for shareholders- The amount of the dividend and its rates must be decided.
 - ii. Retained profits- The amount of retained profits must be decided, and it will rely on the company’s intentions for growth and diversification.

Objectives of Financial Management

Financial resource allocation, control, and procurement are the main concerns of financial management. The objectives could be:

- ✳ To make sure the organisation receives regular and sufficient funding.
- ✳ To guarantee shareholders receive acceptable returns, which rely on the company’s earning potential, the share’s market price, and the expectations of the shareholders.
- ✳ To guarantee optimal financial utilisation. The money should be used as efficiently as possible once it has been obtained.
- ✳ To ensure safety on investment, money should be placed in endeavours that will yield an acceptable rate of return.
- ✳ To create a solid capital structure – Capital should be allocated fairly and sensibly in order to preserve a balance between debt and equity.

Functions of Financial Management

The functions of Financial Management are given below:

- ✳ Estimation of capital requirements: The task of determining the company’s capital requirements falls to the finance manager. This is dependent on a concern’s future programmes, policies, and projected expenses, profits, and gains. Estimates



must be created in a way that increases the enterprise's earning potential.

- ❖ Determination of capital composition: The capital structure must be chosen when the estimation has been done. This encompasses both short- and long-term debt equity analysis, and it is based on the percentage of equity capital that a company has as well as additional money that can be raised from other parties.
- ❖ Choice of sources of funds: The capital structure is then determined based on the

estimation. A business has a variety of possibilities for obtaining additional finances, as listed below:

- ❖ The issuance of debentures and shares
- ❖ Loans to be obtained from financial institutions and banks
- ❖ The drawing of public deposits in the form of bonds.

Based on the respective advantages and disadvantages of each financial source and time frame, a factor will be chosen.



Purchase Procedure as per GFRs 2017

Types of Accounts in Government of India

There are three types of Accounts of Govt. of India:

1. Consolidated Funds of India
2. Contingency Funds of India
3. Public Account

1. Consolidated Fund of India Account

All of the government's tax earnings, such as those from income tax, central excise, and customs, are placed in the Consolidated Fund of India, as are all of the government's borrowings from foreign governments and the public through the issuance of Treasury Bills and other public announcements.

Purpose

All expenditure of the Govt. is incurred from this fund with the approval of Parliament.

2. Contingency Fund of India Account

This is a corpus fund with Govt. of India to meet the unforeseen expenditure which is resumed to the Fund to the full extent with the authorization of Parliament. It is maintained by the Secretary to the Govt. of India, Ministry of Finance, Department of Economic Affairs on behalf of The President of India. This is used to meet out the unforeseen expenditure of the Govt. with the sanction of President of India.

3. Public Account

Transaction other than those included in the Consolidated Fund of India is maintained through Public Account. Receipts under Public

Account do not constitute normal receipts of Government. The initial debits or credits to these headings will eventually be offset by the corresponding receipts or payments. Parliamentary authorization is not required for payments from the Public Account.

All Central Government Ministries/ Departments, attached and subordinate bodies have to strictly follow the guidelines of the General Financial Rules (GFR), 2017. Unless and otherwise separate financial rules duly approved by the Government are available for the Autonomous Body, the provisions contained in GFRs are deemed to be applicable to such Autonomous Bodies.

Controlling Officer

According to GFR, a controlling officer is an individual who has been given by a central government department the duty of overseeing the incurring of expenses and/or the collection of income.

Drawing and Disbursing Officer

The term "Drawing and Disbursing Officer" refers to the Head of Office as well as any other Gazetted Officer designated by a Central Government Department, a Head of Department, or an Administrator to draw checks and disburse funds on the Central Government's behalf (DDO).

Government Account

The Consolidated Fund, Contingency Fund, and Public Account are all included in the "Government Account," which is the account that contains them.

Head of the Department

An individual who has been designated by the relevant Department of the Government of India as the Head of Department with regard to one or more identifiable establishments and who does not have a lower rank than Deputy Secretary may exercise the financial authority granted to them by these Rules.

Head of Office

The term “Head of Office” refers to a Gazetted Officer who has been designated as such in accordance with the Delegation of Financial Powers Rules as well as any other authority designated as such pursuant to any general or particular orders of the competent authority.

Primary unit of appropriation

The term “Primary unit of appropriation” refers to an amount that is specified in Rule 8 of the Delegation of Financial Powers Rules.

Re-appropriation

The transfer of funds from one primary unit of appropriation to another such unit is known as “Re-appropriation”

Recurring expenditure

The expenditure which is incurred at periodical intervals for the same purpose is known as recurring expenditure otherwise the expenditures is known as nonrecurring expenditure.

CAPEX model

Under CAPEX Model, capital expenditures is used by the buyer to straightway purchase

goods followed by procurement of consumables, arranging comprehensive maintenance contact after warranty period and finally disposing the product after useful life.

OPEX model

Under OPEX model, the seller provides the goods, maintains it and also provides the consumables as required and finally takes back the goods after useful/contracted life. The expenditure is made by the buyer as per the terms and conditions of the contract in a staggered manner.

General Principles for Expenditure from Public Fund

Standard of Financial Propriety (GFR-21)

- ✳ Every officer is required to monitor expenditures made with public funds with the same diligence as a prudent person would monitor his own financial transactions.
- ✳ The expenditure shouldn't be inherently more than what the occasion calls for.
- ✳ No authority should use its powers to approve expenditures that would directly or indirectly benefit it.
- ✳ Public funds should not be used for expenses that will just benefit a specific individual or group of people.
- ✳ Tools for effective Financial Management
- ✳ Bank Reconciliation of all bank accounts
- ✳ Asset Register Maintenance
- ✳ Physical Verification of Assets/ stocks

- ✳ Monitoring of Outstanding Advances
- ✳ Settlement of Audit Paras
- ✳ Expenditure Control vis-à-vis Budget allocation

Rule 22: Expenditure from Public Funds

Without the approval of a competent authority, no authority may make any purchase or assume any obligation requiring the transfer of money from the Consolidated Fund, the Contingency Fund, or the Public Accounts for investment or deposit.

Rule 25 (1): Provision of funds for sanction

The specific provisions in the appropriate grant or appropriation where such expenditure is to be covered must be stated in all sanctions to the expenditure.

Rule 25 (2): Any requests to sanction an expense must state whether the expense can be covered by a legal appropriation or re-appropriation.

Rule 25 (3): If it becomes essential to impose a sanction on an expenditure before funds are communicated, the sanction should state that the spending is contingent on funds being communicated in the annual budget.

Rule 26: Responsibility of Controlling Officer in respect of Budget allocation:

While incurring expenditure from public fund, it is the responsibility of the controlling officer in respect of whom funds are placed at his disposal to ensure:

- ✳ That the expense was incurred within the allocated budget.

- ✳ That the expense is made for the purpose for which funds have been allocated, in accordance with Rule 26.

- ✳ That the expense was made in the public's best interest.

- ✳ That the Department has an effective control system in place to avoid, identify mistakes and anomalies in financial transactions, as well as to prevent money from being wasted or lost.

Rule 27 (1): Date of effect of sanction

Subject to fulfillment of the provisions as contained in the Delegation of Financial Power Rules/all regulations, sanctions, and orders must be followed in order to be effective. Unless another date is indicated, they take effect on the date they are issued, subject to the Delegation of Financial Powers Rules being followed.

Rule 30: Lapses of Sanctions

If no full or partial payment has been made within a year of the sanction's issuance, the sanction for any new charge will expire unless it is expressly reissued, given that -

- ✳ When the period of currency of the sanction is prescribed in the departmental if the sanction's validity duration is set forth in the departmental regulations or the sanction itself, it will expire at the end of such periods on
- ✳ When a sanction specifically states that an expense will be covered by funds allotted in a given fiscal year, that sanction expires at the end of that fiscal year or
- ✳ When it comes to the purchase of stores, a sanction will remain in effect as long as

tenders have been accepted (for local or direct store purchases) or the indent has been placed (for central purchases) within a year of the sanction's issuance date, even if the actual payment in full or in part has not been made during that time.

Procedure for Execution of Work (Rule-139):

- ✳ Preparation of detailed design and estimates as per schedule of rates maintained by CPWD and other Public works organisation.
- ✳ Administrative approval and expenditure sanction based on the estimates made.
- ✳ For projects under Rs. 5 lakh, a small number of tenders i.e. will be requested.
- ✳ Open tender will be called for works costing Rs. 5 lakh to Rs. 30 lakh
- ✳ Repair works of more than Rs.30 lakh and original works of any value may be assigned to CPWD, State CPWD, other central government organization authorised to carry out civil or electrical work.

Fundamental principles of public buying

Fundamental principles of public buying: - Economy, Efficiency, Equal Opportunity, Transparency.

Rule 144

Every authority granted the financial capacity to acquire goods in the public interest shall be accountable and responsible for bringing efficiency, economy, and openness in matters connected to public procurement as well as for treating suppliers fairly and equitably and fostering competition.

While incurring expenditure for public procurement, the following criteria are to be followed:-

- ✳ The specification of the generic nature should be used for the indented items.
- ✳ The specification should be objective, functional, measurable and specify technical, qualitative and performance features of the indented items.
- ✳ The requirement for a particular trade mark, trade name or brand should not be mentioned.
- ✳ Considering the specific needs of the procuring organizations, the standards for quality, kind, amount, etc. of the goods to be purchased, as well as the demands of the procurement organisations, should be clearly expressed.
- ✳ The requirements should satisfy the organization's basic needs without include extraneous or non-essential features that could lead to unjustified expenditures.

Besides, the procuring entities should follow the following principles:

- ✳ In order to avoid inventory carrying costs, purchase of quantities in excess of requirement should be avoided.
- ✳ The procurement should be made by following a fair, transparent and reasonable procedure.
- ✳ The chosen offer's ability to fully satisfy the demand in all respects can be ensured.
- ✳ The selecting authority must determine that the chosen offer's price is reasonable and compatible with the requisite level of quality.

- ❖ The procuring authority must explicitly record the factors that it took into account when making the purchase decision.
- ❖ When the tender is released, the publication of the procurement cycle schedule from the tender release date to the contract release date is required.
- ❖ The Annual Procurement Plan should be prepared by all Ministries/Departments shall well the same should be accessible on their website before the start of the year.

Rule 145

An authority competent to incur expenditure may sanction the purchase of

goods required for use in public service in accordance with provisions in the Delegation of Financial Powers Rules after following the prescribed procedure contained in the General Financial Rules.

Rule 147- Powers for procurement of goods:

The Ministries or Departments have been delegated full powers to make their own arrangements for procurement of goods and services that are not available on GeM. Common use Goods and Services available on GeM are required to be procured mandatorily through GeM as per Rule 149.

Different Methods of Procurement of Goods:

| | |
|---|---|
| 1 | Government e-Market Place (GeM) (GFR-149): The procurement of goods & services by Ministries or Departments will be mandatorily be made through GeM. |
| 2 | Purchase of goods without quotation up to Rs. 25,000/- (GFR-154): On each occasion, purchases of goods must be made based on the required certificate that will be noted by the appropriate authority without the use of quotations or bids. |
| 3 | Purchase of goods by purchase committee up to Rs.2,50,000/- (GFR-155): Each time, a properly constituted local purchasing committee, consisting of three members at an appropriate level as determined by the Head of Department, is to be consulted before making any purchases. |
| 4 | Purchase of goods by obtaining bids (GFR-158): The standard methods of obtaining bids like Advertised Tender, Limited Tender and Single Tender enquiries are followed. |
| 5 | Advertised Tender Enquiry above Rs. 25.00 lakhs (GFR-161): In these situations, advertisements should be placed on GeM and, if they are not, on the Central Public Procurement Portal (CPPP) at www.eprocure.gov.in . |
| 6 | Limited Tender Enquiry up to Rs.25.00 lakhs (GFR-162): If the goods are not available at GeM, copies of the bid document should be sent directly to companies that are listed on the list of the registered suppliers of the items in question by speed post, registered post, courier, or email. |
| 7 | Single Tender Enquiry (for proprietary items) (GFR-166): Under this method, procurement from a single source is resorted to. |
| 8 | Electronic Reverse Auction (Rule-167): According to automatic evaluation of bids, the winning bid is chosen by bidders presenting progressively better bids over a predetermined period of time. |

Rule 149- Government e-Market place (GeM)

According to Rule 149, it is mandatory to use the Government e-Marketplace (GeM) to purchase the goods and services listed on GeM, and GeM will certify the vendors' credentials. The reasonableness of the rates will be certified by the procuring authority. Using the Business Analytics (BA) tools provided on GeM, such as the Last Purchase Price on GeM, the Department's own Last Purchase Price, etc., Government Buyers may determine the appropriateness of prices prior to placing an order. To prevent procurement through L-1 Buying, bidding, or reverse auction on GeM or the requirement to acquire the approval of higher authorities necessary with reference to the projected value of the complete demand, a demand for products may not be divided into tiny quantities to make piecemeal purchases.

In India, there is a platform for online public procurement called Government e Market Place. It offers e-bidding, reverse e-auction, and demand aggregation technologies to help government buyers get the most for their money. GeM, or the Government e-Marketplace, is a single location where consumers may buy essential goods and services. GeM is a flexible, self-sufficient, and user-friendly site for making purchases by government employees. GeM is a portal built by DGS&D with technical assistance from the National e-Governance Division of the Ministry of Electronics and Information Technology. On August 9, 2016, the Minister of Commerce and Industry unveiled the portal. GeM is a system-driven, entirely paperless,

online marketplace that makes it possible to buy everyday items. GeM is an entirely digital, cashless, system-driven marketplace that makes it possible to buy everyday goods and services with little to no human interaction.

History of GeM

GeM was introduced on August 9, 2016, with cooperation from the Directorate General of Supplies & Goods (DGS&D) and the Ministry of Commerce & Industry, Government of India.

| | |
|-----------------|-------------------------------|
| GeM 1.0 Version | March, 2017 |
| GeM 2.0 Version | March, 2017 to December, 2018 |
| GeM 3.0 Version | January, 2018 to August, 2020 |
| GeM 4.0 Version | August, 2020 onwards |

GeM SPV- At present the GeM is not supported by the DGS&D but it is being supported/monitored/managed by Special Provision Vehicle (SPV).

GeM Features

Transparency

GeM largely removes the need for human interaction during vendor registration, order placement, and payment processing. GeM is an open platform that places no restrictions on legitimate vendors who want to work with the government. Both the buyer, his or her head of organisation, the payment authorities, and the vendors are notified via SMS and email at each step. GeM facilitates time-bound, cashless payments online.

Efficiency

Direct purchases on GeM can be completed in a matter of minutes, and the entire process is online, integrated from beginning to end, and equipped with online tools for evaluating pricing justification. The reverse auction (RA) and bidding functionality on GeM is among the most open and effective for higher value purchases.

Secure & Safe

GeM is an entirely secure platform, and both buyers and sellers electronically sign all documents on GeM at various stages. Through the MCA21, Aadhaar, and PAN databases, the vendors' antecedents are instantly and online validated. Additionally, third-party supplier evaluations are carried out using credit rating firms that have been granted SEBI accreditation. Regardless of the amount of the purchase, GeM verifies every vendor completely online.

Potential

Government customers can easily purchase Make in India and SSI goods on GeM thanks to the filters for choosing products that are Preferential Market Access (PMA) compliant and those made by Small Scale Industries (SSI). Administrators and policymakers can more easily and successfully enforce government restrictions regarding PMA and SSI sourcing thanks to easily accessible MIS.

Savings

Prices on GeM have significantly decreased compared to tender, rate contract, and direct purchase rates because of the

transparency, effectiveness, and simplicity of the GeM portal. GeM would eventually become the National Public Procurement Portal if taken to its logical end and in accordance with international best practices.

Provisions in GeM

Direct Purchase- Up to Rs. 25,000/-

Comparison-Above Rs. 25,000/- and up to Rs. 5.00 lakhs on L-1 basis from three different Original Equipment Manufacturer (OEM).

(Bidding and Reverse Auction is not mandatory)

Bidding/Tender- Above Rs. 5.00 lakhs

Reverse Auction- Above Rs. 5.00 lakhs

(Bidding and Reverse Auction is mandatory)

Custom Bid or Customize Bid- Any item which is not available on GeM, can be procured by creating custom/customize bid on GeM portal by all Government buyers for the items exceeding Rs.5.00 lakhs. The specifications along with tentative rate will be uploaded and after 24 hours it will be activated. Thereafter bidding will be done. This provision existed in GeM from 07.10.2020.

Bunch Bid- A Bunch Bid can also be floated for multiple items through GeM.

Reasonableness of Rates- It is to be certified by the buyers as per Business Analytical (BA) Tools, last purchase order or prevailing market rates.

Splitting of Requirement- It is not allowed.

Annual Procurement Plan- Annual

Procurement Plan is required to be prepared by the buyers and need to be uploaded on GeM.

Procurement of Goods & Services outside GeM

- ✳ As per GFR-149 procurement of common use goods and services by Government buyers will be mandatory if available on GeM.
- ✳ The capacity to generate “GeM Availability Report & Past Transaction Summary” (GeM AR&PTS) has been made accessible on GeM w.e.f. 01.07.2020 in order to implement the aforementioned provisions.
- ✳ According to OM dated 27.08.2020 from the Ministry of Finance, Government of India, this is a requirement for the Competent Authority to make a decision regarding the procurement of necessary goods and services by floating a bid outside GeM, and its unique ID would need to be provided on the publishing portal along with the tender proposed to be published.

Classification of MSME Firms

Special provisions for MSME Firms

- ✳ To promote MSME firms under Atmnirbhar bharat campaign, No Global Tender Enquiry (GTE) for purchase of goods and services up to the value of Rs.200.00 crore.
- ✳ Exempted from tender cost and submission of EMD with the tender.
- ✳ Price preference up to 15% (L1+15%) to match with L-1 non MSME firm and at least 25% of purchase from MSME Firms.

- ✳ 4% out of 25% to MSME run by SC/ST.
- ✳ 3% out of 25% to MSME run by Women.

Two-Stage Bidding

Under two stages bidding initially technical bids are received and evaluated and the financial bids are received afterwards from those bidders whose bids at the first stage were not rejected.

Two-stage bidding may be followed if it is not feasible to formulate detailed specifications or identify specific characteristics for the items to be procured without receiving technical inputs from the bidders.

Rapid technology advancements, market volatility, or both may have an impact on the item's specification.

The bidder is expected to carry out a detailed survey or investigation for assessment of risks and costs before quoting the financial bid.

Procedure for two stage bidding

In the first stage the department shall invite bids through advised tender containing the technical aspects only without bid price.

All the first stage bids shall be evaluated through a committee. If required, the committee may hold discussions with the bidder by giving equal opportunity.

In the second stage of bidding the department shall invite bids from all those bidders whose bids at the first stage were not rejected, present final bid along with bid price.

Special Provisions for Scientific Ministries/departments in GFR-2017

As per OM No.20/42/2021-PPD dated 1st September, 2021 of Government of India, the following amendments in GFRs have been made:

| Rule No. | Existing provision | Amended Provisions |
|----------|---|--|
| 154 | Purchasing products without getting quotes up to a maximum of Rs. 25,000 each time on the basis of certificate to be recorded by the competent authority regarding reasonableness of rates. | Purchase of items without receiving a quote. Based on a certificate that the appropriate authority must record regarding the reasonableness of the rates, up to a maximum of Rs. 50,000 on each occurrence. Note: These powers are to be used only when the required goods are not available on GeM as stipulated in OM No.6/1/2018-PPD dated 19.01.2018. |
| 155 | Purchase of goods by Purchase Committee: Products up to Rs. 2,50,000 per occasion and beyond Rs. 25,000 in total may be made on the basis of recommendation of LPC on the basis of certificate to be recorded jointly by the Committee regarding reasonableness of rates. | Purchase of goods by Purchase Committee: Products costing more than Rs.50,000 and no more than Rs.10,00,000 on each event may be made on the basis of recommendation of LPC may be made on the basis certificate to be recorded jointly by the Committee regarding reasonableness of rates. Note: These powers are to be used only when the required goods are not available on GeM as stipulated in OM No.6/1/2018-PPD dated 19.01.2018. |

Debarment from bidding (GFR-151)

- ✳ Any bidder convicted of an offence under the prevention of Corruption Act, 1988, Indian Penal Code or any other law for causing any loss of life or property shall be debarred from bidding.
- ✳ If it is established that the bidder has breached the code of integrity after giving a reasonable opportunity to represent

against such debarment, the procuring entity may debar a bidder from participating for a maximum of two years in any procurement procedure it conducts.

Single Tender Enquiry (GFR 166)

Procurement of Proprietary Items

In the following circumstances, purchasing from a single supplier may be used:



- * The necessary goods are only produced by one specific company.
- * Purchases made in an emergency that require the written authorization of the appropriate authorities and justification.
- * Standardization of equipment or replacement parts to be compatible with already-existing equipment that will be purchased from a chosen company.

Proprietary Article Certificate (GFR-166)

| | |
|--|----------------------------------|
| The indented goods are manufactured by | |
| M/s..... | |
| No other make or model is acceptable for the following reasons:..... | |
| Concurrence of finance wing to the proposal vide:- | |
| Approval of the competent authority vide:..... | |
| Signature (Indenting Officer) | Signature (Procuring Officer) |

Code of Integrity (GFR-175):

No representative of a procuring body or a bidder may act against the norms of integrity, which include

- i. Prohibition against offering or accepting bribes, gifts, rewards, or other tangible benefits in exchange for improper advantages in the procurement process;
- ii. Any scheming, bid-rigging, or anti-competitive conduct that could undermine the openness and equity of the procurement process;
- iii. Improper use of data given to the bidder by the contracting party;
- iv. Making false declaration or providing false information for participation in a tender.

Salient Points for Procurement of Software

- * To be purchased on Educational/Academic price and not on commercial price with the conditions of fall clause.
- * To be purchased directly from the principal developer.
- * Proprietary item certificate to be obtained.
- * License of the software should be IP based and not in the name of individuals.
- * New software to be purchased from the Budget of Capital Head.
- * Renewal of License of existing software to be done from the budget of Revenue Head.

Delegation of Powers to Directors of ICAR Institutes for Execution of Civil Works in ICAR

In response to F.No. 3(14)/ 2007-EC Dated 01.06.2020 of Director (Works), the Governing Body of ICAR in its 249th meeting

held on 3rd February, 2020 has approved the following powers for execution of works to Directors of Research Institutes / National Research Centers / Project Directorates / ATARIs:

| Sl.No. | Description | Revised power to sanction the work up to |
|--------|--|--|
| 1 | Sanction of works by the Director of the Institutes / PDs /NRCs/ ATARIs without approval of IMC | Rs.100.00 lakhs |
| 2 | Sanction of works by the Director of the Institutes / PDs /NRCs/ ATARIs with the approval of IMC | Rs.200.00 lakhs |
| 3 | Sanction of works by the concerned DDG, ICAR after financial concurrence from FA, DARE / ICAR | Above Rs.200.00 lakhs to Rs.500 laks |
| 4 | Sanction of works by DG, ICAR through Secretary, ICAR after financial concurrence from FA, DARE / ICAR | Above Rs.500.00 lakhs |

In order to exercise the above powers, the following conditions are to be satisfied:

- ✳ The institute's EFC and SFC work being approved.
- ✳ The funding for the purchase is available.
- ✳ Approval of the plans and budgets by the relevant authority
- ✳ Internal Finance Division (IFD) of the institution and Financial Advisor (FA) of the Department of Agricultural Research

and Education (DARE) or Indian Council of Agricultural Research (ICAR) must both agree in cases where the Deputy Director General (DDG) or Director General (DG) of the ICAR has given their approval.

The power of Directors to carry out the original works and repair & maintenance works either departmentally or through outside agency:



| Sl.No. | Description | Revised power up to (Rs. lakhs) |
|--------|---|---------------------------------|
| 1 | Sanction of works by the Director of the Institutes / PDs / NRCs/ ATARIs for carrying out original works / special repairs / minor works (under capital head) either departmentally or through any outside agency | Rs.25.00 lakhs |
| 2 | Sanction of works by the Director of the Institutes / PDs / NRCs/ ATARIs for carrying out repairs and maintenance works (other than Capital Grants) either departmentally or through any outside agency | Rs.50.00 lakhs |

These powers are subject to the following conditions:

- ❖ Availability of Funds
- ❖ Approval of Plans & estimates from in-house engineering expert
- ❖ Concurrence of IFD without technical vetting from Director (works)
- ❖ If the institute does not have in-house engineering knowledge, skilled engineers in the relevant discipline who are not below the level of T-5 may be accessible in nearby ICAR institutes.

❖ The vetting of the Director (Works) is not required, if the estimates have been obtained from Central Public Works Department (CPWD) / Public Works organizations defined as per GFR 133 (1) and 133 (2).

Keeping the provisions as available in the Manual on Policies and Procedure for procurement of works issued by Ministry of Finance, Government of India, the civil works in ICAR shall be executed after following the relevant provision of GFR-2017 for execution of works.



ANNEXURE

Know Your Resource Persons/Experts

| Sl. No. | Topic | Resource Person |
|---------|--|---|
| 1 | General Accepted Accounting Principles | Dr. SK Das, Senior Finance & Accounts Officer, ICAR-National Rice Research Institute, Cuttack Email: sunilkdasicar@gmail.com |
| 2 | Accounting Standards | Shri SK Pathak, Comptroller, ICAR-Indian Veterinary Research Institute, Bareilly, U.P. Email: sananjali2000@yahoo.com |
| 3 | Single Entry System & Double Entry System of Accounting | Shri Avesh Yadav, Comptroller, ICAR-National Dairy Research Institute, Karnal, Haryana, Email: avesh.icar@nic.in |
| 4 | Journal, Ledgers & Trial Balance | Shri Kunal Kalia, Senior Finance & Accounts Officer, Indian Council of Agricultural Research, New Delhi Email: kunalkalia.icar@gmail.com |
| 5 | Receipt & Payment Accounts | Dr. SK Das, Senior Finance & Accounts Officer, ICAR-National Rice Research Institute, Cuttack Email: sunilkdasicar@gmail.com |
| 6 | Income & Expenditure A/c & Profit & Loss A/c | Shri GP Sharma, Director (Finance), Indian Council of Agricultural Research, New Delhi, Email: gpsharma.icar@nic.in |
| 7 | Financial Statement of ICAR (Different Schedules of Annual Accounts of ICAR) | Ms. Sunita Arya, Director (Finance), ICAR-Central Arid Zone Research Institute, Jodhpur, Rajasthan Email: sunita_icar@yahoo.com |
| 8 | Balance Sheet | Shri GP Sharma, Director (Finance), Indian Council of Agricultural Research, New Delhi, Email: gpsharma.icar@nic.in |
| 9 | Depreciation & Reserves | Dr. SK Das, Senior Finance & Accounts Officer, ICAR-National Rice Research Institute, Cuttack Email: sunilkdasicar@gmail.com |
| 10 | Rectification of Errors | Dr. SK Das, Senior Finance & Accounts Officer, ICAR-National Rice Research Institute, Cuttack Email: sunilkdasicar@gmail.com |



| Sl. No. | Topic | Resource Person |
|---------|---|---|
| 11 | Accounting of Externally Funded Projects | Shri Rajesh Sahay, Director (Finance), Indian Council of Agricultural Research, New Delhi, Email: rajeshsahay.icar@nic.in |
| 12 | Bank Reconciliation Statement | Shri GP Sharma, Director (Finance), Indian Council of Agricultural Research, New Delhi, Email: gpsharma.icar@nic.in |
| 13 | Significant Accounting Policies | Ms. Sunita Arya, Director (Finance), ICAR-Central Arid Zone Research Institute, Jodhpur, Rajasthan Email: sunita_icar@yahoo.com |
| 14 | Audit of Central Autonomous | Shri Rajneesh Singh, Comptroller, ICAR-Bodies Central Institute of Fisheries Education, Mumbai Email: Rajneesh.singh@cife.edu.in |
| 15 | Purchase Procedures Consistent | (i) Shri DD Verma, Comptroller, ICAR-National Dairy Research Institute Karnal, Haryana, Email: ddverma11@gmail.com (ii) Shri Prashant Kumar, Director (Finance), ICAR-Central Marine Fisheries Research Institute, Cochin, Kerala Email: prashant.kumar@icar.gov.in |
| 16 | Preparation of Annual Account from Sample Data | Ms. Sunita Arya, Director (Finance) ICAR-Central Arid Zone Research Institute, Jodhpur, Rajasthan Email: sunita_icar@yahoo.com |
| 17 | Accounting through TSA/PFMS in ICAR | 1. Shri GP Sharma, Director (Finance), Indian Council of Agricultural Research, New Delhi, Email: gpsharma.icar@nic.in 2. Shri GC Prasad, Comptroller, Bihar Animal Science University, Bihar Email: gcprasadin@gmail.com |
| 18 | Goods & Services Tax- A Destination Based Consumption Tax | Shri SK Pathak, Comptroller, ICAR-Indian Veterinary Research Institute, Bareilly, UP, Email: sananjali2000@yahoo.com |
| 19 | Concept of Financial Management | Shri S. K. Pathak, Comptroller ICAR-Indian Veterinary Research Institute, Bareilly, U.P. Email: sananjali2000@yahoo.com |



| Sl. No. | Topic | Resource Person |
|---------|---|---|
| 20 | Different Types of Advance | Shri GP Sharma, Director (Finance), Indian Council of Agricultural Research, New Delhi Email: gpsharma.icar@nic.in |
| 21 | Provision of Income Tax in Accrual Accounting | Shri VR Srinivasan, Comptroller, ICAR-Indian Agricultural Research Institute, New Delhi Email: cheenuvssan@gmail.com |



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