



**GOVERNMENT OF KARNATAKA
URBAN DEVELOPMENT DEPARTMENT**

**KARNATAKA MUNICIPAL ACCOUNTING MANUAL
VOLUME 1 - ACCOUNTING TREATMENTS**



MRC
driving municipal reforms

MUNICIPAL REFORMS CELL

Directorate of Municipal Administration

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**"Karnataka Municipal Accounting Manual
Volume 1 - Accounting Treatments"**

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VOLUME 1 - ACCOUNTING TREATMENTS**

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CHAPTER

1

INTRODUCTION

Introduction

1.1. Karnataka has been one of the leading States in urban sector reform. It has taken up several programmes for improving urban infrastructure and enhancing urban governance in its cities. As part of its urban reform strategy, the Government of Karnataka has decided to introduce double entry, accrual system of accounting in its urban local bodies. The accounting system is broadly based on the National Municipal Accounting Manual. Practices in other ULBs of India, professional literature and current accounting practices in ULBs of Karnataka, and their requirements were also considered while developing the System. The Karnataka Municipal Accounting and Budgeting Rules, 2006 (KMABR, 2006) prescribe the broad policies and procedures under the new accounting system. Detailed accounting policies and procedures are laid down in the Karnataka Municipal Accounting Manual (KMAM), to serve as a reference document, as well as, a day to day guide to the Municipal staff and officers.

Using the Karnataka Municipal Accounting Manual

1.2. This Manual is meant for practical use by Accountants and other staff in the ULBs. In order to facilitate its use, the Manual has been divided into two volumes:



Volume 1 - Accounting Treatments (This volume)

1.3. Volume 1 covers the accounting treatment of common municipal transactions. It is a policy guide as well as a repository of transaction entries that need to be passed in case of various ULB activities. This Volume is the central document of the Manual.

Volume 2 - Chart of Accounts

1.4. Volume 2 documents, in detail, the coding system and the standard list of account heads which shall be used for accounting. This Volume will need to be referred to, for identifying the exact head of account to which a transaction referred to in Volume I needs to be debited / credited. It also contains various other listings such as fund, function, etc., needed for the codification structure used in this Manual. The chart of accounts is also available in Schedule IVA, IVB, IVC and IVD to the KMABR, 2006.

Applicability

- 1.5. This Manual is applicable to all ULBs of Karnataka i.e.
- Municipal Corporations
 - City Municipal Councils
 - Town Municipal Councils and
 - Town Panchayats

However, the relevance of transactions will depend on the specific nature and materiality of activities performed by individual ULBs.

Salient Features of the New Accounting System

- 1.6. The following are the salient features of the new accounting system:
- It is a double-entry accounting system
 - It is an accrual based accounting system
 - It prescribes separate books of accounts for different funds
 - Accounting is done using a standard chart of accounts, which is uniform for all the ULBs
 - It is supported by a series of accounting, and non-accounting forms and registers

Double Entry Accounting System

1.7. A financial transaction involves an exchange between two accounts. For example, for every asset, there exists a claim on the asset, either by the owner, or by the person who has lent money for acquiring the asset. Similarly, sale of an item affects both the cash balance and the inventory held. Double entry accounting system recognizes the fundamental dual nature of transactions. In this system, each account has two columns, “debit” and “credit”. Two entries are made for each transaction, one entry as a debit in one account, and the other entry as a credit in another account. The sum of all debits and the sum of all credits are always equal.

- 1.8. Double entry accounting system has the following advantages over single entry accounting system:
- Easier detection of errors and frauds

Chapter 1 - Introduction

- A more accurate calculation of income or loss
- Inclusion of assets and liabilities in the books of account
- Preparation of financial statements directly from the accounts

1.9. In this system, accounting of transactions and reporting of the financial results is done in such a way as to provide the ULBs and the Government with the two important financial statements for the purposes noted against each:

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

Accrual System of Accounting

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

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

- Revenue is recognised as it is earned, and thus “income” constitutes both revenue received and receivable. Accrual based accounting not only records the actual income but also highlights the level and efficacy of revenue collection, thereby assisting the authorities in taking financial decisions.
- Expenditure is recognised as and when the liability for payment arises and thus it constitutes both amount paid and payable. Expenditure incurred on repairs and maintenance shall be recognised as 'expense' of the period in which they are incurred and, if not paid for during the year, shall be treated as a liability (payable) and be disclosed as such in the Balance Sheet.
- Expenses are matched with the income earned in that year. Thus, it provides a very effective basis to understand the true performance of the ULB for the operations that are conducted in that year.
- A distinct difference is maintained between items of revenue nature and capital nature. This helps in correct presentation of financial statements, viz., the Income and Expenditure Account and the Balance Sheet.

- Costs which are not charged to Income & Expenditure Account are carried forward and kept under continuous review. Any cost that appears to have lost its utility or its power to generate future revenue is written-off.
- The surplus or deficit as shown at the year-end, represents the correct financial position of the organisation arising out of the various transactions during that year.
- It facilitates proper financial analysis and reporting.
- It captures “full” cost of servicing and helps in identifying financial viability of rendering services.
- It helps in providing timely and accurate information for planning, decision-making and control at each level of management.
- It assists in effective follow-up of receivables by the municipal body and proper ascertainment of payables by the ULB.
- One of the distinct advantages of adopting accrual based accounting system is ease in financial appraisals by the financial institutions. It also facilitates credit rating through approved Credit Rating Agencies, which is a pre-requisite for mobilising funds in the financial markets through debt instruments.
- It presents a true picture of the financial position of the ULB and helps in better financial management.

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

Use of Funds

1.13. This Manual explains the use of a simple fund structure for accounting. Funds are separate accounting entities for recording transactions related to specific objectives. The concept of 'Funds' brings accountability and better transparency. The ULBs shall maintain separate books of account for different Funds. The Funds which are prescribed for this purpose are :

- i. General Fund
- ii. Water Supply & Sewerage Fund
- iii. Enterprise Fund

1.14. The accounting principles shall be applicable uniformly to all Funds. This Manual provides for accounting treatments for transactions in all the three Funds.

Use of Forms

1.15. The ULBs, under this system, shall use the forms and formats prescribed in Schedule VI of KMABR, 2006.

Accounting Policies

1.16. The Accounting Policies prescribed in this Manual are based on the policies approved by the Government of Karnataka, and are in line with the recommendation of the National Municipal Accounting Manual (NMAM).

Financial Statements

1.17. The financial statements shall comprise of:

- a) Income & Expenditure Account
- b) Balance Sheet and
- c) Receipt & Payment Account

1.18. The Income & Expenditure Account reflects the financial performance of the ULB for a period. The Balance sheet reflects the financial position of the ULB as on a particular date. The Receipts & Payments Account reflects the receipts and payments made by the ULB during the period. The surplus / deficit before depreciation shall be displayed separately in the Income & Expenditure Account for better assessment of the ULB's performance.

Reading the Accounting and Budgeting Manual

1.19. In the examples given in the Manual, amounts are shown without decimals. However, in actual practice, amounts shall be shown with two decimals. In Financial Statements, amounts shall be rounded off to the nearest rupee.

1.20. In the most of the illustrations given in the Manual, account codes are given at sub-minor code level. Appropriate detail codes (three digits for bank accounts, and two digits for other accounts) shall be added to these account codes in actual practice. While using account codes for which mandatory detail codes are prescribed in the Chart of Accounts (Schedule IVA to D), the account codes are given at the detail code level. Please refer to Volume 2 for information about detail codes.

1.21. Reference to bank accounts shall mean treasury accounts also.

CHAPTER

2

DEFINITIONS

Definitions

2.1. The various terms used in this Accounting Manual, and defined in this chapter ensure a common understanding of the terms often used in the Manual as well as helps to promote consistency and uniformity in their usage.

Definitions

2.2. The definitions/descriptions/meanings of the various terms used in this manual are as follows.

1. **Account** - A formal record of a particular type of transaction expressed in money or other unit of measurement and kept in a ledger.
2. **Account Code** - A unique numeric or alphanumeric identification given to each Account to facilitate classification and ease of recording.
3. **Accounting Entry** - A record of financial transactions and events in the books of account.
4. **Accounting Period** - The period of time for which the Financial Statements are prepared.
5. **Accounting Policies** - The specific principles, bases, methods, conventions, rules and practices adopted by ULBs for maintaining their accounts, and preparation of their financial statements. An accounting policy is an adoption of a principle, necessary to meet the peculiarities of a ULB or the needs of its management. For example, accounting policies are required for selection of a method of depreciation, valuation of inventory, accrual of income or expenditure etc.

6. **Accounting Year** - The period of twelve months, for which accounts are maintained, and financial statements are prepared consistently. The KMABR, 2006, has fixed the Financial year i.e., a period of twelve months beginning with the first day of April and ending with the following 31st day of March as the accounting year for ULBs.
7. **Accrual** - Recognition of revenues and costs as and when they are earned or incurred (and not as money received or paid) and recorded in the financial statements of the period to which they relate.
8. **Accrual Basis Accounting** - The method of recording transactions by which revenues, costs, assets and liabilities are reflected in the accounts in the period in which they accrue. The 'accrual based accounting' includes considerations relating to deferrals, allocations, depreciation and amortization.

9. **Accrued and Due** - With respect to an **asset** (or a **liability**), it means a claim which has become due for receipt (or payment).

With respect to an **income** (or an **expense**), it means the amount earned (incurred) in an accounting period, for which a claim has become due.

10. **Accrued But Not Due** - With respect to an **asset** (or a **liability**), it means a claim which pertains to the accounting period, but which has not yet become due for receipt or payment.

With respect to an **income** (or an **expense**), it means the amount earned (incurred) in an accounting period, but for which no claim has become due in that period.

11. **Accumulated Depreciation** - The total depreciation charged on a depreciable fixed asset, from the time of purchase to date.
12. **Act - The Karnataka Municipalities Act, 1964.**
13. **Advance** - Payment made on account of, but before completion of, a contract, or before acquisition of goods or receipt of services or otherwise.
14. **Amortisation** - The systematic allocation of cost of an item of expenditure over the period over which its benefit is available to the ULB, for example, allocation of the cost of an intangible asset over its useful life.
15. **Annual Performance Report** - A set of reports prepared at yearly intervals summarising its operations for the preceding year, and consisting of city management

Chapter 2 - Definitions

report, financial statements audit report, audited financial statements, cost and performance indicators, and budget variance statement.

16. **Appropriation** - Allocation of the funds estimated to be available to the ULB during the budget period, for expenditure under various budget heads.
17. **Asset** - Money or money's equivalent owned by the ULB, and includes movable and immovable properties acquired by the ULB, gifted by others or transferred by the Government, cash and bank balances, any advance paid, investment made, and any receivables or outstanding amounts due to the ULB.
18. **Asset Replacement Fund** - A Fund created for the purpose of accumulation of resources for the replacement of an asset. The fund shall normally be equal to the amount of depreciation provided on the Fixed Assets and shall be utilised only for the purpose of replacement of those Fixed Assets.
19. **Assigned Revenues** - Assigned revenues are in the nature of a share in the revenues of the government.
20. **Audit Report** - The formal expression of opinion by the Auditor on the Financial Statements, books of account and transactions of the ULB.
21. **Bad Debts** - Debts owed to the ULBs, which are considered to be irrecoverable, e.g., arrears of taxes, fees and other revenue remaining to be collected despite administrative and legal action, and considered to be irrecoverable.
22. **Balancing** - Finding out the difference or balance between the debit side total and the credit side total of an account as on a particular date. This difference is put on the side that is lower, to balance the two sides of an account.
23. **Balance Sheet** - A statement of the financial position of a ULB as at a given date, showing the value of its assets, liabilities, and the fund balance as at that date.
24. **Bank Book** - A book of original entry for accounting all deposits and transfers into, and payments and transfers from a bank account, and arriving at the bank balance.
25. **Bank Reconciliation Statement** - A statement, which explains the discrepancies between balance as per bank book, and balance as per bank statement as on a particular date. It reflects the nature and amount of transactions, not accounted either by the ULB or the Bank as on a particular date. Such a statement may also reflect errors/omissions in the recording of transactions, inter-se, between the ULB and the Bank.

26. **Bond** - A formal document constituting acknowledgement of a debt, normally containing provisions regarding payment of interest, repayment of principal and security, if any. It is transferable in the appropriate manner.
27. **Books of Account** - Books of Account are the records where the financial transactions are recorded, and consist of ledgers, bank books, cash books, journals and other books, whether kept in the written form or as print-outs of data stored in a floppy disk, Compact disk, tape or any other form of electro magnetic data storage.
28. **Budget** - It means plan of activities and programs for a period, expressed in terms of money in respect of resources and expenditure. The budget expresses the ULB's goals for the period in financial terms.
29. **Capitalisation** - Transfer of the total cost of a capital work or project from 'capital work-in-progress account' to the appropriate fixed asset account, on completion of the work or project.
30. **Capital Expenditure** - Expenditure incurred for acquisition / construction of fixed assets. The term is intended to cover expenditure that adds fixed asset units or that has the effect of improving the capacity, efficiency, life span or economy of operations of an existing fixed asset.
31. **Capital Work in Progress** - Expenditure on capital works which are in the process of construction or completion.
32. **Cash Book** - A book of original entry for accounting all receipts and payments in the form of cash and cheques, and arriving at the Cash & Cheques balance.
33. **Casting** - It means summing up of the amounts in the books of account.
34. **Chart of Accounts** - A systematically arranged list of accounts applicable to ULBs, giving account names, account heads and account code numbers.
35. **City Management Report** - A report of the Municipal Commissioner/Chief Officer, on the ULB's performance in the financial year. It shall provide an overview of the financial performance and position of the ULB, and include performance indicators. It shall also respond to any comments and qualifications mentioned by the Auditor stating the facts of the matter and the steps taken in respect of those qualifications.
36. **Municipal Commissioner** - Commissioner (or Chief Officer, as the case may be) of the Municipality. In this Manual, wherever the word "Commissioner" is mentioned, it refers to the Municipal Commissioner or Chief Officer as the case may be.

Chapter 2 - Definitions

37. **Contingent Liability** - An obligation likely to arise in the future, depending on the occurrence or non occurrence of one or more uncertain future events not wholly within the control of the ULB.
38. **Control Account** - 'Control Account' is an account in the general ledger for which detailed personal accounts are maintained in a subsidiary ledger. The total of balances of personal accounts in the Subsidiary Ledger shall tally with the balance in the corresponding Control Account in the General Ledger. Examples of Control Accounts are "Contractors Payable", and "Supplier Payable" accounts in the General Ledger, under which subsidiary ledgers are maintained for individual Contractors and Suppliers.
39. **Cost** - The amount of expenditure incurred on or attributable to a specified article, product, project or activity.
40. **Cost of Acquisition** - The cost of a fixed asset, comprising of its purchase price and any attributable cost of bringing the asset to its working condition for its intended use.
41. **Cost of Investment** - The amount of expenditure incurred on or attributable to the purchase/acquisition of an investment. The cost of an investment, amongst others, includes acquisition charges such as brokerage, fees and duties.
42. **Credit** - An entry on the right side of an account which has the effect of increasing an income or liability, or decreasing an expense or an asset.
43. **Creditor** - A party (a person, an organization, a company or government) to whom money is owed for some goods, services or work.
44. **Current Assets** - Cash and cash equivalents, receivables, inventory, short term investments, prepaid expenses and other assets that are expected to be converted to cash within a year.
45. **Current Liabilities** - Debts and obligations due within a year, including amounts due to creditors or suppliers, and accrued liabilities, deposits, etc.,
46. **Debit** - An entry on the left side of an account, which has the effect of increasing an expense or an asset, or decreasing an income or a liability.
47. **Deferred Income** - Any receipt in the nature of an income, but the crediting of which as income is deferred until such time as it is earned, or matched by a corresponding expense. Until then, it treated as a liability. An example of deferred income is a

specific grant used for acquiring a fixed asset, which is treated as a liability at the time of receipt, and transferred to income account, in proportion to depreciation charged on the fixed asset.

48. **Deferred Revenue Expenditure** - Any expenditure of a revenue nature, but which is likely to be of benefit to the ULB for more than one year, and which is charged off as expense over the period over which it is considered of benefit to the ULB.
49. **Deficit** - The excess of expenditure over income of the ULB for an Accounting Period under consideration.
50. **Depreciation** - The appropriation of the cost of a fixed asset over its useful life. The cost of a depreciable fixed asset is allocated or charged off as depreciation in an equitable proportion in each accounting period, during the expected useful life of the asset.
51. **Depreciable Amount** - The historical cost or other amount substituted for historical cost of a depreciable asset in the financial statements, less the estimated residual value.
52. **Dividend Income** - An income received from investments by a ULB in shares/units.
53. **Earmarked Funds** - Funds set aside for specific purposes, for example, SC/ST Development (18%) Fund.
54. **Expense** - Decrease in economic benefits during the accounting period in the form of outflows or depletion of assets, or incurrence of liabilities other than those related to payments in respect of Municipal Fund.
55. **Financial Statements** - The set of reports consisting of the Balance Sheet, Income & Expenditure Account, and Receipts & Payments Account including schedules, and notes thereto.
56. **Fixed Asset** - A tangible, asset held for long term use in producing or providing goods and services, and which is not held for sale in the normal course of operation of the ULB.
57. **Fund** - A separate fiscal and accounting entity within the ULB, segregated for ascertaining the result of specific activities carried out with certain specific objectives, and in accordance with special regulations, restrictions or limitations. There shall be three fund accounts, viz., General Fund, Water Supply and Sewerage Fund, and Enterprise Fund. Separate books of accounts are maintained, for each Fund.
58. **Folio reference** - A page number in a book of account, which refers to the disposition or source of an entry or posting.

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59. **General Ledger** - The book where postings are made from the books of original entry, to complete the double entry, and to group together similar transactions over a period, under appropriate account heads from the chart of accounts.
60. **Government** - The Government of Karnataka.
61. **Grant** - An assistance by the Central or State Government, in cash or kind, either with, or without conditions attached to it. It excludes those forms of government assistance which cannot, reasonably, have a value placed upon them and transactions with government which cannot be distinguished from the normal transactions of the ULB. A Grant may be termed as a 'general grant', if it is received without any conditions attached to it. It may be termed as a 'specific grant', if there are conditions attached to it, with regard to its use.
62. **Gross Block** - The total cost of acquisition/purchase of all the Fixed Assets, or group of assets of the ULB.
63. **Historical Cost** - The original cost of an asset at the time of its purchase, construction or acquisition, as opposed to its market value.
64. **Income** - Money or the money equivalent earned or accrued during an accounting period, increasing the total of previously existing net assets, and arising from provision of any type of services and rentals.
65. **Income and Expenditure Account** - A financial statement to present the incomes and expenses for an accounting period and to show the excess of revenues over expenses (or vice-versa) for that period. It is also an account in the general Ledger to which balances in all income accounts and all expense accounts are transferred while closing the books of account at the end of each year.
66. **Inter-fund transfer** - Any transaction between two Funds, and includes physical transfer of money from one Fund to another, and the receipt or payment by one Fund, on behalf of another Fund.
67. **Interest** - The charge for the use of money borrowed / given or debt incurred, i.e., interest on a loan payable periodically.
68. **Investments** - Assets held by a ULB for earning income by way of dividends, interests and rentals, or for other benefits.
69. **Infrastructure Assets** - Those assets which provide basic amenities or infrastructure for the public, and which include roads, bridges, flyovers, sewerage and drainage, street lighting, etc.,

70. **Journal voucher** - The voucher used for recording transactions other than those involving cash or bank accounts.
71. **Journal Book** - The book of account in which journal vouchers are recorded chronologically.
72. **Liability** - An obligation of the ULB arising from past events, the settlement of which is expected to result in a payment, provision of services, or others yielding economic benefits in the future.
73. **Long term investments** - An investment other than short term investment.
74. **Municipal fund** - The municipal fund is the general operating fund of a ULB. It is used to account for all financial resources. This shall include General Fund, Water Supply and Sewerage Fund and Enterprise Fund.
75. **Narration** - A brief explanation on the transaction, with document references, if any. The narration is written below an accounting entry, and is normally written in brackets, and starts with the word "Being".
76. **Net Assets** - The excess of the book value of the assets over its liabilities.
77. **Net Block** - Gross Block less Accumulated Depreciation of all fixed assets or groups of assets of the ULB.
78. **Period End** - The last day of any Accounting Period, e.g., quarter, half-year, year-end.
79. **Personal accounts** - Personal accounts are accounts of individual parties in a subsidiary ledger, for example, accounts of individual contractors and suppliers in the Subsidiary Ledger for 'Contractors Payable' and 'Suppliers Payable' respectively.
80. **Posting** - An act of entering the debit and credit aspect of transactions from the books of original entry (Cash/Bank Book and Journal Book) in the respective accounts maintained in the ledger.
81. **Prepaid Expense** - Payment for expense in an accounting period, the benefit for which will accrue in the subsequent accounting period(s).
82. **Provision** - A liability of uncertain timing or amount. Accrual basis accounting, and the convention of conservatism requires that all probable losses, expenses or liabilities are accounted for, and are reflected in the financial statements. Sometimes, they are not

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shown as liabilities, but are shown as deduction from the value of assets. This may happen when the book value of the asset higher than its fair value, and hence not realistic. (Example: Provision for doubtful receivables).

83. **Re-appropriation** - Re-allocation of the amounts allocated to expenditure under various budget heads, the total budget amount remaining the same as originally estimated.
84. **Receipt** - A written acknowledgement of something acquired; or a document recording the physical receipt of cash/cheques.
85. **Receipts & Payments Account** - The financial statement summarising opening cash and bank balances, cash inflow (actual receipts) and cash outflow (actual payments) during an accounting period.
86. **Reconciliation** - It means the process of analysing the difference between two items (i.e., amounts, balances, accounts or statements), and listing out the causes giving rise to the differences.
87. **Revaluation** - The process of revising the value of fixed assets of the ULB in the books of account, to their fair market value. Revaluation is done for the entire fixed assets, or a class of fixed assets of the ULB.
88. **Revaluation Reserve** - The reserve created in the books of the ULB, on account of an increase in the value of the fixed assets or a class of fixed assets of the ULB on revaluation. After revaluation, depreciation calculated on the revalued amount shall be debited to this account.
89. **Revenue Expenditure** - An outlay benefiting only the current year. It is treated as an expense to be matched against revenue.
90. **Rules** - Karnataka Municipal Accounting and Budgeting Rules, 2006, hereinafter, referred to as 'the Rules' or 'KMABR, 2006'.
91. **Sinking Fund** - A fund created for the repayment of a liability or for the replacement of an asset.
92. **Straight Line Method (SLM)** - The method under which the yearly charge for depreciation is computed by dividing the depreciable amount of a depreciable asset by the estimated number of years of its useful life.

93. **Subsidiary Ledger** - A ledger comprising of personal accounts under a particular control account. The total of balances of all personal accounts in the subsidiary ledger shall tally with the balance in the control account in the General Ledger, at any point of time. A 'Subsidiary Ledger' is also referred to as a '**Sub-Ledger**'.
94. **Surplus** - The excess of income over expenditure of the ULB for an Accounting Period under consideration.
95. **Short term investments** - Those investments which are readily realisable, and are intended to be held for not more than twelve months from the date of investment.
96. **Trial Balance** - A statement listing the debit and credit balances in the general ledger as on a particular date, drawn for the purpose of checking whether the total debit and credit balances tally. The trial balance is prepared for the purpose of checking the arithmetical accuracy of the books of account, as well as, to provide a basis for preparation of the financial statements.
97. **Useful Life** - The period over which a depreciable asset is expected to be used by the ULB.
98. **Voucher** - A document which serves as an authorisation for any financial transaction and forms the basis for recording the accounting entry for the transaction in the books of original entry, e.g., Receipt Voucher, Payment Voucher, Journal Voucher and Contra Voucher.
99. **Written Down Value (WDV)** - The original cost of a fixed asset or substituted value of a revalued fixed asset, less its accumulated depreciation at a given point of time.
100. **Written Down Value Method** - A method under which the yearly charge for depreciation of an asset is computed by applying a fixed percentage to its historical cost or substituted value less accumulated depreciation (net book value). This is also referred to as the "Diminishing Balance Method".

Rules of accounting

- 2.3. The basic rules of accounting flow from the accounting equation:

$$\text{Assets} = \text{Own Funds} + \text{Liabilities}$$
- 2.4. An increase in an asset, e.g., Building can be brought about by:
- Decrease in another asset, e.g., Bank Account, or
 - Increase in liability, e.g., Sundry Creditors or Bills Payable

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2.5. Similarly, a decrease in an asset, e.g., Bank may result in:

- a. Increase in another asset, e.g., Car
- b. Decrease in liability, e.g., payment of suppliers outstanding
- c. Decrease in own funds through expenditure

2.6. An increase in revenue (income) results in an increase in own funds, and an increase in expense results in decrease in own funds.

2.7. Double Entry Accounting System is thus a system of account keeping, by which, both the 'increasing' and the 'decreasing' effect of each transaction is recorded at a time. These twin aspects are called "DEBIT" and "CREDIT" aspects.

2.8. The rules of debits and credits are as follows:

Type of Account	Debit Signifies	Credit Signifies
Income Accounts	Decrease	Increase
Expense Accounts	Increase	Decrease
Asset Accounts	Increase	Decrease
Liability Accounts	Decrease	Increase
Municipal Fund	Decrease	Increase

2.9. In order to make a complete record of a transaction, it is necessary to debit one account and credit another account. In other words, **FOR EVERY DEBIT, THERE SHOULD BE A CORRESPONDING CREDIT.** An Accounting Entry would be a combination of a single debit and a single credit or a set of debits and a set of credits, as may be appropriate. The total debits will always equal the total credits.

CHAPTER

3

ACCOUNTING POLICIES

Accounting Policies

3.1. Accounting policies are the specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statements. They form the basis of accounting entries in the following chapters. These policies are to be consistently followed by the ULBs from year to year and are to be applied uniformly across Funds.

3.2. Significant accounting policies are required to be disclosed in a 'Statement of Significant Accounting Policies' along with the Financial Statements.

3.3. Where the accounting policies adopted by a particular ULB are not in conformity with those prescribed, the particulars of such a deviation shall be disclosed in the financial statements, together with the reasons for the deviation. Wherever possible, the financial impact of such non-compliance shall also be disclosed. In case the financial impact is not ascertainable either wholly or in part, this fact shall be indicated.

3.4. A change in accounting policy may be brought about due to a changed requirement of the National Accounting Policies, or changed legislative requirements. In case of any such change, the impact of the change shall be disclosed in the financial statements of the period in which the change is made. If the change does not have an effect in the current period, but is expected to have an impact in later periods, the fact of such a change shall also be appropriately disclosed in the period in which the change is adopted.

Broad Accounting Policies

Income

3.5. The accrual system of accounting shall be followed for recording revenues to the extent that is practical and feasible. All incomes amenable to accrual shall be accounted for, as and when, the right to receive them is established, the amount is determinable and there is no significant

uncertainty in their receipt. Receipts of a capital nature shall be segregated and reported separately from regular revenues.

Expenditure

3.6. The accrual system of accounting shall be followed for all expenditure to the extent that is practical and feasible. Such expenditure shall be accrued at the time when the benefit is received and the amount can be determined with reasonable certainty. Expenditures of a capital nature shall be segregated and reported separately. The following criteria shall be adopted for the accounting of expenditure:

- i. All claims against the municipal fund under a contract or indent for supply of goods, works, or services shall be accrued on approval of the bills or claims.
- ii. Establishment expenses shall be accounted on approval of bills.
- iii. All other revenue expenditures shall be accounted on payment, provided however that approved bills, if any, outstanding at the end of every year shall be accounted as on the last day of the Year.

Assets

3.7. All expenditure of a capital nature shall be recognised as Assets in the Balance Sheet. They shall be reported at the historical cost, including costs necessary to bring the asset into its intended location and condition for use. Fixed assets except for land shall be depreciated over their estimated useful lives. Assets received as gifts, and assets vested with the ULB by the Government shall be accounted at nominal value of Rs 1/.

Liabilities

3.8. All liabilities shall be recorded at the full value expected to be paid for them.

Detailed Accounting Policies

3.9. The following Accounting Policies shall govern the recording, accounting and treatment of transactions relating to various activities as given below:

Fund accounting

3.10. Transactions pertaining to water supply and sewerage shall be accounted under Water Supply & Sewerage Fund. Transactions relating to commercial type activities, and activities carried out with the objective of earning profits, or at least recovering costs, shall be accounted in the Enterprise Fund. However, if the revenue from such commercial type activities is not significant (less than 10%) as compared to the total revenue of the ULB from all sources, they shall be

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accounted under the General Fund. All other transactions, including property tax related transactions shall be accounted under the General Fund.

3.11. Allocation of expenditure: Expenditure that can be directly related to a particular Fund shall be accounted under that Fund. Common 'operations and maintenance expenses' relating to more than one Fund shall be allocated and accounted under the respective Funds on an equitable basis. All other expenditure that cannot be directly related to any particular Fund shall be accounted under the General Fund.

Property Tax and Cess

3.12. Property tax income shall be recognised in the period in which it becomes due and is ascertainable. This shall be dealt as below:

- a. Property tax income shall be recognised in the period in which it becomes due and is ascertainable. i.e.,
 - i. In case of existing properties, property tax shall be accrued at the beginning of the year. This will apply for both buildings and vacant lands.
 - ii. On new buildings, property tax shall be recognised in the month in which the property tax is received/self-assessment return is filed, or when demand is raised by issue of a demand notice, whichever is earlier.
- b. In the case of demand raised with retrospective effect in respect of properties that have escaped assessment, property tax shall be recognized when the demand is raised. To the extent the demand pertains to earlier years, it shall be treated as 'prior period income', and the amount pertaining to current year shall be treated as current year's income.
- c. 'Property tax received in advance' shall be treated as a liability till the tax becomes due, at which point, it shall be adjusted against receivables.
- d. Rebate allowed on Property Tax shall be treated as follows:
 - i. In the case of a rebate allowed to the taxpayer on account of self-occupation under section 103 of the Act, the net amount has to be accounted as Property tax, i.e., for the purpose of both demand and collection.
 - ii. In the case of a rebate allowed on account of early payment under proviso to section 105(1) of the Act, the gross amount has to be accounted as property tax, and rebate allowed has to be treated as an 'expense'.
- e. Notice Fee, Warrant Fee and Distraint Fee, Penalty, etc., for which notices or warrants are issued shall be accounted when the demand is raised.

Cess Collected on behalf of the State Government

- f. State Government dues (Health Cess, Beggary Cess, Library Cess, or any other cess that has to be collected along with the property tax under prevailing laws) shall be reckoned with property tax while accruing property tax. The total amount of property tax and cess shall be debited to the Receivables Account. Property tax is credited to the Property Tax (Income) account, and the total cess amount is credited to a separate 'Cess Control Account Property Tax.'
- g. 90 percent of the State Government Dues collected shall be transferred to individual cess liability accounts for different cesses, from where remittances shall be made to appropriate authorities. 10 percent of the amount collected which has to be retained by the ULBs as 'cess collection charge' shall be treated as income.
- h. If on account of remission granted, cesses collected earlier have to be refunded, the amounts of cesses so refunded shall be debited to respective 'Cess Payable' accounts, and the net amounts remitted to the appropriate authorities.
- i. If cess on which remission is granted is to be adjusted against future liability of the tax payer towards cess, the amount shall be treated as advance collection of cess.

Refunds/remissions

- j. If the remission pertains to the current year, it shall be adjusted against current year's income, and if it pertains to the previous year, it shall be treated as 'prior period item'.
- k. If the amount of tax is already received, and has to be adjusted against future tax due from the tax payer, the amount shall be taken as 'Advance Collection of Revenues Property Tax'.

Provision and write offs

- l. Provision shall be made on the balance of receivables pertaining to taxes, based on the following provisioning norms:
 - i. Outstanding for more than 2 years but not exceeding 3 years: 25%
 - ii. Outstanding for more than 3 years but not exceeding 4 years: 50%
 - iii. Outstanding for more than 4 years but not exceeding 5 years: 75%
 - iv. Outstanding for more than 5 years: 100%
- m. If the provision required at the end of the accounting year is more than the provision existing at the beginning of the year, additional provision shall be treated as an expense. On the other hand, if the provision required at the end of the accounting year is less than the provision existing at the beginning of the year, the excess provision shall be written back, treating it as an income.

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- n. Write-off of the amount due in respect of property tax shall be adjusted against the provisions for doubtful receivables if a provision already exists against such receivables, and if no provision exists, it shall be treated as an expense. In either case, "receivables" shall be reduced to the extent of the write off. Any subsequent collection or recovery of such written off receivables shall be recognised as a 'Prior Period Income'.

Other Taxes

- o. The policies relating to Property Tax shall apply to the extent possible to Advertisement Tax.

Water Supply & Sewerage

- a. All water supply and sewerage transactions shall be recorded in the Water Supply and Sewerage Fund. However, Road Cutting & Restoration Charges shall be accounted in the General fund.
- b. Income in respect of water supply charges shall be recognised in the period in which they become due. The accrual entry shall be passed at the beginning of the year. Where there is a system of levy and collection of sewerage maintenance charges, the same accounting system shall be followed.
- c. Income in respect of Water Connection Charges, Sewerage Connection charges, if any, Water Tanker Charges, Road Cutting & Restoration Charges shall be recognised on actual receipt.
- d. Initial water supply deposit collected, if any, shall be treated as income at the time of receipt. Refund of deposit, if any, shall be accounted as an expense at the time of payment.
- e. Notice Fee, Warrant Fee and Distract Fee, Penalty, etc., for which notices or warrants are issued shall be accounted when the demand is raised.

Refunds and Remissions

- f. Refunds, remissions of taxes, fees & other incomes for the current year shall be adjusted against the income; if it pertains to previous years', then it shall be treated as prior period item.

Provision and write offs

- g. Provision shall be made on the balance of all receivables pertaining to water supply and UGD charges, based on the following provisioning norms:
 - i. Outstanding for more than 2 years but not exceeding 3 years: 50%
 - ii. Outstanding for more than 3 years: 100%

- h. If the provision required at the end of the accounting year is more than the provision existing at the beginning of the year, the additional provision shall be treated as an expense. On the other hand, if the provision required at the end of the accounting year is less than the provision existing at the beginning of the year, the excess provision shall be written back, treating it as an income.
- i. Write-off of amount due in respect of water charges shall be adjusted against the provisions for doubtful receivables if a provision already exists against such receivables, and if no provision exists, it shall be treated as an expense. In either case, "receivables" shall be reduced to the extent of the write off. Any subsequent collection or recovery of such written off receivables shall be recognised as a 'Prior Period Income'.

Assigned Revenue

- a. Share of Duty on Transfer of Properties shall be accounted as income during the year on actual receipt. However, at year-end, the income shall be accrued if the advice/sanction order is received and the amount is ascertained, before finalising the accounts for that year.

Rentals, Fees and Other Sources of income

- a. Revenues in respect of rents from properties shall be accrued at the beginning of the year, based on terms of agreement.
- b. If a lump sum amount has been received for the lease period, it shall be treated as an 'advance' and recognised as income on a straight-line basis over the lease term.
- c. Ground rent on advertisement shall be accrued based on demand, or based on the contract.
- d. Trade license Fees shall be accrued at the beginning of the year, based on the demand that is raised.
- e. Revenue in respect of Notice Fee, Warrant Fee, and Distraint fee, Penalty, etc., shall be recognised when the demand for the same are raised.
- f. All other Income, in respect of which demand is ascertainable in time, and can be raised in regular course of operations of the ULB, shall be recognised in the period in which they become due, with reference to agreement/sanction order or any other document.
- g. All other Incomes, which are of an uncertain nature or for which the amount is not ascertainable in time or where demand is not raised in the regular course of operations of the ULB, shall be recognised on actual receipt.

Refunds and Remissions

- h. Refunds, remissions of fees & other incomes for the current year shall be adjusted against the income; if it pertains to previous years' then it shall be treated as a prior period item.

Provision and write offs

- i. Provision shall be made on the balance of all receivables pertaining to rental, fees and any other income, based on the following provisioning norms:
 - i) Outstanding for more than 2 years but not exceeding 3 years: 50%
 - ii) Outstanding for more than 3 years: 100%
- j. If the provision required at the end of the accounting year is more than the provision existing at the beginning of the year, the additional provision shall be treated as an expense. On the other hand, if the provision required at the end of the accounting year is less than the provision existing at the beginning of the year, the excess provision shall be written back, treating it as an income.
- k. Write-offs of receivables in respect of rental, fees and any other income, shall be adjusted against the provisions for doubtful receivables if a provision already exists against such receivables, and shall be treated as an expense, if no provision exists. Such write offs shall have the effect of reducing the "receivables". Any subsequent collection or recovery of such written off receivables shall be recognised as a 'Prior Period Income'.

Public Works

- a. The Earnest Money Deposit, Security Deposit received, and Retention Money, if any, recovered from Contractors' bills shall be recognised as liabilities. If deposits are forfeited or lapsed, they shall be recognised as income in the year when they are so forfeited or lapsed.
- b. The cost of fixed assets shall include cost incurred/money spent in acquiring or installing or constructing fixed assets and interest on borrowings attributable to acquisition or construction of qualifying fixed assets up to the date of commissioning of the assets.
- c. Any addition or improvement to the fixed asset that results in increasing the utility or capacity or useful life of the asset shall be capitalised and included in the cost of asset. Expenditure incurred to maintain the asset and sustain its functioning shall be charged off as revenue expenditure.
- d. Assets under construction/erection/installation on existing projects and capital expenditures on new projects shall be shown as "Capital Work-in-Progress".
- e. Deposit given to PWD for Deposit works shall be treated as an asset (advance) initially. The advance shall be adjusted against the amount payable for the works, on the basis of a monthly statement of outlay received by the PWD.

- f. In case of Delegated loan works, the amount of the loan shall be treated as an advance to KUWSDB or any other agency, and also as a loan from the Government or as public issue of bonds or securities, as the case may be. On receipt of monthly statement of expenditure from the Agency, the total amount of expenditure incurred shall be adjusted against the advance, and shall be transferred to capital work-in-progress. Any payments/adjustment made towards repayment of loan shall be reduced from the loan liability.

Stores related transactions

- a. Purchase of material, etc., shall be accounted on admission of the bill by the ULB, and shall be treated as “stock in hand” till it is issued.
- b. Issue of material shall be accounted based on the First-in- First-out (FIFO) method in the following manner :
- In the case of material issued to contractors, the cost of material issued shall be treated as an advance paid to Contractors, and adjusted from their bills as per the terms of the contract.
 - In the case of material issued to other departments or ULB employees for capital work to be carried out, the cost of material issued shall be accounted as “capital work-in-progress”. On completion of work, if any material is left unused, such material shall be taken back to stock, by crediting capital work-in-progress.
 - In the case of material issued to other departments or ULB employees for repairs or maintenance work, the cost of material issued shall be accounted as “expense”. On completion of work, if any material is left unused, such material shall be taken back to stock, by crediting the account where the cost of material was originally debited.
- c. Cost of stationery purchased shall be treated as expenses at the time of purchase, irrespective of its value.
- d. Revenue in respect of disposal of material shall be accounted on actual receipt.

Employee Related Transactions

- a. Expenses on pay, wages and allowances shall be accounted on accrual basis, at the end of every month.
- b. Statutory deductions including those for income tax, profession tax, etc., shall be recognised as liability in the same period in which the corresponding pay or wage is recognised as expense.

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- c. Terminal benefits payable by the ULB such as leave encashment shall be accounted as and when due for payment to employees, i.e., on their retirement from the ULB. 'Actuarial valuation' of the liability shall not be considered, due to practical limitations.
- d. Leave encashment claimed by, and paid to employees during service shall be accounted on payment.
- e. Where contributions are made to the Government for meeting retirement benefit obligations, (as in the case of deputed State Government employees), the amount due towards pension and leave salary contribution shall be recognised when it becomes due.
- f. Interest accruing for the year on loans or advance given to employees, shall be recognised as revenue at the beginning of the year.

Health and Sanitation

- a. Trade license Fees shall be accrued at the beginning of the year, based on the demand that is raised.
- b. Solid Waste Management Fees/Cess, if applicable, shall be accrued at the beginning of the year, based on demand raised.
- c. Any income, the right for collection of which is formed out and entrusted to contractors shall be accrued and accounted as per the terms of the contract.
- d. Any other income susceptible to income shall be accrued in an appropriate manner, based on the nature of the income.
- e. Income such as birth and death certificate fees, SWM Fees to be collected from individual households, sale of compost and manure, etc., shall be accounted on cash basis.

Other Revenue Expenditures

- a. All expenses in the nature of procurement of goods and services, supported by a work order or procurement order or indent shall be accrued on approval of the bills.
- b. All other expenses shall be accounted on payment. However, any bills remaining unpaid at the end of the year shall be accrued at the year end.
- c. Bills pertaining to the year and approved before 30th April of the subsequent year shall be accrued at the year-end.

- d. Provision shall be made at year-end for bills pertaining to the year, but not approved till 30th April of the next financial year.
- e. Any expenditure for which the payment has been made in the current period but the benefit and/or service of which is likely to arise in a future period shall be treated as 'prepaid expenses'.
- f. The expenditure for the current period shall include the proportionate value of the benefits and/or services arising in the current period, even if the payment has been made in the previous period.

Grants

- a. A general grant shall be recorded as 'income' on receipt. At the end of the year, if a sanction order has been received, and the amount is ascertained, the amount sanctioned shall be accounted as income, and also as "Receivable from Government".
- b. A specific grant shall be accounted as a liability on receipt. At the end of the year, if a sanction order has been received, and the amount is ascertained, the amount sanctioned shall be accounted as a liability, and also as "Receivable from Government".
- c. To the extent a specific grant is used for revenue expenditure, it shall be treated as income, and transferred to a separate income head meant for this purpose. If the amount is used for capital expenditure, the amount of the grant shall be treated as "deferred income", and shall be allocated to income in proportion to depreciation charged on the fixed asset created out of the grant.
- d. Grants received or receivable as reimbursement of specific expenditure shall be recognised as income in the accounting period in which the corresponding revenue expenditure is charged to the Income and Expenditure Account.
- e. In case any deductions for ULB dues such as loan installments, interest on such loans, electricity charges, etc., are made by the Government from a grant sanctioned to the ULB, the gross amount sanctioned shall be accounted as grant, and the amounts deducted shall be adjusted against the dues in the books of account of the ULB.

Borrowings or Loans received

- a. A borrowing against the security of tangible asset or assets shall be considered as a secured loan, and a borrowing without the security of any tangible asset or assets shall be considered as an unsecured loan.
- b. Expenses incurred on raising loans shall be treated as "Deferred Revenue Expenditure",

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and shall be charged off as expenses in equal installments over a period of five years, or over the tenure of the loan, whichever is lower.

- c. Interest on borrowings shall be recognised on an accrual basis, and the unpaid interest shall be treated as a liability.
- d. Interest that is due for payment, but remaining unpaid at the year-end shall be credited to 'interest accrued and due'.
- e. Interest pertaining to the year, but the due date for payment of which is in the subsequent year, shall be credited to 'interest accrued but not due'. This amount shall be reversed at the beginning of the next year.
- f. The interest up to the date of commissioning of the asset shall be capitalised.

Earmarked Funds

- a. An earmarked fund shall be treated as a liability.
- b. Income on investments made from an earmarked fund, and profit/loss on their realisation shall be credited to the earmarked fund.
- c. Any expenditure of a revenue nature, which is incurred specifically on the scheme/project for which the earmarked Fund has been created, shall be charged to that fund.
- d. Whenever any capital expenditure is incurred out of an earmarked fund, an equivalent amount shall be transferred from the earmarked fund account to earmarked fund (Utilised) account (Rule 120(3) of KMABR, 2006).

Investments

- a. Long term investments are investments which are intended to be held by the ULB for more than one year. Long term investments shall be valued at cost, including acquisition charges such as fees, brokerage, duties, etc. Any permanent diminution in the value of the investments shall be reduced from the cost of investments.
- b. Short term investments are investments that are readily realisable, and not intended to be held for more than one year. They shall be valued at cost, including acquisition charges such as fees, brokerage, duties, etc., or market value (if quoted), whichever is lower. Generally, they mean fixed deposits with the bank for a period of one year and less.
- c. Interest on long term investments shall be recognised as and when due, and are to be accrued proportionately at the period ends.

- d. Interest on short term investments shall be accounted on receipt.
- e. Dividend income shall be accounted on receipt.
- f. Profit/loss, if any, arising from the disposal of investment (net of selling expense such as commission, brokerage, etc.) shall be recognised in the year in which such a disposal takes place.
- g. Income on investments made from Earmarked Funds and Grants under a specific purpose shall be recognised and credited to Earmarked Fund and Specific Grants respectively, whenever accrued. Profit / loss, if any, arising on disposal of investments (net of selling expense such as commission, brokerage, etc.) made from the Earmarked Fund and Specific Grants shall be recognized in the year in which such disposal takes place and credited/debited to Earmarked Fund and Specific Grant Account respectively.

Fixed Assets

- a. Fixed assets shall be recorded at the historical cost. The cost of a fixed asset shall include incidental charges, e.g. freight, insurance, site preparation, etc., which are necessary to place the asset into its intended location and condition for use. In the case of a fixed asset acquired out of borrowed funds, interest on borrowings up to the date of commissioning of the asset shall be added to the cost of the fixed asset.
- b. An Asset received on a concessional rate shall be accounted at the cost of the asset to the ULB (i.e., at the concessional cost).
- c. An asset received free of cost, shall be recorded at a nominal value of Rupee One.
- d. If an asset is purchased under grant money, and the ownership of the asset does not lie with the ULB, the cost of the fixed assets shall be reduced from the grant and not recognised as a fixed asset.
- e. Assets under construction/ erection/ installation shall be shown as 'Capital Work-in-Progress' till completion of the project, and shall be transferred to fixed assets after completion and commissioning. All costs incurred till the year-end, in accordance with the cut-off procedure for expenditure, shall be included in valuation of the asset.
- f. Any addition or improvement to a fixed asset that results in increasing its utility or useful life shall be capitalised.

Depreciation on Fixed Assets

- g. Depreciation shall be charged by Straight Line Method (SLM) on all fixed assets except land, which is not depreciable.

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- h. The rate of depreciation for each type of fixed assets is based on the estimated useful life (the period over which the asset is expected to be useful), as approved by the Government.
- i. For assets added during the year :
 - i) Depreciation shall be provided at full rates for assets, which are purchased / constructed before October 1 of the Accounting Year.
 - ii) Depreciation shall be provided at half the rates for assets, which are purchased/constructed on or after October 1 of an Accounting Year.
- j. For assets disposed of during the year:
 - i) Depreciation shall be provided at full rates for assets, which are disposed of on or after October 1 of an Accounting Year.
 - ii) Depreciation shall be provided at half the rates for assets, which are disposed of before October 1 of an Accounting Year.
- k. Leasehold lands acquired are taken as a part of assets at a total value payable as lease charges over the entire lease period and amortised equally over the lease period.

Revaluation of Fixed Assets

- l. An increase in net book value arising on revaluation shall be credited to a reserve account under the respective fund as 'Revaluation Reserve'. A decrease in the net book value arising on revaluation of fixed assets shall be charged to the "Income and Expenditure" account as depreciation.
- m. Revaluation of a class of assets shall not result in the net book value of that class, being greater than the recoverable amount of the assets of that class.
- n. Depreciation on a revalued asset shall be calculated on the value after revaluation, at rates necessary to charge off the asset over the remaining useful life of the asset.
- o. In case of depreciation on revalued assets, the "Revaluation Reserve" shall be reduced by transfer of an amount equal to additional depreciation on the revalued portion of the asset.

Capital Work In Progress

- p. Until an asset is completed and put into operation, it shall be treated as a "Capital Work in Progress (CWIP)". All contractors' bills for 'Capital Works' shall be first accounted in the CWIP account and on completion, the total amount shall be transferred to the "Fixed" asset account.

CHAPTER

4

FUND ACCOUNTING

Fund Accounting

What is a Fund?

4.1. ULBs carry out various activities, create and maintain various amenities, and provide various services to the public within their jurisdiction. They collect fees or charges from the public for providing some of these amenities or services, for example, supply of water, issue of licenses, issue of birth certificates, construction, maintenance and letting out of shopping complexes, etc. The cost of several other amenities or services are met out of tax revenue of the ULBs, for example, construction and maintenance of roads, bridges and flyovers, public parks, public lighting, public vaccination, etc. For understanding and assessing the financial performance of the ULBs, to study their areas of strengths and weaknesses, and to help in the decision-making process, it is useful to classify the activities or services of the ULBs into activity groups, and keep separate account of the transactions taking place within them. With this objective, the Government has introduced “Fund Accounting” in ULBs. Fund Accounting essentially means, grouping of financial transactions into different Funds, and maintaining separate books of account for transactions in these Funds, and preparing separate financial statements for them.

4.2. A 'Fund' shall have the following features:

- It is a distinct accounting entity with separate books of accounts
- It relates to specific types of activities or particular objectives in accordance with special laws, regulations or internal (management) requirements

4.3. Under rule 4 of the KMABR, 2006, the accounts of a ULB shall be segregate into the following Funds :

- General Fund
- Water Supply and Sewerage Fund
- Enterprise Fund

General Fund

4.4. This Fund is a residual fund and covers all activities which the ULB carries out, and which do not fall into the Water Supply and Sewerage Fund or Enterprise Fund.

Water Supply and Sewerage Fund

4.5. This Fund shall be used to account transactions related to collection of water through wells, lakes, rivers, etc., purchase of water from other authorities, treatment, transmission and distribution of water through water pipe-lines. It shall also include activities related to sewerage (underground drainage).

Enterprise Fund

4.6. The question as to whether a particular activity has to be accounted in the General Fund or Enterprise Fund shall be decided by the ULB on a case-to-case basis. The following tests shall be carried out by the ULB for this purpose:

- a. **Test of intent:** If the activity is carried out with the objective to generate surplus or at least recover costs, the activity shall be accounted in the books of account of the Enterprise Fund. For example, construction of a 'kalyan mantap' shall be considered as an activity belonging to the Enterprise Fund, if the ULB intends to provide luxurious facilities in the kalyan mantap, and to let it out at the prevailing market rate, and generate surplus out of it. On the other hand, if the intention of the ULB is to provide a facility to the common man to conduct marriages at an economical cost, the activity shall be considered as one belonging to the General Fund. Other examples of activities to be accounted under Enterprise Fund are construction and running of commercial complexes, formation of layouts, etc., with the objective of earning a surplus, or at least, recover costs.
- b. **Test of materiality:** The materiality of the activity as compared to the activities of the ULB as a whole shall also be considered for deciding whether a particular activity shall be accounted under the Enterprise Fund. If the revenue from the activity under question amounts to less than 10% of the total revenue of the ULB, separate books of account may be dispensed with after obtaining the approval of the Director, Directorate of Municipal Administration.

4.7. The decision as to whether a particular activity has to be accounted under the Enterprise Fund or the General Fund shall be taken by the Commissioner or Chief Officer, subject to the above tests.

4.8. The Government may from time to time, issue instructions to the ULBs to maintain separate funds for any major function/activity in addition to those mentioned above, or make any changes in the number of funds and the type of funds to be maintained. The Government may also decide to have sub-funds under any of the above main funds.

Accounting by Funds

4.9. Income shall be accounted in the books of account of the Fund to which it pertains. SFC salary grant shall be allocated at the average salary pertaining to each Fund calculated in an equitable manner.

4.10. Revenue expenditure which can be clearly identified with a particular Fund shall be accounted in the books of that Fund. Expenses which cannot be so identified shall be accounted in the books of account of the General Fund.

4.11. Similarly, capital expenditure or assets which can be clearly identified with a particular Fund shall be accounted in the books of that Fund. Assets which cannot be so identified, for example, office equipment, furniture & fixtures, buildings used for the activities of all the Funds, etc., shall be accounted in the books of account of General Fund. Depreciation shall be accounted in the books of account of the Fund where the asset is accounted.

4.12. Each Fund shall be identified by a separate 'Fund Code'. The Fund Codes are prescribed in Schedule II of KMABR, 2006 (General Fund 101, Water Supply and Sewerage Fund 102, and Enterprise Fund 201). The Fund Codes are also listed out in Volume 2 of this Manual. The Fund Code shall be mentioned in the voucher for each transaction.

Maintenance of separate books of account:

4.13. The following books of account shall be maintained for each Fund:

- Cash Book
- Separate Bank Book for each bank account of the Fund
- Journal Book
- General Ledger
- Sub-ledger for Creditors-Contractors' Payable
- Sub-ledger for Creditors' suppliers' Payable
- Any other Sub-ledger which the ULB feels is necessary for detailed sub-classification of transactions.
- Such Forms as are required to be maintained fund-wise as per KMABR, 2006.

Preparation of separate vouchers:

4.14. Each transaction shall be identified with a Fund at the time of entry. Separate vouchers shall be used for transactions pertaining to different Funds. Appropriate prefixes shall be used to identify vouchers of different Funds, for example, 'GF' for vouchers pertaining to the General Fund, 'WF' for vouchers pertaining to the Water Supply and Sewerage Fund, and 'EF' for vouchers pertaining to the Enterprise Fund. The vouchers shall be accounted in the books of account of the relevant Fund.

Maintenance of separate bank accounts:

4.15. Rule 4(2) (b) of KMABR, 2006, prescribes that separate bank accounts shall be maintained for each Fund, and that all transactions pertaining to that Fund shall be routed through such bank accounts. However, as per the Proviso to the Rule, if maintenance of separate bank accounts for each Fund is found to be cumbersome, the ULB may, with the permission of Directorate of Municipal Administration, decide not to maintain separate bank accounts for different Funds. Whenever the bank account of one Fund is used for transactions of another Fund, necessary inter-fund transfer entries shall be passed as explained below.

Inter-fund Transfers:

4.16. The Chart of Account has the following account codes for accounting inter-fund transactions:

Inter-fund Transfer Account - General Fund	4861
Inter-fund Transfer Account - Water Supply and Sewerage Fund	4862
Inter-fund Transfer Account - Enterprise Fund	4863

Since the Funds are considered as different accounting entities, any transaction between two Funds requires preparation of vouchers, and passing of entries in the books of account of both the Funds. Inter-fund Transfer accounts are running accounts reflecting transactions of one Fund with the other two Funds. The books of account of each Fund will have separate accounts reflecting inter-fund transactions with the remaining Funds, and the balances due, or from them, at any point of time. For example, the books of account of General Fund will have “Inter-fund Transfer Account-Water Supply and Sewerage Fund (4862)” and “Inter-fund Transfer Account-Enterprise Fund (4863)”. A debit balance in an inter-fund transfer account indicates that money is due from the Fund, and a credit balance indicates that money is owed to that Fund. The net balance of all inter-fund transfer accounts of all the Funds put together will be nil.

Scheme of Entries for Inter-fund Transactions:

Physical transfer of money from one Fund to another:

4.17. Such transfer of funds may be required on a regular basis where the ULB follows the practice of depositing collections pertaining to all Funds in the bank account of the General Fund, and then transferring the amounts pertaining to Water Supply and Sewerage Fund/Enterprise Fund, to bank accounts of the respective Funds. It may also be required when there is shortage of money for making payment from the bank account of a particular Fund, and the balance in the bank account of another Fund is transferred to this account to make good the shortage.

4.18. This can be done either by issue of a cheque from the bank account of one Fund, and depositing it in the bank account of another Fund, or by issuing written instructions to the bank where both the bank accounts exist in the same bank branch. Such a physical transfer of

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money shall require inter-fund transfer entries. For example, a transfer of Rs. 10,000, from General Fund bank account to Water Supply and Sewerage Fund bank account shall require the following entries:

(Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be used
a. In the books of account of Water Supply and Sewerage Fund:					
4721	Bank Account - Nationalised Banks - General	Dr.	10,000		Receipt Voucher
4761	To Inter-fund Transfer Account - General Fund	Cr.		10,000	
b. In the books of account of General Fund:					
4862	Inter-fund Transfer Account - Water Supply and Sewerage	Dr.	10,000		Payment Voucher
4721	Fund Bank Account - Nationalised Banks - General	Cr.		10,000	

Receipt pertaining to one Fund in the bank account of another Fund:

4.19. In cases where there is no separate bank account of a particular Fund, collections pertaining to one Fund may be received, or deposited in the bank account of another Fund. In such cases, it will be necessary to pass inter-fund transfer entries. The entries to be passed in the above situations are explained below by way of illustrations:

Assume that the following transactions have taken place in a ULB, which does not have separate Fund-wise bank accounts:

- 1) Cash collections for the day amounts to Rs 15,400, out of which Rs 12,400 pertains to Property tax Receivables, and Rs 3,000 pertains to water charges. The amounts were deposited in the combined bank account maintained in General Fund.

The entries to be passed for the above transactions are:

(Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be used
a. In the Books of General Fund:					
4711	Cash in Hand	Dr.	15,400		Receipt Voucher

(Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be used
4611	To Receivable-Property Tax	Cr.		12,400	Receipt Voucher
4862	To Inter Fund transfer- Water Supply and Sewerage Fund	Cr.		3,000	
<i>(Cash collection of both GF & WS&SF accounted in GF)</i>					
4721	Bank Account- Nationalised Banks- General	Dr.	15,400		Contra Voucher
4711	To Cash in Hand	Cr.		15,400	
<i>(Cash collection of both GF & WS&SF accounted in GF)</i>					
b. In the Books of Water Supply and Sewerage Fund:					
4861	Inter Fund transfer- General Fund	Dr.	3,000		Journal Voucher
4632	To Receivables- Water Charges	Cr.		3,000	
<i>For collection of Water charges in the General Fund</i>					

2) Cheque collection during the day is Rs 5,000 of which Rs 2,000 pertains to Building License Fee, and Rs 3,000 pertains to Rent from shopping complex. The cheques were deposited in the bank account of the General Fund.

The entries to be passed for the above transaction are:

(Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be used
a. In the Books of General Fund:					
4712	Cheques in Hand	Dr.	5,000		Receipt Voucher
1422	Fees Relating to Building Regulation EC/BC/CC)	Cr.		2,000	
4863	Inter fund Transfer- Enterprise Fund	Cr.		3,000	
<i>(For Cheque Collection)</i>					

(Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be used
4721	Bank Account- Nationalised Banks- General	Dr.	5,000		Contra Voucher
4712	To Cheques in Hand	Cr.		5,000	

*(For remittance of cheques collected)***b. In the Books of account of Enterprise Fund:**

4861	Inter Fund transfer- General Fund	Dr.	3,000		Journal Voucher
4621	To Receivables- Rent	Cr.		3,000	

(Inter fund entry for collection of rent)

3) Property Tax amounting to Rs 2,700 and Water charges amounting to Rs 1,500 was received in the 'collection bank' of General Fund.

The entries to be passed for the above transaction are:

(Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be used
a. In the Books account of General Fund:					
4722	Bank Account-Nationalised Bank - Collection	Dr.	4,200		Receipt Voucher
4611	To Receivable-Property Tax	Cr.		2,700	
4862	To Inter-fund Transfer- Water Supply and Sewerage Fund	Cr.		1,500	

*(For collection of property tax and water charges in General Fund-Collection Bank Account)***b. In the Books of Water Supply and Sewerage Fund:**

4861	Inter-fund Transfer- General Fund	Dr.	1,500		Journal Voucher
4632	Receivables-Water Charges	Cr.		1,500	

(Inter-fund transfer entry for collection of water charges)

4) SFC Grant received in the Treasury account for the month is Rs 96,000, which is allocated to

the three Funds as under, without physical transfer of money:

General Fund	: Rs 72,000
Water Supply and Sewerage Fund	: Rs 16,000
Enterprise Fund	: Rs 8,000

(The allocation is based on average salary of each Fund. The treasury account is maintained in the books of account of the General Fund).

The entries to be passed for the above transaction are:

(Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be used
a. In the Books account of General Fund:					
4742	Treasury Account-Salaries & Other Untied Grants	Dr.	96,000		Receipt Voucher
1611	SFC Grant Received	Cr.		72,000	
4862	Inter-fund Transfer- Water Supply and Sewerage Fund	Cr.		16,000	
4863	Inter-fund Transfer- Enterprise Fund	Cr.		8,000	
<i>(For receipt of SFC Grant in Treasury account, and allocation to respective Funds)</i>					
b. In the Books account of Water Supply and Sewerage Fund:					
4861	Inter-fund Transfer- General Fund	Dr.	16,000		Journal Voucher
1611	SFC Grant Received	Cr.		16,000	
<i>(Inter-fund Transfer entry for allocation of SFC Grant)</i>					
c. In the Books account of Enterprise Fund:					
4861	Inter-fund Transfer- General Fund	Dr.	8,000		Journal Voucher
1611	SFC Grant Received	Cr.		8,000	
<i>(Inter-fund Transfer entry for allocation of SFC Grant)</i>					

Payment pertaining to one Fund by another Fund:

4.20. Payment of dues of one Fund may have to be made out of the bank account of

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another Fund, either for insufficiency of money in the latter Fund, or due to the fact that it does not have a separate bank account, or as a matter of convenience. For example,

1) Consider a case where the following salaries are paid from the Treasury account maintained in the General Fund:

General Fund	: Rs 1, 44,000
Water Supply and Sewerage Fund	: Rs 72,000
Enterprise Fund	: Rs 12,000

The entries to be passed in the books of various funds shall be:

(Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be used
a. In the Books of General Fund:					
3821	Employee related Liabilities- Pay, Allowances and benefits -Payable	Dr.	144,000		Payment Voucher
4862	Inter-fund transfer - Water supply and Sewerage Fund	Dr.	72,000		
4863	Inter-fund transfer - Enterprise Fund	Dr.	12,000		
4742	To Treasury Account- Salaries Other Tied Grants	Cr.		228,000	
b. In the Books of Water Supply and Sewerage Fund:					
3821	Employee related Liabilities- Pay, Allowances and benefits-Payable	Dr.	72,000		Journal Voucher
4861	Inter-fund transfer- General Fund	Cr.		72,000	
c. In the Books of Enterprise Fund:					
3821	Employee related Liabilities- Pay, Allowances and benefits-Payable	Dr.	12,000		Journal Voucher
4861	Inter-fund transfer- General Fund	Cr.		12,000	

2) A contractor's bill of Rs 20,000 was received for water works repairs, with TDS of Rs 1,000. The bill is accounted in the Water Supply and Sewerage Fund. However, the bill was paid

from the General Fund. The TDS-Contractors to be paid for the month is Rs 10,000 including Rs 1,000 pertaining to the above bill. The remaining amount of TDS pertains to the General Fund. The entire amount was paid from the General Fund.

The entries to be passed for the above transaction are:

(Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be used
a. In the Books account of Water Supply and Sewerage Fund:					
2356	Repairs & Maintenance - Water works	Dr.	20,000		Journal Voucher
3485	Recoveries payable - Tax Deducted Contractors	Cr.		1,000	
3812	Creditors - Contractors' Payable	Cr.		19,000	
<i>(For accounting the contractor's bill)</i>					
3812	Creditors- Contractors' Payable	Dr.	19,000		Journal Voucher
4861	Inter-fund Transfer- General Fund	Cr.		19,000	
<i>(Inter-fund transfer entry for payment of contractor's bill from the General Fund)</i>					
3485	Recoveries payable - Tax Deducted	Dr.	1,000		Journal Voucher
4861	Inter-fund Transfer- General Fund	Cr.		1,000	
<i>(Inter-fund transfer entry for remittance of TDS from contractor's bill out of the General Fund)</i>					
b. In the Books account of General Fund:					
4862	Inter-fund Transfer- Water Supply and Sewerage Fund	Dr.	19,000		Payment Voucher
4721	Bank Account- Nationalised Banks- General	Cr.		19,000	
<i>(For accounting payment of contractor's bill from General Fund)</i>					

(Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be used
3438	Recoveries payable - Tax Deducted-Contractors	Dr.	9,000		Payment Voucher
4861	Inter-fund Transfer- Water Supply and Sewerage Fund	Dr.	1,000		
4721	Bank Account- Nationalised Banks-General	Cr.		10,000	
<i>(For accounting remittance of TDS-Contractors from the General Fund)</i>					

Situations where inter-fund transfer entries may be required:

4.21. In the case of large ULBs where it is necessary to have a large number of collection banks spread over the entire jurisdiction of the ULB, it might be cumbersome to have separate bank accounts for each Fund, in each ward or jurisdiction. In such a situation, it may be convenient for the ULBs to deposit received remittances pertaining to all Funds in one bank account, and pass inter-fund transfer entries to account the revenue in the respective Funds' books of account.

4.22. In the case of very small ULBs where transactions are meager, it may not be worthwhile to have separate Fund-wise bank accounts. Such ULBs also may have combined bank accounts for all the Funds, accounted in the books of General Fund.

4.23. Where ULBs opt not to have separate bank accounts for each Fund, there may be only one main operative bank account into which collections of all the Funds will be pooled, and from where payments will be made. In such cases, the ULBs will have to pass inter-fund transaction entries for payment pertaining to other Funds from this bank account.

4.24. ULBs have to allocate revenues to SC/ST Development (18%) Fund under statute, and use the money for the welfare of SC/ST. Such expenditure may pertain to any of the three Funds. SC/ST Development (18%) Fund Account shall be maintained in the books of account of the General fund. Inter-fund transfer entries shall be passed for any expenditure pertaining to other Funds, out of this ear-marked fund.

4.25. Salary is paid out of the SFC Grant, which is received in the Treasury Account. It may be convenient for the ULB to maintain the Treasury Account in the General fund, and pay the entire salary from this account. This requires inter-fund transfer entries to be passed for payment of salary, as well as allocation of SFC grant to different funds in a proportionate manner.

Periodical reconciliation of inter-fund transfer accounts:

4.26. The net balance of the three accounts (Inter-fund Transfer Account - General Fund (Account code 4861), Interfund Transfer Account - Water Supply and Sewerage Fund (Account Code 4862), and Inter-fund Transfer Account - Enterprise Fund (Account code 4863) shall always be nil. To ensure proper reconciliation between these accounts, the three accounts shall be reconciled on a monthly basis, and differences, if any, shall be detected, and rectified.

Financial Statements:

4.27. The Financial Statements prescribed in KMF No 74, 75, 77 and 78 are in a columnar format with columns for different Funds and for consolidated figures for each item. The 'Fund' columns present the financial performance of different Funds, whereas the 'Total' column presents the performance of the ULB as a whole. Inter-fund transactions are reflected as amount due to or from one Fund to another in the 'Fund' column, but get totaled off as a net amount in the 'Total' column.

CHAPTER

5

GENERAL ACCOUNTING
PROCEDURES

General Accounting Procedures

Vouchers

5.1 A Voucher is a document that serves as evidence of, or authorisation for a financial transaction. In the double entry accounting system, accounting starts from preparation of a voucher. Transactions are first recorded in vouchers, from basic documents such as bills, receipts, advices, etc. The duly authorised vouchers are then accounted in the books of account.

5.2 Vouchers are of four types:

- (i) Receipt Voucher (KMF No 8)
- (ii) Payment Voucher (KMF No 9)
- (iii) Contra Voucher (KMF No 10)
- (iv) Journal Voucher (KMF No 11)

5.3 A voucher shall be prepared by the Accounts Department of the ULB for every transaction. The type of voucher for a transaction depends on the nature of the transaction.

Voucher Types

Receipt Voucher (KMF No 8)

5.4 This voucher type shall be used for accounting receipt of cash and cheques, and can also be used for direct credits in collection banks and treasury accounts. Receipts may be in the form of daily collection of property tax, advertisement tax, water charges, license fees, rent, katha transfer fees, katha extract fees, etc., through bill collectors, office collections, or through remittances in collection banks. They may also be in the form of EMDs or Security Deposits from contractors, grants received from the Government, loans, advances recovered from employees, sale proceeds of fixed assets, auction proceeds, etc. Receipt vouchers shall be prepared on the basis of Summary of daily collections (KMF No 18, 19, and 20), by summarising the collections of the day

cash/bank account-wise. Separate vouchers shall be prepared for cash and cheque collections, and for collections in each collection bank account. The detailed procedure for collection of data regarding daily collections, and their summarisation is explained later in the Chapter.

5.5 The receipt voucher format has columns for account code, particulars, amount, budget code, source of financing code, etc. It also requires reference to the “Fund” to which the transaction pertains, and the cash/bank account code in which the amount is received.

Payment Voucher (KMF No 9)

5.6 This voucher type shall be used for accounting payments either through cash or cheque. It shall also be used for accounting direct 'debit' by the treasury or bank for interest, bank charges, debits against standing instructions, etc. Payments may be in the form of payment to contractors or suppliers of goods and services, payment of staff salary, bills such as stationery bills, telephone bills, electricity bills, advance to staff, remittances of statutory recoveries, etc. The payment voucher format has columns for account code, particulars, amount, budget code, source of financing code, etc. It also requires reference to the “Fund” to which the transaction pertains, and the cash/bank account code from where the amount is made. A separate payment voucher shall be prepared for each payment.

Contra Voucher (KMF No 10)

5.7 All transactions involving 'only cash and bank accounts including treasury account' shall be accounted through contra vouchers. In other words, accounting of transactions such as deposit of cash or cheques into the bank, withdrawal of cash from bank, transfer of amount from one bank to another within the same Fund, etc., which effect cash and bank accounts, or two bank accounts (including treasury accounts) require contra vouchers. Unlike receipt vouchers and payment vouchers, which have only a single “Amount” column, a contra voucher has a “Debit Amount” column, and a “Credit Amount” column. The “Debit” represents receipt into a cash/bank/treasury account, whereas the “Credit” represents corresponding payment from a cash/bank/treasury account.

5.8 The contra vouchers to be prepared for different types of transactions involving only cash/bank accounts are explained with the following examples :

(Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
(a) For cash remitted in bank					
4721	Bank Account-Nationalised Banks-General	Dr.	10,000		Contra Voucher
4711	To Cash	Cr.		10,000	

(Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
(b) For cheques deposited in bank					
4721	Bank Account-Nationalised Banks-General	Dr.	10,000		Contra Voucher
4712	To Cheques in Hand	Cr.		10,000	
(c) For cash withdrawn from bank					
4711	Cash	Dr.	10,000		Contra Voucher
4721	To Bank Account-Nationalised Banks-General	Cr.		10,000	

(d) Transfer of funds from one Bank Account to another: Transfer of funds from one bank to another may be done by issue of a cheque. It may also take place on the basis of standing instructions given by the ULB, as in the case of periodical transfers from collection banks to the Main Bank account of the ULB. For accounting such transfer of funds, the Accounts Department shall prepare a Contra Voucher. The following entry shall be passed for such transfers:

(Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4721	Bank Account-Nationalised Banks-General	Dr.	10,000		Contra Voucher
4722	To Bank Account-Nationalised Banks-Collection	Cr.		10,000	

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

(Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4722	To Bank Account-Nationalised Banks-Collection	Dr.	10,000		Contra Voucher
4721	To Bank Account-Nationalised Banks-General	Cr.		10,000	

Journal Voucher (KMF No 11)

5.9 All transactions not involving either cash or the bank are accounted through journal vouchers. For example, accounting a contractor's approved bill, capitalisation of cost of a fixed asset on completion of a work, accrual of property tax, accrual of pay bill, etc. Journal Vouchers shall also be prepared for rectifying errors in accounts, like misclassifications, wrong entry, etc., which do not involve cash or bank accounts. Like the contra voucher format, the journal voucher format too has a "Debit Amount" column, and a "Credit Amount" column, and both the debit and credit aspects of a transaction are recorded in this voucher. The total of debit and credit amounts in a journal voucher shall always be equal.

Rectification Vouchers

5.10 Errors of omission or commission may occur during the course of accounting. Such errors may occur in any type of transaction (i.e. receipt/payment, contra or journal entries). Rule 19(1) prescribes that correction in an entry passed in the books of account shall be authorised by the head of the office or by an officer duly authorised by him, and effected only through another rectification entry. The voucher type to be used for passing a rectification entry depends on the nature of transaction and the type of error. The errors may be of the type of excess or short accounting of amount received/paid/transferred, etc. It may also be of the type of debiting or crediting the wrong account.

5.11 The following examples illustrate the vouchers to be used for rectification of errors :

Type of voucher in which error has occurred	Nature of error	Type of voucher to be used for rectification	Rectification entry to be passed
KMF No 8	Receipt is short accounted	KMF No 8	Receipt entry to be passed for the amount short accounted.
KMF No 8	Receipt is accounted excess	KMF No 9	Payment entry to be passed to reverse the excess amount.
KMF No 8	Debit/credit to wrong account	KMF No 11	A journal entry to be passed to transfer the amount to the appropriate account.
KMF No 9	Payment is short accounted	KMF No 9	Payment entry to be passed for the amount short accounted.
KMF No 9	Payment is accounted excess	KMF No 8	Receipt entry to be passed to reverse the excess amount.

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Type of voucher in which error has occurred	Nature of error	Type of voucher to be used for rectification	Rectification entry to be passed
KMF No 9	Debit/credit to wrong account	KMF No 11	A journal entry to be passed to transfer the amount to the appropriate account
KMF No 10	Excess or short accounting/debit or credit to wrong cash or bank account	KMF No 10	Contra entry to be passed to rectify either shortage, or excess, or to transfer the amount to the appropriate cash/bank account.
KMF No 11	Excess or short accounting/debit or credit to wrong account	KMF No 11	Journal entry to be passed to rectify either shortage, or excess, or to transfer the amount to the appropriate account.

5.12 The following example illustrates how a receipt voucher in which receipt of Rs 1,000 towards the sale of tender forms is wrongly credited to “Fees for empanelment/registration of contractors Account” is rectified :

(1) Original entry passed:

(Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher Prepared
4712	Cheque in Hand	Dr.	1,000		Receipt Voucher
1423	To Fees for Empanelment / Registration of Contractors etc.	Cr.		1,000	

(2) The correct entry should have been:

(Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher Prepared
4712	Cheque in Hand	Dr.	1,000		Receipt Voucher
1521	To Sale of Tender Form	Cr.		1,000	

(3) To rectify the above, the Accounts Department shall prepare a Journal Voucher and pass the following entry:

(Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher Prepared
1423	Fees for Empanelment / Registration of Contractors etc.	Dr.	1,000		Journal Voucher
1521	To Sale of Tender Forms	Cr.		1,000	

5.13 A detailed narration shall be written on the rectification voucher, explaining the nature of error, and giving a reference to the voucher number where the error has occurred.

Voucher Numbering

5.14 Rule 17 of KMABR, 2006, prescribes that voucher numbering shall be done in the following manner :

- Vouchers shall have separate serial numbers for each Fund
- Within each Fund, different types of vouchers shall have separate serial numbers
- The voucher numbers shall start afresh at the beginning of every year
- A voucher number register shall be maintained, to facilitate vouchers to be numbered properly

Books of Accounts

Books of Prime or Original Entry

5.15 These are the basic records of the double entry accounting system, where transactions are first accounted from the vouchers. Under the Double Entry Accrual method, ULBs shall maintain the following books of prime entry.

Cash Book (KMF No 1)

5.16 This shall be the Book of Prime Entry for accounting transactions involving cash and cheques in hand. The cash book has two sides, viz., "Receipts" and "Payments". On each side, it has separate columns for "Cash" and "Cheques in Hand". All cash and cheques received, and cash withdrawn from the bank shall be recorded on the "Receipts" side, and all cash payments and remittances of cash and cheques into the bank shall be recorded on the "Payments" side. The cash book shall be closed at the end of every day, and the balance shall be arrived at, tallied with the physical cash balance, and carried forward to the next day.

Bank Book (KMF No 3)

5.17 This Book shall be similar to the Cash Book, and shall be used for accounting all bank transactions. Separate bank books shall be maintained for each bank and treasury account. Where multiple collection bank accounts are maintained for remittance of property tax, water charges, or any other tax, fees or charges, a separate bank book shall be maintained for each such collection bank account. Bank books shall be closed at the end of every day, and the balance shall be arrived at, and carried forward to the next day. The balance in the bank books shall be reconciled with the balance as per bank statements, at the end of every month.

Journal Book (KMF No 4)

5.18 This Book shall be used for accounting all transactions other than those involving cash and/or bank, by using journal vouchers. The Journal Book shall have debit and credit columns for entering the debit and credit amounts of a non-cash/bank transaction. The total debit and credit amounts of each entry in the Journal Book shall always tally.

Making entries in the books of prime entry from vouchers

5.19 The entries in the books of prime entry are made from the vouchers, giving details of voucher date, voucher number, particulars of transaction and amount. The entries shall be made in chronological order.

Entry of receipt vouchers in Cash Book (KMF No 1) and Bank Book KMF No 3)

5.20 Receipt Vouchers are prepared by the Accountant every day, for total cash collection, total cheque collections, and also for total direct remittances in collection banks or treasury accounts. The receipt vouchers shall be entered on the receipts side of Cash Book/Bank Books as follows :

- Total cash collections in Cash Book (Column 6)
- Total Cheque collections in Cash Book (Column 7)
- Total direct collections in bank/treasury in relevant Bank Book(Column No 6)

Entering payment vouchers in Cash book/Bank Book

5.21 The payment vouchers prepared for cash payments shall be entered on the payments side of Cash book (Column no 15). The payment vouchers prepared for bank payments shall be entered on the payments side of the relevant bank book (Column no 15).

Entering contra vouchers in Cash Book (KMF No 1) and Bank Book (KMF No 3)

5.22 Contra vouchers are not posted to the General Ledger. The double entry is completed by entering the debit and credit amounts in the receipts and payments side of relevant cash or bank books.

5.23 Example: A contra voucher for remittance of cash shall be entered in the “Receipts” side of the relevant bank book (Column no 6), and on the “Payments” side of cash book (Column no 15). Similarly, a contra voucher for remittance of cheques shall be entered in the “Receipts” side of the relevant bank book (Column No 6), and on the “Payments” side of cash book (Column no 16). Amounts transferred from one bank account to another shall be shown on the receipt side of the Bank Book for the transferee bank, and simultaneously as payment in the Bank Book of the transferor bank.

Balancing of Cash/Bank Books

5.24 At the end of the day, the Accountant shall close the cash book (including cheques in hand column) and all bank books, and arrive at the closing balances. The closing balances shall be carried forward as the opening balance to the next day.

Books of Final Entry (ledgers KMF No 5)

5.25 A ledger is a book of final entry where transactions are posted from books of prime entry, under different heads of account. There are two types of ledgers, namely General Ledger, and Subsidiary Ledger (also known as Sub-ledger). Both General Ledger and Sub-Ledgers are maintained in KMF No 5.

5.26 The General Ledger is maintained to classify transactions under the appropriate account heads and account codes prescribed in the chart of accounts.

5.27 A separate folio is maintained for each account from the Chart of Accounts, which is relevant to the ULB. Each account has a “Debit” side, and a “Credit” side. Each side has columns for date, voucher numbers, particulars, folio and amount. At the end of each month, the entries in the Debit side and the Credit side are totalled and balanced.

5.28 Sub-ledgers are ledgers in which individual (personal) accounts are maintained under certain accounts in the General Ledger. Sub-ledgers are also maintained in KMF No 5. The account in the General Ledger, for which a Sub-Ledger is maintained, is considered as the Control Account for that Sub-Ledger. The total of balances of all individual accounts in the Sub-Ledger shall tally with the balance in the Control Account at any point of time. The Accountant shall maintain separate Sub-Ledgers for Creditors-Suppliers Payable (3811) and Creditors-Contractors Payable (3812). Each account in the Sub-ledger shall be balanced at the end of every month, and the balance arrived at, and carried forward to the next month.

Posting of entries from books of prime entry to General Ledger

5.29 The entries in the books of prime entry i.e. Cash Book, Bank Books (except contra entries), and entries in the Journal Book shall be posted to the respective account in the General Ledger, to

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complete the double entry. In the General Ledger, transactions entered in the books of prime entry are classified under appropriate account heads listed in the Chart of accounts. The amounts entered in the receipts side of Cash book and various Bank Books are posted to the credit side of appropriate accounts. Similarly, the amounts entered in the payments side of Cash book and various Bank Books are posted to the debit side of appropriate accounts. Entries in the debit column of the Journal Book are posted to the debit side of the appropriate accounts, and entries in the credit column of Journal Book are posted to the credit side of appropriate accounts. The entries are posted in chronological order, giving voucher numbers, and cross-references of folio numbers both in the books of prime entry and the ledger. All the accounts in the General Ledger are totalled and balanced at the end of each month.

Posting of entries from books of prime entry to Sub-ledgers

5.30 After a bill for a contractor is approved, a journal voucher is prepared, and entered in the Journal Book. The journal voucher and the entry in the Journal Book shall carry the account head and account code of Creditors-Contractors Payable (3811), as well as the reference of the account of the Contractor in the Sub-Ledger. As the entry is being posted to the account of Creditors-Contractors' Payable in the General Ledger, simultaneously, it shall be posted to the credit of the Contractor's account maintained in the Sub-Ledger. The payment voucher and the entry in the Bank Book for payment of the bill also shall carry the account head and account code of Creditors-Contractors Payable, and the reference of the account of the Contractor in the Sub-Ledger. When the payment is posted from the Bank Book to the debit of Creditors-Contractors Payable, it shall also be posted to the debit of the Contractor's account in the Sub-Ledger. A similar procedure shall be followed for posting of suppliers' bills and payments in the Suppliers' Sub-ledger.

Preparation of the Monthly Trial Balance and Sub-ledger Schedules

5.31 The trial balance shall be prepared in KMF No 75 as at the end of each month, by 20th of next month. The trial balance is nothing but a listing of debit and credit balances of the accounts in the General Ledger. The totals of debit and credit balances shall always tally. Any difference, in these totals, indicates arithmetical inaccuracy or errors in the accounts. If the trial balance shows a difference, the Accountant shall make all efforts to check the carried forward balances, totals, posting of entries to General Ledger, etc., and rectify the errors. The trial balance shall be drawn for all the three Funds, in columnar form.

5.32 The Accountant shall also draw monthly schedules of balances in the Sub-Ledgers, and verify the balances with the balances in the Control Accounts. The reasons for differences, if any, shall be identified, and mistakes shall be rectified.

Other registers/forms

5.33 In addition to the books of account, KMABR, 2006, prescribes several other forms and registers which ULBs have to mandatorily maintain. Some of these forms and registers are

prescribed to provide the basic information necessary to prepare vouchers, and to make entries in the books of account. The remaining forms and registers are prescribed to provide additional non-accounting information for MIS and internal control purposes. The registers and forms which have to be maintained are detailed in Schedule VI to KMABR, 2006. They are also explained in detail in the respective chapters of this Manual. A few registers and forms which have relevance to general accounting procedures are explained below:

Register of Cash drawn and disbursed (KMF No 2)

5.34 While issuing cheques for cash withdrawal, the Accountant prepares a contra voucher, and enters it on the receipt side of cash book, and the payment side of the relevant bank book. The cashier shall withdraw cash, and enter it in the Register of cash drawn and disbursed. As and when payments are made, they are also entered in the same register, giving details of the payments made. The bills and vouchers (supporting documents) based on which the payments are made, are handed over to the Accountant who shall verify the Register of cash drawn and disbursed, and prepare payment vouchers, and enter them on the payment side of Cash Book. The supporting documents are attached to the payment vouchers.

Classified Registers of Receipts and Payments (KMF No 6)

5.35 The Accounts Department shall maintain a Classified Register of Receipts and Payments (KMF No 6) separately for Revenue Receipts, Revenue Payments, Capital Receipts, Capital Payments, Extraordinary Receipts, and Extraordinary Payments. The Registers shall be maintained in the Accounts Department on a daily basis for classifying the daily receipts and payments on the basis of budget codes. Entries shall be made in these Registers daily, from relevant Vouchers (Refer Chapter 26 for detailed explanation). Totals shall be arrived at on monthly basis, and compared with the approved budget, to find out the budget availability, any shortfall in collection and the budget availability for payments under each budget head.

Monthly Receipts and Payments Account (KMF No 74)

5.36 Rule 123 of KMABR, 2006, prescribes preparation of Receipts and Payments Account in KMF No 74. The Statement has separate columns for different Funds, and also a column for consolidated figures. It shall be prepared from receipt and payment entries for the month in the various accounts in the General Ledger. Refer to Chapter 23 Financial Statements for further details.

Voucher Number Register (KMF No 12)

5.37 For the purpose of having proper control over numbering of vouchers, Rule 17(2) of KMABR, 2006, prescribes maintenance of a voucher number register in the KMF No 12. The Register shall be maintained by the Accountant. It shall list out the voucher numbers for Receipt Vouchers, Payment Vouchers, Journal Vouchers and Contra vouchers in separate columns, on daily basis. Separate sheets/registers shall be maintained for different funds. While numbering the

vouchers, the Accountant shall refer to the previous voucher number from the Register, and give the next unused number to the voucher under preparation.

Income and Collection Accounting Procedures

Accruable and Non-accruable Incomes

5.38 Rule 19 of KMABR, 2006, prescribes that all items of revenue which fulfil the following criteria shall be accrued :

- a The income is earned, or the right to receive it is established
- b The amount due is determined or determinable and
- c No significant uncertainty exists about its realisation

As per Rule 20, all forms of income which do not fulfil the above criteria shall be accounted on receipt.

5.39 Thus accruable forms of income are those for which demands can be raised, such as property tax, advertisement tax, water charges, trade license fees, etc. Income such as birth and death certificate fees, katha transfer fees, katha extract fees, building license fees, etc., which are received on a need basis, and for which demand cannot be raised are considered as non-accruable income.

Accounting of non-accruable incomes

5.40 Non-accruable income is accounted as income on receipt. For example, if birth and death certificate fees are received in cash, the following entry shall be passed:

(Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4711	Cash in Hand	Dr.	200		Receipt Voucher
1411	Fees for Birth / Death Certificate	Cr.		200	

Accounting of accruable incomes

5.41 All accruable income shall be accrued in the beginning of the year. Thus, property tax on existing buildings, water charges on existing connections, rents on buildings which are let out, licence fees for existing trades, etc., shall be accrued at the beginning of the year. For property tax on new buildings, water charges on new connections, buildings newly let out during the year, etc., accrual entries shall be passed as and when such transactions take place.

Maintenance of DCB Registers for accruable incomes

5.42 For all accruable incomes, the concerned departments shall maintain "Demand,

Collection, and Balance Registers” or DCB Registers. A separate register shall be maintained for each type of accruable income. A DCB Register is an account of dues of individual tax payers, or users under each type of accruable income, giving the amount of demand, collection, and balance of the individual tax payer, or user/traders. KMABR, 2006, prescribes four types of DCB Registers:

- i. Demand Collection & Balance (DCB) cum Form III Register (KMF No 24) for Property Tax. This register is a combined record of demand, collection and balance (as required by KMABR, 2006), and Form III (Property Tax Register required to be maintained under Municipal Taxation rules, 1965).
- ii. Special Demand Collection & Balance (DCB) Register (KMF No 25) for revenue items such as rent, water charges, etc., which have to be collected on a monthly basis. It has columns for monthly dues, and collections.
- iii. Miscellaneous Demand Collection & Balance (DCB) Register (KMF No 26) for accruable revenue items not falling under (i) or (ii) above (Other than Trade License Fees).
- iv. Demand Collection & Balance (DCB) Register (License Fees) (KMF No 26A) for Trade License Fees.

Preparation of Statement of Demand Raised/ Income Accrued (KMF No 13)

5.43 For passing the entries for accrual of income, at the beginning of every year, the Accounts Department requires information from the concerned departments, on the amounts to be accrued. For this purpose, based on the relevant DCB Registers, and other available information, each department responsible for collection of any accruable income, shall prepare a summary statement of demand raised or income accrued in KMF No 13, by 1st April every year. The Statement shall indicate the amount falling due for the year for all types of accruable income for which it is responsible.

Passing of accrual entries

5.44 Based on KMF No 13 received from the concerned departments, the Accountant shall, pass journal entries, crediting the appropriate income account, and debiting the “Receivable Accounts”. KMF No 13 shall be attached to the vouchers as supporting document for the accrual entries passed. For example, the Accounts Department shall, on receipt of KMF No 13, shall pass accrual entries for the following incomes as on 1st April, 2006:

Property Tax for the year ended 31-3-07 (Inclusive of Cess Rs 1,92,000)	Rs 9,92,000
Rent from commercial complex for the year ended 30-9-06	Rs 6,48,000
Water charges for the year ended 30-9-06	Rs 3,26,000
Trade License for the year ended 31-3-07	Rs 1,23,000

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The following entries shall be passed for accruing the above incomes:

(Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4611	Receivables-Property tax	Dr.	9,92,000		Journal Voucher (General Fund)
4631	Receivables-Trade License Fees	Dr.	1,23,000		
1111	To Property Tax	Cr.		8,00,000	
4691	To Cess control Account	Cr.		1,92,000	
1421	To Fees for Trade License	Cr.		1,23,000	
4632	Receivables-Water & UGD Charges	Dr.	3,26,000		Journal Voucher (Water Supply and Sewerage Fund)
1461	User charges - Water Supply & UGD Charges	Cr.		3,26,000	
4621	Receivables-Rent/Lease Rental	Dr.	6,48,000		Journal Voucher (Enterprise Fund)
1321	Rent from buildings- Commercial Complex	Cr.		6,48,000	

Note: 1) Separate accounts shall be maintained for receivables of different years, which shall be explained in detail in subsequent chapters. 2) In the case of property tax, an entry shall be passed for the amount including Cess. The entry is explained in detail in chapter 6 Property & Other Taxes.

5.45 On collection of any part of the income subsequently, the collection is accounted by passing a voucher as follows :

For example, for receipt of water charges, Rs 400 by cash:

(Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4711	Cash in Hand	Dr.	400		Receipt Voucher (Water Supply and Sewerage Fund)
4632	To Receivables-Water & UGD Charges	Cr.		400	

Register of Changes in Demand or Adjustments (KMF No 27) and Summary Statement of Changes in Demand or Adjustments (KMF NO 13A)

5.46 The amount accrued at the beginning of the year, may undergo changes on account of new assessments, change in assessments, refunds, or any other adjustments. Each department responsible for collection of revenue of any accruable income shall maintain a Register of changes in demand/adjustments, separately for each type of accruable income for which it is responsible. The Register shall show details of amount any change or adjustment to amount accrued on account of SAS return, any additional demand, CAL assessment, new assessments, notice fees, warrant fees, adjustment of deposit or advance, or any other adjustment that is made in the DCB Register, for which corresponding entries have to be passed in the books of account. From the Register, a Summary Statement of Change in Demand or Adjustment (KMF No 13A) shall be prepared on a monthly basis, and sent to the Accounts Department on or before 7th of subsequent month. In case there is no such change in demand or adjustment during the month, a "Nil" statement shall be sent. Based on the Statements, the Accounts Department shall pass necessary entries.

Maintenance of Receivable Accounts in the General Ledger

5.47 Separate accounts shall be maintained by the Accounts Department in the General Ledger, for 'Receivables' of different years, for the purpose of year-wise reconciliation of receivables, as well as to facilitate proper provisioning for doubtful receivables according to the prescribed norms. This shall be done, by using year-wise 'detail codes' under the respective Receivable Accounts in the chart of Accounts.

5.48 The entries passed for accrual of income, change in demand/adjustments, and daily collections shall be posted in the appropriate Receivable Accounts from the Journal Book, and Cash/Bank Books. The accounts shall be balanced at the end of every month. Reconciliation shall be carried out between the Receivable Accounts, and the DCB Registers periodically, and at the end of every year.

Suspense Register (KMF No 28) and Receivables-Suspense Accounts

5.49 ULBs have switched over from field collection to collection through collection centres or through designated banks for property tax collection. Some ULBs are opting for this mode of collection, even for collection of other revenues. While there are definite advantages in this mode of collection, sometimes, the remitter of tax or fees does not provide full details of remittance in the remittance challans. The concerned department is unable to enter the details of such collections in the DCB Register. Rule 53(4) of KMABR, 2006, prescribes that all such collections shall be entered in the Suspense Register (KMF No 28) maintained by the concerned department. A separate register shall be maintained by each department responsible for collection of revenues, and separate pages shall be assigned for each type of revenue for which the department is

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responsible. The department shall make all efforts to get the full particulars of the amount collected within 15 days, and clear this suspense account.

5.50 The Monthly Statement of Change in demand/adjustments (KMF No 13A) has separate columns where the department shall provide details of 'suspense clearance'. On obtaining the missing details of items in "Suspense Register", the concerned department shall update the details in the DCB Register, and include the details in the appropriate columns of KMF No 13A for the month.

Procedure to be Followed for Accounting of Collections

5.51 The ULB may collect money by way of the following means:

- Through the ULB's bill collectors or field staff
- Through office collections by the Cashier
- By any other designated person
- In the above cases, collection may be through cash, cheque or D.D, received through printed receipts in KMF No 14
- Through a collection agency (such as designated Bank for collection of property tax under SAS)
- Through the Treasury

Collection by bill collectors or other field staff/ office collection by cashier or any other designated persons (referred to hereafter as Collectors)

5.52 The same accounting procedure is followed for both collections by field staff and office collections. The various steps which a Collector has to follow are explained below:

Issue of receipts (KMF No 14):

5.53 Each Collector shall be provided with serially numbered receipt books. The receipts are in triplicate. The original is issued to the Payer, the duplicate copy is for the record of the Department concerned, and the triplicate is retained in the receipt book. The same receipt book shall be used by a Collector for issue of receipt for collection of all types of revenue, and a new receipt book shall be issued to him, only after he returns the used receipt book. The receipts shall be issued by using double sided carbon sheet. In the case of receipt of cheques and drafts, the receipt issued in acknowledgement shall be "subject to realisation".

Maintenance of Collection Register (KMF No 16/16A):

5.54 Each Collector shall have, in his custody, a Collection Register in KMF No 16, in which the details of daily collections shall be entered from the receipt book, and summarised. The Form has columns for cash and cheque collections, and accruable and non-accruable items. In the case of office collections, remittances by the public may be received by the cashier himself, or by any other

designated person. A Collection Register shall be maintained by such a cashier, or designated person. In case of bank collections, as in the case of SAS (property tax) collections, the collection register shall be maintained in KMF No 16A, by designated persons (bill collectors may be assigned this task) in the concerned department. A separate collection register shall be maintained for each such collection bank account. Bank statements and challans shall be collected by such designated persons, preferably on daily basis. The amounts credited in the bank statement shall be checked with the challans, and entered in the Collection Register.

Verification and deposit of amounts collected:

5.55 The Collector shall produce the Collection Register and the receipt book to the Revenue Inspector, Revenue Officer, or any other person or officer nominated by the Commissioner or Chief Officer for this purpose. The nominated officer or person shall verify the counterfoils of receipts and the collection register with the total amount collected, and with reference to the details in the DCB register, and affix his signature on the Collection Register. The amounts collected and the Collection Register shall then be produced to the Cashier. The Cashier shall verify the amounts received with the Collection Register, and shall acknowledge their receipt by affixing his seal and signature on the Collection Register. The collections are to be entered in the relevant DCB Register by the concerned collectors/clerks if applicable.

Maintenance of Register of Cheques Received (KMF No 15) and Chitta (KMF No 17):

5.56 The Cashier shall maintain the above Registers to record and reconcile the cash and cheques received by him from each Collector. He shall enter details of cash collections in the Chitta, and details of cheque collections in the Register of Cheques Received. These Registers also help him in segregating the collections fund-wise and revenue type-wise. The Register of Cheques Received has columns for entering details of remittance and realisation of cheques, and also helps the Cashier to keep track of realisation of cheques or D.Ds.

Preparation of Summary of Daily Cash and Cheque Collections (KMF No 18 & 19):

5.57 KMABR, 2006, prescribes Summary of Daily Cash collections (KMF No 18) and Summary of Daily Cheque collections (KMF No 19) to summarise the daily cash and cheque collections. The Cashier shall prepare these summaries, separately for each Fund, segregating the collections under relevant account heads or account codes, and budget codes. If the ULB is not maintaining separate cash and bank accounts for each Fund, collections shall be accounted under the Fund, in which the cash and bank accounts are maintained, using appropriate inter-fund transfer account codes. KMF No 18 & 19 shall be sent to the Accountants Superintendent/Accountant, for verification and preparation of receipt vouchers.

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Note: The steps prescribed above in respect of collection by Collectors shall be consistently followed by the concerned persons, and all the above-mentioned forms shall be ready by the end of each working day, without fail. KMABR, 2006, prescribes that in case the person designated for verification of Collection Register is not available, cash shall be remitted to the Cashier on the same day, and the verification of the Collection Register shall be carried out before the close of the next working day.

Remittance into bank:

5.58 At the beginning of the next day, the cashier shall remit the entire amount of cash and cheques into the bank, and receive the bank's acknowledgement in the remittance challans of the bank. The acknowledged remittance challans shall be pasted to a book (Remittance Book), and kept in the safe custody of the Cashier. The remittance Challans (pay-in-slips) shall be checked on a daily basis by the Officer Manager or the Officer nominated for this purpose, and he shall sign this remittance register in token of such check.

Remittances of tax, fees and other charges in banks, treasury by the Public

5.59 Under the Self-Assessment System, tax payers can assess property tax themselves, and remit the tax amount in a designated collection bank. Some ULBs follow the practice of maintaining ward-wise, or area-wise collection bank accounts. In some ULBs, bank accounts are maintained for collection of other types of revenues, like water charges. The practice of using a treasury account for collection of property tax, fees, charges, etc., is also prevalent in some places. In all such cases, bank/treasury statements, along with challans, shall be received by the Revenue Department at frequent intervals .

Preparation of Collection Register:

5.60 Collection Registers shall be maintained in KMF No 16A, for each collection bank account. The concerned Department shall designate a person or persons to maintain a Collection Register for each collection bank account or treasury account. After an entry is made in the Collection Register, the challans shall be handed over to the person/persons responsible for maintaining DCB Registers, who shall make entries in the relevant DCB Register.

Preparation of Summary of Daily collection through Bank/ Treasury (KMF No 20):

5.61 The person responsible for maintaining the Collection Register shall summarise the details of Collection Register in "Summary of Daily Collection through Bank/Treasury (KMF No 20)" under the appropriate account heads or codes and budget codes. The Form shall be verified and authenticated by the RO/RI/SGRI/officer designated for this purpose, and sent to the Accountant for preparation of a receipt voucher. A separate form shall be prepared for each collection bank or treasury account. If the collection of one Fund is received in bank account of another Fund, such collections shall be included in the Summary, using appropriate "inter-fund transfer account code".

Note: Collection of bank statements, updation of the collection register, preparation of KMF No. 20, etc., shall, as far as possible, be done on a daily basis.

Procedure for Preparation of Vouchers for Collections and Remittances

Preparation of receipt vouchers for cash and cheque collections (KMF No 8)

5.62 On receipt of KMF No 18, 19 and 20, they shall be verified by the Accounts Superintendent/Accountant with regard to the correctness of account heads and account codes. The Accountant shall then prepare Receipt Vouchers. Separate receipt vouchers shall be prepared for the total daily collection of a) cash and b) cheques, and for c) remittances in each collection bank account and treasury account, under the Fund to which the cash/cheque/bank/treasury account belongs. The Summary forms shall be attached to the receipt vouchers, and shall serve as supporting documents for the vouchers. The vouchers shall then be entered in the Cash Book/relevant Bank book. The procedure for the same is explained in Para 5.56.

Preparation of contra vouchers (KMF No 10) for remittance of daily collections into bank

5.63 Based on the duly acknowledged challans or pay-in-slips, the Accountant shall prepare Contra Vouchers (KMF No 10) for accounting the remittances. Separate contra vouchers shall be prepared for remittance of cash and cheques into different bank accounts. For remittance of cash into the bank, the relevant bank account shall be debited, and the cash account shall be credited. For remittance of cheques, the relevant bank account shall be debited, and the "Cheque in Hand" account shall be credited. The vouchers shall then be entered in Cash Book/relevant Bank book. The procedure for the same is explained in Para 5.57.

Preparation of receipt vouchers and contra vouchers in respect of other receipts

5.64 Besides daily collection of revenues, the ULB may receive cheques/D.Ds or pay orders for grants, loans, deposits, etc., which have to be deposited in banks. The Cashier shall record all such receipts in the Register of Cheques Received (KMF No 15), and include them in the Daily Summary of Cheques Collected (KMF No 19). The Accountant shall verify the correctness of this Statement, and prepare receipt vouchers debiting cheques in hand, and crediting the relevant grant/loan/deposit account. For deposit of such cheques into the bank, contra vouchers shall be prepared, crediting the cheques in hand account.

Realisation of Cheques Deposited, Dishonour of Cheques, etc.,

5.65 Both the Cashier and the Accounts Department shall monitor the status of Cheques which have been deposited in the bank. The process for monitoring of cheques is as follows:

Updation of details regarding cheques/drafts deposited

5.66 The realization/return of the cheques/drafts shall be followed up with the bank by the Cashier and the Accountant. The details of the realisation /dishonour of the cheques/drafts shall be entered by the Accountant in the Register of Cheques Received (KMF No 15), from the bank statement.

Dishonour of cheques deposited

5.67 Rule 34 prescribes that in case of the dishonour of a cheque, the payer shall be immediately informed that the receipt issued for the amount stands cancelled, and he shall be asked to pay the amount in cash or D.D immediately, along with bank charges debited by the bank for dishonour of the cheque. The dishonoured cheque shall be retained by the Accountant, and shall not be returned to the collection staff, or to the payer, till the amount is received in cash or D.D.

5.68 The fact of dishonour of a cheque shall be noted in the Register of cheques Received, and a payment voucher shall be prepared to reverse the effect of the contra voucher and the receipt voucher, debiting the relevant income or receivables account, as the case may be, and crediting the relevant bank account.

5.69 For example, if a cheque for Rs 2,000 received towards rent, and deposited in bank, the entry passed at the time of receipt and deposit of cheque would be:

a) For receipt of cheque:

(Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher Prepared
4721	Cheques in Hand	Dr.	2,000		Receipt Voucher
4621	To Receivables - Rent/ Lease Rental	Cr.		2,000	

b) For deposit of the cheque into bank:

(Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher Prepared
4721	Bank Account-Nationalised Banks-General	Dr.	2,000		Contra Voucher
4712	Cheques in Hand	Cr.		2,000	

The debit to Cheque in Hand account in the receipt voucher has been nullified by the credit to the same account in the Contra Voucher.

(3) On dishonour of the cheque, the position prior to receiving the cheque shall be restored, by preparing the following payment voucher:

(Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4621	Receivables - Rent/ Lease Rental	Dr.	2,000		Payment Voucher
4721	To Bank Account-Nationalised Banks-General	Cr.		2,000	

Note: A rubber stamp shall be affixed on this payment voucher, bearing the words, "For Dishonoured Cheques".

b. The Accounts Department shall also pass on the information to the concerned department, which shall cancel the entry for collection made in the relevant DCB Register. Based on the information received from the Accounts Department, the Revenue Officer/Departmental Officer shall also inform the payer, and collect the amount in cash. The dishonoured cheque shall not be returned to the Payer till he pays the dues in cash.

c. If the bank charges for dishonoured cheques are debited by the bank, the amount shall be collected from the payer. The amount received in respect of bank charges shall be credited to the Bank Charges Account (Account Code 1488 Other Charges-Others-Bank Charges).

Procedure to be Followed for Accounting of Bills and Payments

5.70 The general procedure in respect of payments, which shall be applicable for payments made by the ULB towards supplier's/ contractor's bills, and payment of advance is described below:

Preparation/Verification of Claims by the concerned department:

5.71 Claims or bills to be accounted and paid are of the following types:

- Contractors' work bills. Usually, the Junior Engineer/Assistant Engineer shall prepare the bill in the ULB, the contractor will sign it, and the Executive Engineer/ Assistant Executive engineer shall verify and approve it.
- Bills of suppliers for goods purchased.
- Bills of service providers.
- Pay bill prepared by the establishment section, and checked by the office manager/

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departmental officer, as the case may be.

- Bills for office expenses such as electricity bills, telephone bills, water charges, fuel expenses, etc.

5.72 The Contractor's work bill shall be prepared in duplicate in KMF No 38, and entered in the Register of Bills received (KMF No 21), giving a serial number. The bill shall then be verified by the Head of the department against the work order, and measurement book, and shall be affixed with a "Payment Order" stamp. Necessary entries shall be made in the note sheet of the relevant file.

5.73 The bills of suppliers and service providers shall be received at the respective department which has incurred the expenditure. All such bills shall be entered in the Register of Bills received (KMF No 21) maintained in the Department. The Department shall verify each bill with reference to the purchase order, and the register of stores or the stock register, and prepare a "Detailed Bill of Other Expenditure" (KMF No 59) in duplicate, with particulars of the bill, recoveries, if any, etc. The procedure for approval by the departmental head, affixing of "Payment Order" stamp, making an entry in the note sheet, etc., is the same as in the case of a contractor's bill.

5.74 Pay bills are prepared in KMF No 50 (Pay Bill cum Acquittance Roll). An abstract in KMF No 50A shall be prepared in duplicate separately for each Fund. The procedure for approval by departmental head, affixing of "Payment Order" stamp, making entry in the note sheet, etc., is the same as in the case of a contractor's bill.

5.75 After verification and authentication by the departmental head, the file comprising of the bill, and note sheet, work order, contract, etc., shall be sent to the Accounts Department for verification.

Verification by Accounts Department:

5.76 The Accounts department shall enter the bill received, in the Register of Bills received (KMF No. 23) maintained by it. All the bills shall be verified with regard to:

- Whether the relevant file, supporting documents such as invoices, bills, etc., are properly stamped and signed by the Head of the concerned department.
- Whether adequate budget appropriation/provision is available under the particular head of account.
- Whether evidence of entry into the relevant register (Register of Immovable/ Movable properties, Register of Public Works, Register of Stores, etc.,) with the folio and reference numbers are available. The Accounts Department can also call for the relevant register to ensure that entry is made in it.
- Whether in respect of final bill of a contractor, the completion report approved by the competent Engineer.
- In case of any queries in the process of verification, including non-reference to the relevant register, the same shall be noted and the file shall be returned to the respective

- department for further clarification.
- The concerned department shall resolve the query which is raised above, and forward the file back to the Accounts Department.

Approval by Commissioner

5.77 After verification of the bill, the Accounts Department shall submit the file to the Commissioner, with a proper recording in the note sheet of the file. The Commissioner shall verify the claim to his satisfaction, approve the claim, and send back the file to the Accounts Department for accounting and payment.

Accounting and payment of bill

5.78 Rule 36 of KMABR, 2006, prescribes the point of time at which a bill shall be accounted. The Rule says that the following bills shall be accrued on approval :

- Bills pertaining to establishment
- Bills for procurement of goods and services, supported by work order, supply order, or indent.

All other bills for revenue expenditure shall be accounted on payment during the year. However, if any such bills are pending for payment at the end of the year, accrual entry shall be passed for such bills.

5.79 All bills such as pay bills, contractor's work bills, bills for supplies made against purchase orders, bills for outsourced services for SWM, etc., shall be accrued on approval, by crediting the appropriate liability accounts. Whenever these bills have to be paid, the relevant liability account in the General Ledger (Sub-ledger in the case of contractors/suppliers) shall be verified to ensure that the bill is accounted, and the liability exists. After verifying the entry in the relevant Ledger, a payment voucher shall be prepared debiting the liability account. For example, if an approved bill of a contractor bill for Rs 10,000 towards repair works is received by the Accounts Department, and on which Rs 200 has to be deducted at source towards income tax, the bill shall be accounted by passing the following journal entry:

(Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
2361	Repairs & Maintenance-Buildings	Dr.	10,000		Journal Voucher
3812	To Creditors-Contractors' Payable	Cr.		9,800	
3845	To Recoveries Payable-Tax Deducted-Contractors	Cr.		200	

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On payment to contractor, the following entry shall be passed *Illustrative figures (Amount in Rs.)*

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
3812	Creditors-Contractors' Payable	Dr.	9,800		Payment Voucher
4721	To Bank Account-Nationalised Banks-General	Cr.		9,800	

5.80 Bills such as lawyer's fees, stationery purchased, electricity bills, telephone bills, etc., shall be accounted only at the time of payment through payment vouchers, debiting the appropriate expenditure account, and crediting the bank, but the departments shall ensure that the bills on which due dates have been specified, are paid in time. For example, for payment of insurance premium of Rs 5000, the entry to passed, shall be:

(Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be prepared
2213	Insurance	Dr.	5,000		Payment Voucher
4721	To Bank Account-Nationalised Banks-Generals	Cr.		5,000	

Expenditure incurred during the year, but approved in the subsequent year

5.81 In case of a bill of the type explained in 5.78 (ii) incurred during the year, but approved in April of the succeeding year, the bill shall be accrued as on the last day of the year. In the month of April every year, the Accounts department shall list out all such bills pertaining to the previous year, approved in April and pass accrual entries. This exercise shall be completed by 7th of May.

Provisioning for bills pending approval

5.82 In the April every year, the concerned departments shall prepare the KMF No 60 (Statement of bills pending for approval), in respect of expenditure incurred during the year that has ended, but for which approval is pending as on 30th April. The Statement shall be sent to the Accounts Department, which shall pass provision entries as on 31st March of the previous year, and reverse the provision in the beginning of the current year. After approval, the bills shall be accounted in the same manner as for accounting other bills. For example, if a contractor's bill for building repair amounting to Rs 25,000 during March 2008, and is approved on 1st May 2008, and the tax deduction at source from the bill is Rs 500, the entries to be passed are as follows:

(Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
a) Provision entry to be passed on 31-3-2008					
2361	Repairs & Maintenance-Buildings	Dr.	25,000		Journal Voucher
3918	To Provision for Expenses- Others	Cr.		25,000	
b) Reversal of provision entry on 1-4-2008					
3918	Provision for Expenses- Others	Dr.	25,000		Journal Voucher
2361	To Repairs & Maintenance-Buildings	Cr.		25,000	
c) Accounting of the bill after approval on 1-5-2008					
2361	Repairs & Maintenance-Buildings	Dr.	25,000		Journal Voucher
3845-01	Recoveries Payable-Tax Deducted-Contractors-Income Tax	Cr.		500	
3812	Creditors-Contractors Payable	Cr.		24,500	

Preparation of payment voucher and cheque

5.83 A payment Voucher shall be prepared in KMF No 9. Generally, payments shall be made by issue of cheques. Cash payment shall be made only under exceptional and urgent circumstances, under the specific approval of the Commissioner. The payment voucher, along with the cheque, and note sheet, shall be forwarded to the Commissioner for approval and signature.

Note: The entries to be passed for accounting of bills and payments thereof are discussed in detail in Chapter 10-Public Works, Chapter 12-Employee Related Transactions, and Chapter 14-Other Revenue Expenditure.

5.84 In the case of all bills other than Pay bill, after payment of the bill, the original bill shall be retained by the Accountant and attached to the voucher, while the duplicate bill along with the file,

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shall be sent back to the concerned department. In the case of the Pay Bill, the original Pay bill Abstract (KMF No 50A) shall be retained by the Accountant, and the Pay Bill, the duplicate of Pay Bill Abstract, and the Pay Bill shall be sent back to the department.

General Instructions For Payments:

- 5.85 The following steps shall be taken by the Accounts Department, while making payments:
- Payments shall be made by the Accounts Department, normally by “Account Payee” crossed cheques.
 - Full particulars of payments shall be written on the Payment voucher, and the name of the Payee shall be written in the cheque counterfoil, if any, or in the record/transaction slip provided for this purpose at the back of the cheque book.
 - Payment supported by relevant files shall have recordings in the note sheet of the file, with the recommendation of the department, scrutiny by the Accountant, and approval by the Commissioner/ Chief Officer.
 - In respect of any cancelled cheque, the cheque, along with the cancelled payment voucher shall be filed in the Payment Voucher file, as proof of cancellation. The cancelled cheque shall bear the approval of the Municipal Commissioner / Chief Officer.

Stale / Obsolete Cheques

5.86 The normal validity period of a cheque is 6 months or a shorter period as specified on the cheque, from the date of issue of the cheque. If the cheque is not realised before expiry of the validity period, it becomes a stale cheque. At the end of the specified period, the Accounts Department shall review the Bank Reconciliation Statement to identify the cheques which have become stale.

5.87 The effect of a stale cheque shall be reversed by preparing a receipt voucher, debiting the relevant bank account, and crediting the account which was originally debited at the time of issue of the cheque. For example, if a cheque for Rs 10,000 issued to a contractor has become stale, the payment entry shall be reversed by passing a receipt voucher:

(Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4721	Bank Account	Dr.	10,000		Receipt Voucher
3812	To Creditors- Contractors Payable	Cr.		10,000	

5.88 On the other hand, if a cheque of Rs 5,000 issued towards insurance has become stale, it has to be credited to Insurance account, since at the time of payment, this was the account that was debited (Expense to be accounted on payment-Rule 36(2)). In this example, the following entry shall be passed:

(Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4721	Bank Account-Nationalised Banks-General	Dr.	5,000		Receipt Voucher
2213	To Insurance	Cr.		5,000	

Bank Charges debited by the Bank

5.89 Banks debit bank charges for certain services rendered by them, by debiting the account of the customers. The Accounts Department will find such entries in the bank statement, normally at the time of bank reconciliation. All such entries shall be listed, and after getting the approval of the Commissioner/Chief Officer, the entries shall be accounted by passing a payment voucher.

Internal Controls

5.90 The following internal controls shall be observed by the ULB in respect of transactions related to the General Procedures discussed above:

- All money transactions to which any member, officer or servant of a Municipal Council in his official capacity is a party, shall, without any reservation, be brought to account.
- All Payments from the Municipal Funds shall be made only by cheques signed by the Municipal Commissioner or Chief Officer as the case may be.
- No duplicate or copy of a receipt granted for money received, or of a bill or other document for the payment of money, which has already been paid, shall be issued on the ground that the original has been lost. If any necessity arises for such a document, a certificate may be given that on a specified day, as per Rule 23(4).
- The amount of cash collections held by the Cashier at the close of the previous day shall be remitted into the bank, on the next day morning without fail. However, if the collections on a particular day are found to be unusually large, remittance to the bank shall be made on the same day.
- The Municipal Commissioner or Chief Officer as the case may be, shall at least once a week, examine the Cash book and Bank Book, so as to satisfy himself that all money received has been remitted to the bank without delay. He shall, at least, once a month, examine in detail

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the items in the Chitta and the Cash Book with all the relevant forms and registers, with a view to ensure that all sums received are brought to account.

- f. The cash balance of the Municipal Office shall be deposited in a strong cash chest at the end of every day. The cash chest shall be secured by two locks of different patterns. The key of one lock shall be in the custody of that Municipal Commissioner or Chief Officer as the case may be and the key of the other lock shall be in the possession of the Cashier or the Office Manager or the Officer designated.
- g. Cash in the chest shall be insured for theft, fire, etc.
- h. The closing balance of cash as per the Cash Book shall be verified daily with the physical cash balance at the cash counter by the Officer Manager or the Officer designated and must be signed by him.
- i. The Accountant / Accounts Superintendent and the Cashier shall co-ordinate with the banks on a daily basis and ascertain the status of the cheques/drafts deposited by them.
- j. Bank reconciliation shall be carried out on a monthly basis by the Accountant and the same shall be duly verified and signed by the Municipal Commissioner/ Chief Officer.
- k. The original copy of the cancelled Receipt shall be attached with the duplicate and triplicate copies with the words "Cancelled" marked on them.
- l. Original copies of all the cancelled documents such as receipts and payment vouchers shall be retained in the office file with reasons / justification for cancellation written on them.
- m. The Accounts Department shall ensure stamping of all the bills and of the note sheet of the relevant files, once they are approved for payment, to avoid the same bill from being processed once again, as follows:

Paid and Cancelled	
JV No. and date	
PV No. and date	
Cheque No.	
FDA / SDA	Accountant / AS/CAO

CHAPTER

6

PROPERTY TAX & OTHER TAXES

Property Tax & Other Taxes

6.1 Self-Assessment Scheme (SAS) has been introduced for property tax, since 1st April 2002, under section 105 of the Karnataka Municipalities Act 1964. Under SAS, property tax is assessed by the tax payer himself and deposited by him directly with designated branches of banks. However, in respect of arrears, collection by bill Collectors is still in practice.

Assessment of property tax

6.2 Property tax is due for payment within 90 days after commencement of every financial year. Every owner or occupier, who is liable to pay property tax, has to submit a return to the Municipal Commissioner or Chief Officer within 90 days from this date. In case of default in payment of property tax, or in submission of filing the return, the Owner/Occupier has to pay penalty at 2% p.m. under section 105 (5) the Karnataka Municipalities Act, 1964.

6.3 If the owner/occupier files his return, and pays property tax within one month from the date of commencement of the financial year, he shall be allowed a rebate of 5% on the tax payable by him under proviso to section 105 (1). Before filing the return, the owner/occupier shall pay tax, and submit one copy of the Challan, as proof of payment, along with the return.

Compulsory Assessment by Local Bodies (CAL)

6.4 In case of failure to pay property tax, and file the return before 30th June, or in case an incorrect return is filed, the Municipal Commissioner or Chief Officer, or the authorized officer shall conduct the assessment and raise a demand for property tax. This is called "Compulsory Assessment by Local Bodies or CAL Assessment". While making the assessment, the Municipal Commissioner/ Chief Officer/authorized officer may direct the owner/occupier to pay a penalty under section 105(5) of the Act. In case, the Commissioner or Chief Officer finds that the property tax paid by the owner or occupier falls short of the property tax amount due from him, he shall raise a demand for the balance amount.

6.5 Section 102-A provides that property tax shall not be assessed each year, but shall stand enhanced by 15% once in every three years, commencing from the financial year 2005-06.

Cess collected with Property Tax

6.6 Along with property tax, ULBs also collect cesses on behalf of the Government. The cesses being currently levied and collected by ULBs are:

Cess	Rate	Governing Act
Health Cess	15 percent of Property Tax	The Karnataka Health Cess Act, 1962
Library Cess	6 percent of Property Tax	The Karnataka Public Libraries Act, 1965
Beggary Cess	3 percent of Property Tax	The Karnataka Prohibition of Beggary Act, 1975

6.7 Under the Act, the ULBs are eligible for a collection charge on the total amount of cess collected at 10 percent of the amount collected.

Accounting Policies

6.8 The Accounting Policies governing the accounting and treatment of Property Tax shall be as given below:

- a. Property tax income shall be recognised in the period in which it becomes due and is ascertainable, i.e.
 - i. In case of existing properties, property tax shall be accrued at the beginning of the year. This will apply for both buildings and vacant lands.
 - ii. On new buildings, property tax shall be recognised in the month in which the property tax is received/self-assessment return is filed, or when demand is raised by issue of a demand notice, whichever is earlier.
- b. In the case of demand raised with retrospective effect in respect of properties that have escaped assessment, property tax shall be recognized when the demand is raised. To the extent the demand pertains to earlier years, it shall be treated as 'prior period income', and the amount pertaining to the current year shall be treated as current year's income.
- c. 'Property tax received in advance' shall be treated as a liability till the tax becomes due, at which point, it shall be adjusted against receivables.
- d. Rebate allowed on the Property Tax shall be treated as follows:
 - i. In the case of rebate allowed to the taxpayer on account of self-occupation under section 103 of the Act, the net amount has to be accounted as Property Tax, i.e. for the purpose of both demand and collection.

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- ii. In the case of rebate allowed on account of early payment under proviso to section 105(1) of the Act, the gross amount has to be accounted as property tax, and rebate allowed has to be treated as an 'expense'.
- e. Notice Fee, Warrant Fee and Distrain Fee, penalty, etc., for which notices or warrants are issued shall be accounted as and when the demand is raised.

Cess Collected on behalf of the State Government

- f. State Government dues (Health Cess, Beggary Cess, Library Cess, or any other cess that has to be collected along with Property Tax under prevailing laws) shall be reckoned with Property Tax while accruing Property Tax. The total amount of Property Tax and cess shall be debited to Receivables Account. Property Tax is credited to Property Tax (Income) account, and the total cess amount is credited to a separate 'Cess Control Account Property Tax.'
- g. 90 percent of the State Government Dues collected shall be transferred to individual cess liability accounts for different cesses, from where remittances shall be made to appropriate authorities. 10 percent of the amount collected which has to be retained by the ULBs as 'cess collection charge' shall be treated as income.
- h. If on account of remission granted, cess collected earlier has to be refunded, the amounts of cess so refunded shall be debited to respective 'Cess Payable' accounts, and the net amounts remitted to the appropriate authorities.
- i. If cess on which remission is granted is to be adjusted against future liability of the tax payer towards cess, the amount shall be treated as advance collection of cess.

Refunds/remissions

- j. If the remission pertains to the current year, it shall be adjusted against current year's income, and if it pertains to the previous year, it shall be treated as a 'prior period item.'
- k. If the amount of tax is already received, and has to be adjusted against future tax due from the tax payer, the amount shall be taken as 'Advance Collection of Revenues Property Tax'.

Provision and write off

- l. Provision shall be made on the balance of receivables pertaining to taxes, based on the following provisioning norms:
 - i. Outstanding for more than 2 years but not exceeding 3 years: 25%
 - ii. Outstanding for more than 3 years but not exceeding 4 years: 50%
 - iii. Outstanding for more than 4 years but not exceeding 5 years: 75%

- iv. Outstanding for more than 5 years: 100%
- m. If the provision required at the end of the accounting year is more than the provision existing at the beginning of the year, additional provision shall be treated as an expense. On the other hand, if the provision required at the end of the accounting year is less than the provision existing at the beginning of the year, the excess provision shall be written back, treating it as an income.
- n. Write-off of the amount due in respect of Property Tax shall be adjusted against the provisions for doubtful receivables if a provision already exists against such receivables, and if no provision exists, it shall be treated as an expense. In either case, "receivables" shall be reduced to the extent of the write off. Any subsequent collection or recovery of such written off receivables shall be recognised as 'Prior Period Income'.

Other Taxes

- o. The policies relating to Property Tax shall apply to the extent possible to Advertisement Tax.

Forms & Registers

Demand Collection & Balance (DCB) Cum Form III Register

6.9 The Revenue Department shall maintain a DCB Register for Property Tax in KMF No 24, in which the department shall note, for each property, the arrears of property tax due, current demand, collection during the year, any adjustment due to change in demand, etc. The same Register shall be used for five years, with separate sheets for each year.

6.10 Other Forms and Registers related to Property Tax are listed in Table 1 below. The procedure for preparation and use of these forms and registers are explained in detail in Chapter 5- General Procedures.

Accounting Procedures

Accrual of Property Tax

6.11 On receipt of KMF No 13 from the Revenue Department, the Accounts Department shall pass a journal entry for accrual of Property Tax income. Property Tax shall be inclusive of cess and shall be debited to Property Tax receivables, crediting the Property Tax component to 'Property Tax Income' and Cess component to 'Cess control' account.

6.12 The amount of various cesses shall be calculated, considering the applicable rates of levy. For example, the Property Tax and Cess on existing properties for 2006-07 could be as follows:

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Property Tax

Property Tax Residential	Rs.2,00,000
Property Tax Commercial	Rs.3,00,000
Property Tax Vacant Land	Rs.50,000
Total Property Tax	Rs.5,50,000

Library Cess (15%)	Rs. 82,500
Heath Cess (6%)	Rs. 33,000
Beggary Cess (3%)	Rs. 16,500
Total Cess	Rs.1,32,000

An entry shall be passed for Property Tax and Cess, as follows : *Illustrative figures (Amount in Rs.)*

Account Code	Accounting Entry (Illustrative Heads)	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4611	Receivable for Property Taxes (Year 2006-07)	Dr.	6,82,000		Journal Voucher
1111	To Property Tax Income	Cr.		5,50,000	
4691	To Cess Control Account-Property Tax	Cr.		1,32,000	

Accounting of Change in assessments:

6.13 The amount of tax accrued at the beginning of the year is based on the previous years' assessments. This amount may undergo changes after assessment during the year, either by way of self-assessment, or by way of compulsory assessment by the ULB (CAL). This may either lead to increase or decrease in the accrued tax amount. These changes in assessments shall be noted by the Revenue Department, in the Register of Changes in Demand or Assessment (KMF NO 27) maintained for Property Tax, as well as the DCB Register. From the details in KMF No 27, the Revenue Department shall prepare a Monthly **Summary Statement of Changes in Demand or Adjustments (KMF NO 13A)** within 7 days from the end of each month, showing all such changes and send it to Accounts Department. The Summary Statement shall include the following items:

- Any new demand in respect of new properties
- Difference between amount accrued and property tax as per SAS return filed (on receipt of any SAS Return during the month)
- Difference between SAS return and CAL assessment (in case of any CAL carried out by the commissioner/ Chief Officer during the month)
- Difference between amount accrued and property tax as per CAL (in case CAL is done by the ULB during the month in the absence of SAS Return filed by the tax payer)

- Adjustment of advance collection of tax, refund, etc., against demand
- Any excess remittance of tax, which has to be refunded to the tax payer, or has to be treated as advance
- Any write off
- Any demand for notice fee, warrant fee, distraint fee, penalty, etc.,
- Any other adjustment to affecting the balance due

Accounting of change in demand, or other adjustments:

6.14 On the basis of KMF No 13A, the Accounts Department shall pass an entry to effect any changes in demand or adjustments during the month.

6.15 In case the revised demand is more than what was accounted as income earlier, then, an entry shall be passed to account the difference. For example, if the original demand is for Rs. 372 and it is revised to Rs. 1240, an entry for Rs. 868 need to be passed as follows:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry (Illustrative Heads)	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4611	Receivable for Property Taxes (Year ...)	Dr.	868		Journal Voucher
1111	To Property Tax Income	Cr.		700	
4691	To Cesses Control Account-Property Tax	Cr.		168	

6.16 In case the revised demand is less than what was accrued as income, the entry passed earlier shall be reversed for the difference.

6.17 The change in demand shall be reflected in the current year's revenue, to the extent the revision in demand relates to the current year and in any other case, the reversal shall be accounted as 'prior period expenses'.

New Demands

6.18 In the case of a new or fresh demand in respect of a new construction completed during the year, the entry shall be the same as for accounting of accrued property tax at the beginning of the year. If the new demand pertains to an earlier year, the amount pertaining to earlier year shall be treated as Prior Period Income.

Reduction/Remission

6.19 The remission /reduction amount shall be adjusted against Receivables if the demand is

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outstanding. The accounting entry for the same is as follows:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry (Illustrative Heads)	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
1191	Tax Remission & Reduction - Property Tax	Dr.	500		Journal Voucher
2861	Refund of Prior-period Taxes	Dr.	500		
4691	Cesses Control Account- Property Tax	Dr.	240		
4611	To Receivables for Property Taxes (Year ...)*	Cr.		620	
4611	To Receivables for Property Taxes (Year)*	Cr.		620	

* Detail codes for respective detail codes shall be used.

6.20 If the tax already paid, is more than the demand, it will either be taken as credit and adjusted against future payments or will be paid to the tax payee as refund depending on the request of the tax payer. The amount of refunds/remissions/ reduction shall be credited to the account 'Advance Collection of Revenues- Property Tax' (account code 3871) (instead of 4611 as indicated in the above entry) when it is to be adjusted against future payments. If it is to be refunded, then it shall be credited to the Refunds payable- Property Tax account (account code 3861).

Collection of Property Tax

6.21 Property Tax (SAS) is normally remitted by the tax payers directly into the designated bank accounts, by using the Property Tax remittance Challans. The procedure for accounting collection of Property Tax through remittance by the tax payers into designated banks is explained in detail in Chapter 5 General Procedures.

6.22 Collection of Property Tax arrears pertaining to years prior to the introduction of SAS is still done by bill collectors. In the case of change in assessments, properties that have escaped assessments and for new assessments also, collection by bill collectors, and office collections are in practice. The procedure for accounting collection by bill collectors, and through office collections is also dealt with in detail, in Chapter 5-General Procedures.

6.23 The daily collection of Property Tax shall be accounted through the Collection Register (i.e. Rs. 24,800) by a receipt voucher, as follows:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry (Illustrative Heads)	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4722	Bank Account-Nationalised Banks-Collection	Dr.	24,800		Receipt Voucher
4611	To Receivables- Property Tax	Cr.		24,800	

Note: In case of collections by bill collectors, or office collections, "Cash in Hand" and "Cheques in Hand" Accounts shall be debited respectively for cash and cheques collected.

Recognition of liability, and subsequent remittance of cesses

6.24 The liability for remittance of various cesses arises on collection of Property Tax. This liability is recognised, by transferring the cess amounts from 'Cess Control' Account to the respective 'Cess Payable' Accounts. The Cess liabilities shall be calculated at prescribed percentages, on the property tax collected during the day. ULBs are entitled to retain 10% of cess as "Cess Collection charges", which is an income to the ULB. The entry for recognising cess liability and income towards collection charges shall be passed on daily basis, in the following manner :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry (Illustrative Heads)	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4691	Cesses Control Account-Property Tax	Dr.	24,000		Journal Voucher
3851-01	To Cess Payable - Health Cess A/c	Cr.		13,500	
3851-02	To Cess Payable - Library Cess A/c	Cr.		5,400	Journal Voucher
3851-03	To Cess Payable - Beggary Cess A/c	Cr.		2,700	
1471	To Cess Collection Charges	Cr.		2,400	

Remittance of Cesses to appropriate authorities

6.25 On due dates, the cess shall be remitted to the appropriate authorities, by passing the following voucher :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry (Illustrative Heads)	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
3851-01	Cess Payable-Health Cess	Dr.	13,500		Payment Voucher
3851-02	Cess Payable-Library Cess	Dr.	5,400		
3851-03	Cess Payable-Beggary Cess	Dr.	2,700		
4722	To Bank Account-Nationalised Banks-Collection	Cr.		21,600	

Accounting of excess collection of tax

6.26 There may be cases of excess collection noticed at the time of entering the collection in the DCB Register. Such items shall be shown in the Summary Statement of Change in Demand/Adjustments (KMF No 13A) for the month. The total amount of such excess collection shall be treated as 'refund payable property tax' under account Code No. 3861 by a Journal Voucher as follows:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry (Illustrative Heads)	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4611	Receivables-property tax	Dr.	500		Journal Voucher
3861	Refunds payable-Property Tax	Cr.		500	

6.27 The tax payers may be informed of this excess collection. The tax payer may opt for adjustment of this amount against next year's Property Tax. In that case, the amount shall be treated as "Advance Collection of Property Tax", and transferred to Advance Collection of Revenues Property Tax (Account code 3871).

Property Tax received in Advance

6.28 Property Tax may sometimes be received in advance. Such amounts received shall be credited to "Advance Collection of Revenue-Property Tax". The following entry shall be passed when tax is received in advance:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4712	Cheques in Hand	Dr.	1,000		Receipt Voucher
3871	To Advance Collection of Revenues-Property Tax	Cr.		1,000	

Adjustment of Property Tax received in advance against Property Tax in the subsequent year

6.29 The Revenue Department shall intimate the Accounts Department about adjustment of advance against subsequent demand raised through the Summary Statement of Change in Demand/ Adjustments (KMF No 13A) for the month. On receipt of it, the Accounts Department shall pass the following entry:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
3871	Advance Collection of Revenues-Property Tax	Dr.	1,240		Journal Voucher
4611	To Receivables for Property Taxes (Year...)	Cr.		1,240	

Collections with insufficient details

6.30 The Revenue Department shall maintain "Suspense Register (KMF No 28)" to record collections which cannot be recorded in the DCB Register for want of details. The Account Department shall maintain a "Receivables-Property tax Suspense Account" in Ledger for accounting collections. All such collections for which necessary details are not available, and are recorded in Suspense Register instead of DCB Register, are credited to this account. The entry passed for such collections shall be:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4722	Bank Account-Nationalised Banks- Collection	Dr.	1,000		Receipt Voucher
4611-98	Receivable - Property tax - Suspense account	Cr.		1,000	

6.31 In all such cases, the Revenue Department shall take necessary action to gather the missing details within 15 days from the date of receipt of the amount. Such details shall be recorded in the Suspense Register, and an entry for collection shall be made in the DCB Register. The Revenue Department shall note the details the Register of changes in Demand or Adjustments (KMF No 27), and intimate to the Accounts Department through the Summary Statement of Change in Demand/Adjustments (KMF No 13A) for the month. On receipt of KMF No 13A, the Accounts Department shall pass the entry to transfer the amount from Suspense Account to Receivables Account for the relevant year. The entry passed shall be:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Passed
4611-98	Receivables - Property Tax Suspense Account	Dr.	1,000		Journal Voucher
4611**	To Receivables for Property Taxes (Year...)	Cr.		1,000	

** The detail codes for Receivables Account for the relevant year shall be used.

Rebate Allowed

6.32 Proviso to section 105 (1) of the Act allows a rebate of 5%, where property tax is paid within 30 days of the commencement of the financial year. Details of such rebates on property tax shall be made available to the Accounts Department by the Revenue Department, through the 'Summary Statement of Change in Demand/Adjustments (KMF No 13A)' for the month. To record the rebate allowed, the following accounting entry shall be passed.

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Passed
2481	Rebate on prompt payment	Dr.	100		Journal Voucher
4691	Cesses Control Account- Property Tax	Dr.	24		
4611	To Receivables for Property Tax (Year...)*	Cr.		124	

Since the rebate represents a reduction in the amount of demand, which is receivable from tax payers, the cess control account shall also need to be adjusted for the rebate portion.

Notice Fee, Warrant Fee, Other Fees and Penalties

6.33 Notices of demand and warrants shall be issued and fees for issue of such notices or warrants shall be chargeable under section 149 of the Act. Penalties / interest for delayed payment of tax may also be charged as per the relevant provisions of the Act and Taxation Rules, 2002. Such fees, penalties, interest, etc., are entered in the 'Others' column of the DCB Register, and shall be accounted as and when demand is raised, by debiting the relevant "Receivables" Account. On collection, the amount shall be credited to the relevant "Receivables" Account.

Service Charge in lieu of Property Tax

6.34 Under Section 94(1A) of the Karnataka Municipalities Act, 1964, several properties such as

places of worship, places used for charitable purposes, hospitals, and government properties are exempt from the levy of property tax. However, Section 94(2) provides for the ULB to collect a service charge for providing civic amenities to these organizations at the prescribed rates.

6.35 The demand for 'service charge in lieu of property tax' shall also be recorded in the same way as Property Tax. The Summary Statement of Demands raised/Income Accrued (KMF No 13) shall have details of 'service charge in lieu of property tax' accrued during the year, based on which following accounting entry will be passed:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Passed
4638	Receivables Fees, User Charges & Other Charges- Others (Year...)	Dr.	1,000		Journal Voucher
1472	To Service Charge in lieu of Property Tax	Cr.		1,000	

6.36 A DCB register in KMF No. 26 shall be maintained for this purpose. Cess need not be added to this service charge. The procedure for collection and accounting of sums received from such properties shall be the same as applicable for Property Tax.

Advertisement Tax

6.37 According to the Act, ULBs may levy a tax on advertisements (other than advertisements published in newspapers) erected, exhibited, fixed or retained upon or over any land, building, wall, hoarding, frame, etc., or displayed to public view in any manner visible from a public street or public place.

Accrual of Advertisement Tax:

6.38 The accounting of Advertisement Tax shall be similar to property tax discussed above. The Revenue Department shall maintain a Miscellaneous DCB Register (KMF No 26), to record the demands, collection, and balances due in respect of Advertisement Tax. The amount of Advertisement Tax due for the year shall be included in the Statement of Demand Raised or Income Accrued (KMF No 13) sent by the Revenue Department to Accounts Department at the beginning of the year. Based on this Statement, the Accounts Department shall pass the following entry :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Passed
4612	Receivables - Advertisement Tax (Year...)	Dr.	1,000		Journal Voucher
1121	To Advertisement Tax	Cr.		1,000	

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6.39 Procedure for collection of Advertisement Tax and accounting of such collections shall be the same as in the case of Property Tax.

Provisions and Write-offs

6.40 Rule 58(1) of KMABR, 2006, prescribes provisioning requirements for tax receivables (Property Tax, as well as Advertisement Tax). The provisioning norms are as follows :

- a. Outstanding for more than 2 years but not exceeding 3 years: 25%
- b. Outstanding for more than 3 years but not exceeding 4 years: 50%
- c. Outstanding for more than 4 years but not exceeding 5 years: 75%
- d. Outstanding for more than 5 years: 100%

For example, provision for unrealised Property Tax for the Period ended 31 March, 2007, shall be:

- a. 25% of outstanding Receivables of Property & Other Taxes for the year ended March 31, 2005
- b. 50% of outstanding Receivables of Property & Other Taxes for the year ended March 31, 2004
- c. 75% of outstanding Receivables of Property & Other Taxes for the year ended March 31, 2003
- d. 100% of outstanding Receivables of Property & Other Taxes for the year ended March 31, 2002 and earlier

6.41 Rule 58(2) prescribes that such a provision shall be made on overall basis, based on the balances in the respective accounts in the books of account, and shall not have the effect of reduction or write off of demand. No entries for such provisions shall be made in the DCB Register.

6.42 The amount required for being provided as per provisioning norms stated above, shall be compared with the existing provision. If the total amount of provision required at the end of the year is more than the existing provision (balance in the Provision Account account Code 4661 in the case of Property Tax, or 4662 in the case of other taxes), then additional provision shall be made for the difference amount. If the amount of provision required is less than the existing provision, the excess provision available in the account shall be written back. This process has to be carried over at every year end.

Segregation of Property tax and cess

6.43 In the case of Property Tax, the total receivables include Cess. For the purpose of calculating the provision required, the total receivables shall be segregated into Property Tax and Cess. Provision shall be calculated only on the amount of property tax outstanding. For example, if the balance in the Receivable Account is Rs. 12,40,000, the Property Tax component works out to Rs 10,00,000, on which provision required shall be calculated.

6.44 Examples for calculation of provision required are given below :

a) Additional Provision required at the year end

Sl. No.	Particulars	Tax (Rs.)
a.	Balance in the 'Provision for Outstanding Property Taxes account' as at 31 March 2005	1,00,000
b.	Provision required to be made as at 31 March 2006	1,11,500
c. (a-c)	Additional provision to be made as at 31 March 2006	11,500

The entry for making the additional provision shall be :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Passed
2611	Provisions for Doubtful Receivables - Property Taxes	Dr.	11,500		Journal Voucher
4661	To Provision for Doubtful Receivables - Property Tax	Cr.		11,500	

b) Excess of provision required at the year end

Sl. No.	Particulars	Tax (Rs.)
a.	Balance in the 'Provision for Outstanding Property Taxes account' as at 31 March 2005	1,00,000
b.	Provision required to be made as at 31 March 2006	95,000
c. (b-a)	Excess provision to be written back as at 31 March 2006	(5,000)

The entry for reversing the excess provision shall be :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Passed
4661	Provision for Doubtful Receivables - Property Tax	Dr.	5,000		Journal Voucher
1871	To Excess Provision written back - Doubtful Receivables	Cr.		5,000	

6.45 An additional provision made shall be considered as an expenditure, whereas reversal of excess provision shall be considered as an income.

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6.46 The balance in Provision for 'Doubtful Receivables (Account Code 4661/4662)' shall be shown as a deduction from Receivables in the Balance Sheet.

Write off of receivables

6.47 A write-off of tax receivable can be made only in accordance with the Karnataka Municipalities Irrecoverable Sums (Procedure for Write-off) Rules, 1965. The rule specifies that no write-off shall be made, unless all measures for effecting recovery have been taken in accordance with the provisions of the Act, and such measures have been proved ineffective. The Rules lay down the limits and the procedures for writing off such irrecoverable sums.

6.48 Write-off, if any, shall be intimated by the Revenue Department to the Accounts Department in the monthly Statement of Change in Demand / Adjustments (KMF-No 13A).

6.49 On receipt of this information, the Accounts Department shall pass the following entries:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Passed
4661*	Provision for Doubtful Receivables - Property Tax	Dr.	1,000		Journal Voucher
4691	Cess Control Account	Dr.	240		
4611	To Receivables for Property Tax (Year...)*	Cr.		1,240	

* Note: In case the write off is for a year where there is no provision, the account code 2638 (Revenues written off) shall be debited instead of 4661 (Provision for Doubtful Receivables-Property Tax).

Subsequent collection/recovery of 'Receivables for Property Tax' written off:

6.50 In case a demand written off and is subsequently recovered /collected, the following entry shall be passed:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Passed
4712	Cheques in Hand Account	Dr.	1,240		Receipt Voucher
2811	To Prior Period Income-Property Tax	Cr.		1,000	

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
3851-01	To Cess Payable - Health Cess	Cr.		150	Receipt Voucher
3851-02	To Cess Payable - Library Cess	Cr.		60	
3851-03	To Cess Payable - Beggary Cess	Cr.		30	

Recovery of Property and other Taxes through Legal Proceedings

Accounting of cost of recovery

6.51 Expenditure incurred in respect of attachment and sale of the properties of the defaulter shall be recorded as cost incurred on recovery, and the accounting entry is as follows:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Passed
2252	Legal Expenses	Dr.	300		Payment Voucher
4721	To Bank Account- Nationalised Banks- General	Cr.		300	

The information on legal expenses shall be available both in the relevant file and registers of civil suits (KMF No. 29) maintained in the Revenue Department.

Accounting sale proceeds of attached property

6.52 On the basis of information available and included in the Summary of Daily Cheque Collection (KMF No19), the following entry shall be passed:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Passed
4712	Cheques in Hand Bank Account	Dr.	5,00,000		Receipt Voucher
3882	To Sale Proceeds - Attached Properties	Cr.		5,00,000	

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6.53 Out of the sale proceeds, the amount due to the Government, if any, towards the cost of attachment, recovery, etc., shall be deducted. From the balance amount, Property Tax and Cess shall be adjusted. The balance, if any, has to be refunded to the tax payer. The details of the adjustment of the amount collected shall be sent by the Revenue Department to the Accounts Department. Based on the intimation received from the Revenue Department, to record the adjustment of the amount collected on sale of attached property, the Accounts Department shall pass the following entries :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Passed
3882	Sale Proceeds Attached Properties	Dr.	5,00,000		Journal Voucher
4611	To Receivable - Property Tax (....Year)	Cr.		1,24,000	
3852	To State Government Dues Payable - Attached Properties	Cr.		50,000	
3864	To Refunds Payable - Attached Properties	Cr.		3,16,000	

6.54 The amount credited to the Receivable Account is inclusive of Cess. Therefore, entries shall be passed for transferring the different kinds of cess to the respective cess liability accounts as prescribed in para 6.25 and the cess shall be remitted to appropriate authorities, retaining 10% as collection charges.

6.55 The cost of recovery and legal expenses shall be recovered from the refund due to the tax payer. The following entry shall be passed to account for this adjustment :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Passed
3864	Refunds Payable - Attached Properties	Dr.	20,000		Journal Voucher
2252	To Legal Expenses	Cr.		20,000	

6.56 For payment of the amount to be refunded, the following entry shall be passed:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Passed
3864	Refunds Payable -Attached Properties	Dr.	2,96,000		Payment Voucher
4721	To Bank Account- Nationalised banks-General	Cr.		2,96,000	

6.57 For payment of the amount due to the State Government, the following entry shall be passed:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Passed
3852	State Government Dues Payable - Attached Properties	Dr.	50,000		Payment Voucher
4721	To Bank Account- Nationalised banks-General	Cr.		50,000	

Khata Transfer Charges

6.58 ULBs usually charge a fee for transfer of Khata (property records) from one owner to another. The revenue for the Khata Transfer Charges shall be recognised on collection.

Accounting of Khata Transfer Charges

6.59 Based on the Summary Statement of Daily Collection (KMF 18/19), the Accounts Department shall pass the following entry:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Passed
4712	Cash in Hand	Dr.	300		Receipt Voucher
1413	To Fees for Khata Transfer	Cr.		300	

Reconciliation of Receivable Accounts with DCB Registers

6.60 At the end of every year, the balances in the Receivable Accounts in respect of Property Tax, Advertisement Tax, etc., for different years shall be reconciled with the balances in DCB Registers. The reconciliation procedures are explained in Chapter 22 - Reconciliation Procedures.

Internal Controls

6.61 The following internal controls shall be observed by the ULB in respect of transactions related to Property & Other Taxes:

- The Accounts Department shall ensure that taxes of all existing assesses are accrued at the beginning of every year and accruals of new assessments are made by the 7th of the next month in which the new assessment comes to the knowledge of the Revenue Department. It is to be ensured that entries in the journal for all the demands of Property Tax are made before accounting for their collections.
- A quarterly reconciliation shall be carried out by the Accounts Department and the Revenue Department in respect of the amount collected and the year-wise amount outstanding between the balances in the Ledger Accounts maintained at the Accounts Department and the DCB Register maintained at the Revenue Department. The reconciliation shall involve both, the Challans obtained from the bank with respect to tax under SAS / CAL and the collections by the Bill Collectors of arrears of tax.
- Both the Revenue Department and the Accounts Department shall co-ordinate with the banks on a daily basis and ascertain the status of the cheques/drafts deposited by them, through the register of cheques received and the bank statement.
- Where the owner or occupier fails to submit a return or submits an incomplete or incorrect return, the authorized officer shall conduct an enquiry of the property and he shall assess the property tax and send a copy to the owner or occupier concerned, with relevant entry in the DCB Register simultaneously.
- In case of write-offs, the procedures prescribed in “The Karnataka Municipalities Irrecoverable Sums (Procedure for Write off) Rules, 1965” shall be followed.
- Where there is a difference in the amount of property tax accrued in the accounts and the amount actually paid by the assessee as per his return (which is accepted by the Revenue Department), it shall be treated as a “Change in Demand” and such changes shall be intimated by the Revenue Department to the Accounts Department, every month in the monthly statement of change in demand / adjustments in KMF No 13A.

Table 1: Forms and Registers pertaining to Property & Other Taxes related transactions

Form No	Name of the Form	Due Date/ Periodicity	Department/Person responsible
KMF No 13	Summary Statement of Demand Raised or Income Accrued	On or before 1st April	Revenue Department
KMF No 13A	Summary Statement of Changes in Demand or Adjustments	On or before 7th of subsequent month	Revenue Department
KMF No 14	Form of Receipt	As and when collection is made	Bill collectors
KMF No 15	Register of Cheques Received	At the end of everyday, for cheque collections	Cashier
KMF No 16	Collection Register (Cash and Cheque Collections)	At the end of every day, for cash and cheque collections. A separate register to be maintained for bank collections.	Bill collectors, cashier, and Designated persons responsible for writing the Register.
KMF No 16A	Collection Register (Bank collections)	At the end of every day, for bank collections. A separate register to be maintained for each bank.	Bill collectors or other designated persons responsible for writing the Register.
KMF No 17	Chitta	At the end of every day, for cash collections	Cashier
KMF NO 18	Summary of Daily Cash Collection	At the end of every day, for cash collections	Cashier
KMF No 19	Summary of Daily Cheque Collection	At the end of every day, for cheque collections	Cashier

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Form No	Name of the Form	Due Date/ Periodicity	Department/Person responsible
KMF No 20	Summary of Daily Collection through Bank or Treasury	At the end of every day, for bank collections	Revenue/Water Supply
KMF No 24	DCB cum Form III Register	To be updated on daily basis	Department/Bill Collectors Revenue Department
KMF No 27	Register of Changes in Demand or Adjustments	As and when there is a change in demand or adjustment.	--do--
KMF No 28	Suspense Register	Whenever tax is received without sufficient details	--do--

Table 2: Entries pertaining to Property & Other taxes related transactions

Transaction Type	Account to be debited		Account to be credited		Voucher to be prepared
	Account Code	Account Head	Account Code	Account Head	
Accrual of Property Tax, change in demand etc					
Property Tax accrued for the year	4611	Receivables - Property Tax	1111 4691	Property Tax Cess Control Account - Property tax	Journal voucher
Receipt Property Tax and other related revenues					
Receipt of Property Tax in Cash	4711	Cash in Hand	4611	Receivables-Property Tax	Receipt voucher
Receipt of Property Tax in Cheque	4712	Cheque in Hand	4611	Receivables-Property Tax	Receipt voucher
Remittance Receipt of Property Tax in collection bank	4722	Bank Account-Nationalised Bank-Collection	4611	Receivables-Property Tax	Receipt voucher
Recognition of cess liability on collection of property tax, and remittance					
Cess Control Account	4691	Cess Control Account-Property tax	3851-01	Cess Payable-Health Cess	Journal voucher
			3851-02	Cess Payable-Library Cess	
			3851-03	Cess Payable-Beggary Cess	
			1471	Cess Collection Charges	

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Transaction Type	Account to be debited		Account to be credited		Voucher to be prepared
	Account Code	Account Head	Account Code	Account Head	
Remittance of Cess Liability	3851-01	Cess Payable-Health Cess	4721	Bank Account-Nationalised Banks-General	Payment voucher
	3851-02	Cess Payable-Library Cess			
	3851-03	Cess Payable-Beggary Cess			
Property Tax received in advance:					
Receipt of Property Tax in advance in cash	4711	Cash in Hand	3871	Advance Collection of Revenues-Property Tax	Receipt voucher
Adjustment of Property Tax received in advance against Property Tax dues-This has to be done during the period when the Property Tax is actually due.	3871	Advance Collection of Revenues-Property Tax	4611	Receivables-Property Tax	Journal voucher
Notice Fee/Warrant Fee:					
Accrual of notice fee/warrant fee on the basis of details in KMF No 27	4611	Receivables-Property Tax	1458	Fees-Others	Journal voucher

Transaction Type	Account to be debited		Account to be credited		Voucher to be prepared
	Account Code	Account Head	Account Code	Account Head	
Remission and refund:					
Remission of current year's Property Tax (in cases where the tax due is not yet received by the ULB, and included in Receivables Account)	1191	Tax Remission & Refund-Property tax	4611	Receivables-Property Tax	Journal voucher
Remission of current year's Property Tax (in cases where the tax due is already received by the ULB)	1191	Tax Remission & Refund-Property Tax	3861	Refunds Payable-Property Tax	Journal voucher
Payment of remission/ refund granted	3861	Refunds Payable-Property Tax	4721	Bank Accounts-Nationalised Banks-General	Payment voucher
Provisions and write off:					
If the provision required is more than the existing provision, additional provision shall be made for the shortage.	2611	Provision for Doubtful Receivables-Property tax	4661	Provision for Doubtful Receivables-Property Tax	Journal voucher

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Transaction Type	Account to be debited		Account to be credited		Voucher to be prepared
	Account Code	Account Head	Account Code	Account Head	
If the provision required is less than the existing provision, the excess provision shall be reversed.	4661	Provision for Doubtful Receivables-Property tax	1871	Excess Provision written back - Doubtful Receivables	Journal voucher
Write-off of receivables when the dues pertain to a year for which provision for doubtful receivables does not exist.	2638	Revenues written off	4611	Receivables-Property Tax	Journal voucher
Write off of receivables-when the dues pertain to a year for which provision for doubtful receivables exists	4661	Provision for Doubtful Receivables-Property Tax	4611	Receivables-Property Tax	Journal voucher
Subsequent recovery of amounts written off	4712	Cheques in Hand	2828	Prior Period Income-Others	Receipt voucher

Transaction Type	Account to be debited		Account to be credited		Voucher to be prepared
	Account Code	Account Head	Account Code	Account Head	
Accounting of Rebate on Property tax	2481	Rebate on prompt payment	4611	To Receivables for Property Tax (Year...)	Journal Voucher
	4691	Cesses Control Account-Property Tax			

CHAPTER

7

WATER SUPPLY AND SEWERAGE

Water Supply and Sewerage

7.1 ULBs have an obligation to make reasonable and adequate provision for the management and maintenance of all municipal water works and the construction or acquisition of new water works necessary for providing sufficient supply of water for public and private purposes. ULBs charge the users for the provision of these services. The charges for the water supply are collected each month based on a standard rate per household as per the by laws approved by the Municipal Council.

7.2 Under the new accounting system, Water Supply & Sewerage is recognised as a separate Fund, and ULBs are required to maintain separate books of account for transactions pertaining to water supply & sewerage.

7.3 The following are the revenue sources in relation to water supply and sewerage:

- i. Monthly Water Charges
- ii. Connection Charges for Water Supply for new connections and
- iii. Water Tanker Charges for supply of water at fixed rate per tanker
- iv. Road Cutting & Restoration Charges (to be accounted under General fund)
- v. Connection charges for new sewerage connections
- vi. Monthly sewerage maintenance charges, if the Council decides to charge the users, in future

Accounting Policies

7.4 The following Accounting Policies shall govern the accounting of transactions relating to Water Supply & Sewerage :

- a. All water supply and sewerage transactions shall be recorded in the Water Supply and Sewerage Fund. However, Road Cutting & Restoration Charges shall be accounted in the General fund.

- b. Income in respect of water supply charges shall be recognised in the period in which they become ascertainable. The accrual entry shall be passed at the beginning of the year. Where there is a system of levy and collection of sewerage maintenance charges, the same accounting system shall be followed.
- c. Income in respect of Water Connection Charges, Sewerage Connection charges, if any, Water Tanker Charges, Road Cutting & Restoration Charges shall be recognised on actual receipt.
- d. Initial water supply deposit collected, if any, shall be treated as income at the time of receipt. Refund of deposit, if any, shall be accounted as an expense at the time of payment.
- e. Notice Fee, Warrant Fee and Distract Fee, penalty, etc., for which notices or warrants are issued shall be accounted when the demand is raised.

Refunds and Remissions

- f. Refunds, remissions of taxes, fees and other incomes for the current year shall be adjusted against the income; if it pertains to previous years, then it shall be treated as prior period item.

Provision and write offs

- g. Provision shall be made on the balance of all receivables pertaining to water supply and UGD charges, based on the following provisioning norms:
 - i. Outstanding for more than 2 years but not exceeding 3 years: 50%
 - ii. Outstanding for more than 3 years: 100%
- h. If the provision required at the end of the accounting year is more than the provision existing at the beginning of the year, additional provision shall be treated as an expense. On the other hand, if the provision required at the end of the accounting year is less than the provision existing at the beginning of the year, the excess provision shall be written back, treating it as an income.
- i. Write-off of amount due in respect of water charges shall be adjusted against the provisions for doubtful receivables if a provision already exists against such receivables, and if no provision exists, it shall be treated as an expense. In either case, "receivables" shall be reduced to the extent of the write-off. Any subsequent collection or recovery of such written off receivables shall be recognised as 'Prior Period Income'.

Forms & Registers

7.5 The forms and registers which are relevant to Water Supply and Sewerage, and the time intervals at which they have to be prepared or maintained are given in Table 1 below. These forms

and registers provide the basis for passing entries for water charges demand, daily collection, and any change in demand, any adjustment, etc. The daily income and collection accounting procedure is explained in detail in Chapter 5 General Procedures.

Accounting Procedures And Entries

Accrual of Water Charges:

7.6 Water Charges fall due on monthly basis. However, since passing of accrual entries on monthly basis is cumbersome, a consolidated accrual entry is passed for the entire year, at the beginning of the year, on the basis of KMF No 13 received from the Revenue/Water Supply Department on or before 1st April. The entry to be passed is :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4632	Receivables - Water Charges (Year...)*	Dr.	7,20,000		Journal Voucher
1461	To User Charges - Water Supply and UGD Charges	Cr.		7,20,000	

Entries for accrual in respect of new connections change in demand, adjustments, etc.,:

7.7 The Revenue/Water Supply Department shall maintain a Register of Changes in Demand or Adjustments (KMF No 27) in respect of water charges, and send a Monthly Summary Statement of Change in Demand or Adjustments (KMF No 13A) to the Accounts Department by 7th of the subsequent month. The Statement shall show the details of new assessments, increase or decrease in demand, adjustment of advance, deposit, if any, etc. Necessary journal entries shall be passed as explained in the paragraphs below.

Water supply related collections

7.8 In most ULBs, collection of water charges and other water supply related receipts is still done by bill collectors or through office collections. However, in some ULBs, the practice of remittances in designated banks by consumers, exists. In any case, the prescribed procedure of issue of receipts, maintenance of collection registers, preparation of daily collection summaries, preparation of receipt vouchers, etc., as prescribed in Chapter 5-General Procedures shall be followed.

7.9 Since water charges are accrued and debited to the receivable account in the beginning of the year, water charges received are credited to the "receivables account". However, new

connection charges, road cutting charges, etc., which have to be accounted on cash basis, shall be recognised as income on collection.

7.10 On the basis of the Summary of Daily Collections (KMF No 18/19/20), the Accounts Department shall pass the following entry in the books of account of Water Supply and Sewerage Fund:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4711	Cash in Hand	Dr.	1,500		Receipt Voucher
4632	To Receivables- Water & UGD Charges	Cr.		1,300	
1461-**	To User Charges - Water Supply and UGD Charges- Water Tanker charges	Cr.		30	
1462-01	To User Charges - Water Supply Connection Charges	Cr.		100	
1448	To Penalties & Fines- Others	Cr.		70	

** A two-digit detail code may be created by the ULB for water tanker charges (say 03), if the ULB is in following the practice of supply of water through tankers.

Initial water supply deposits

7.11 The Water Supply Department may receive initial water supply deposits in respect of new connections. The procedure for accounting the collection of such deposits is the same as that explained in Chapter 5 General Procedures.

7.12 The Accounts Department shall pass the following entry on the basis of the Summary of Daily Collection (Form KMF No 18/19) received from the cashier:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4711	Cash in Hand	Dr.	100		Receipt Voucher
1462-03	To User Charges Water Supply and UGD Connection Charges*	Cr.		100	

* Detail code 03 shall be used with the detail head (Initial Water Supply Deposit)

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7.13 The ULB may not be required to refund water deposit except under exceptional circumstances. If such a refund is done by the ULB, it shall be treated as an expense.

Provision for unrealised water supply dues, write-off, etc.,

7.14 Rule 60 of KMABR, 2006, prescribes that a provision shall be made on the taxes outstanding at the end of the year, on the following basis:

- Outstanding for more than 2 years but not exceeding 3 years: 50%
- Outstanding for more than 3 years: 100%

7.15 Provision for doubtful receivables shall be made on the basis of balances in the receivables accounts in the General Ledger. It will be credited to a separate "Provision for Doubtful Receivables" account, and shall not have the effect of reducing the balances in the Receivables Account in the General Ledger, or the balances in DCB Register. In the balance sheet of the ULB, it shall be shown as a deduction from gross receivables.

7.16 For example, if the Receivables Accounts in the General Ledger as on 31-3-2007 show the following balances:

(Amount in Rs.)

Account Head	Account Code	Balance as on 31-3-2007	Provision required
Receivables-Water & UGD Charges-2006-07	4632-07*	4,39,000	Nil
Receivables-Water & UGD Charges-2005-06	4632-06*	3,56,500	Nil
Receivables-Water & UGD Charges-2004-05	4632-05*	1,83,800	91,900
Receivables-Water & UGD Charges-2003-04	4632-04*	76,200	76,200
Receivables-Water & UGD Charges--2002-03	4632-03*	89,560	89,560
Receivables-Property Tax-Earlier Years	4632-02*	39,466	39,466
Provision required			2,97,126

(* Detail codes are given in the example, for better understanding.)

7.17 Entry for provision for doubtful receivables: The existing provision in the “Provision for Doubtful Receivables” Account in the General Ledger shall be adjusted at the end of every year, in order to retain the required amount of provision in the account. If the provision required is more than the existing provision, additional provision shall be made. On the other hand, if the provision required is less than the existing provision, the excess provision shall be reversed. Entries shall be passed in the same manner as for property tax (explained in Chapter 6 Property & Other Taxes). The entries are explained in Table 1.

Other income-related transactions:

7.18 Accounting of other transactions such as advance receipt of water charges, refunds and remissions, notice fee/warrant fee, provision for doubtful receivables, etc., is done in the same manner as in the case of Property Tax. The entries to be passed under different circumstances are given in Table 1.

Accounting of Water Supply & Sewerage related Expenses

7.19 The accounting for expenditures pertaining to the Water Supply Department shall be similar to that described in Chapter 10 - Public Works (for expenditure incurred through awarding of contracts to outside parties for carrying out certain activities such as laying of new pipelines, construction of pump houses, repairs related to water supply, etc.), Chapter 11- Stores (for expenditure incurred on purchase of stores such as TCL Powder, Chlorine Gas, etc.), Chapter 12 Employee Related Transactions and Chapter 14 - Other Revenue Expenditures (in respect of all other expenditures pertaining to water supply activities such as electricity charges, bulk water purchase charges, etc.) and Chapter 19 - Fixed Assets (in respect of the fixed assets purchased), references to which are invited.

Internal Controls

7.20 The following internal controls shall be observed in respect of transactions related to Water Supply:

- A quarterly reconciliation shall be carried out by the Accounts Department and the Revenue/Water Supply Department in respect of amounts collected and balances in receivable accounts in the General Ledger Accounts with the balances in Special DCB Register.
- The Accounts Department shall make arrangements for the bank statement to be received on daily, or at least on weekly basis, and track the status of the cheques/drafts deposited, using the cheques Received Register (KMF No 15).

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Table 1: Forms and Registers pertaining to Water Supply and Sewerage related transactions

Form No	Name of the Form	Due Date/Periodicity	Department/Person responsible
KMF No 13	Summary Statement of Demand Raised or Income Accrued	On or before 1st April	Revenue Department/ Water Supply Department
KMF No 13A	Summary Statement of Changes in Demand or Adjustments	On or before 7th of subsequent month	--do--
KMF No 14	Form of Receipt	As and when collection is made	Bill collectors
KMF No 15	Register of Cheques Received	As and when Cheques are received, for cheque collections	Cashier
KMF No 16/16A	Collection Register	At the end of every day, for cash & cheque collections. A Collection Register shall be maintained in KMF No 16A for bank collections, if any.	Bill collectors, cashier, and Designated person responsible for writing the Register.
KMF No 17	Chitta	At the end of every day, for cash collections	Cashier
KMF NO 18	Summary of Daily Cash Collection	At the end of every day, for cash collections	Cashier
KMF No 19	Summary of Daily Cheque Collection	At the end of every day, for cheque collections	Cashier
KMF No 20	Summary of Daily Collection through Bank or Treasury	At the end of every day, for bank collections	Revenue/Water Supply Department/Bill Collectors

Form No	Name of the Form	Due Date/Periodicity	Department/Person responsible
KMF No 25	Special DCB Register	To be updated on regular basis	Revenue Department/ Water Supply Department
KMF No 27	Register of Changes in Demand or Adjustments	As and when there is a change in demand or adjustment.	--do--
KMF No 28	Suspense Register	Whenever collections are received without necessary details	--do--

Table 2: Entries pertaining to water supply & sewerage related transactions

Transaction Type	Account to be debited		Account to be credited		Voucher to be prepared
	Account Code	Account Head	Account Code	Account Head	
Accrual of Water Charges, change in demand etc					
Water Charges accrued for the year	4632	Receivables- Water & UGD Charges	1461	User Charges Water Supply & UGD Charges	Journal voucher
Receipt of Water Charges and other related revenues					
Receipt of Water Charges in Cash	4711	Cash in Hand	4632	Receivables- Water & UGD Charges	Receipt voucher
Receipt of Water Charges in Cheque	4712	Cheque in Hand	4632	Receivables- Water & UGD Charges	Receipt voucher
Remittance of water charges in collection bank	4722	Bank Account- Nationalised Bank- Collection	4632	Receivables- Water & UGD Charges	Receipt voucher
Receipt of Water Connection charges in Cash	4711	Cash in Hand	1462	User Charges - Water Supply and UGD Connection Charges (Detail code 01)	Receipt voucher (General Fund)
Receipt of initial water supply deposit in cash	4711	Cash in Hand	1462	User Charges - Water Supply and UGD Connection Charges (Detail Code 03)	Receipt voucher

Transaction Type	Account to be debited		Account to be credited		Voucher to be prepared
	Account Code	Account Head	Account Code	Account Head	
Receipt of road cutting charges in cash	4711	Cash in Hand	1463	User Charges - Road Cutting & Restoration Charges	Receipt voucher
Water charges received in advance:					
Receipt of water charges in advance in cash	4711	Cash in Hand	3873	Advance Collection of Revenues-Water Charges	Receipt voucher
Adjustment of water charges received in advance against water supply dues- This has to be done during the period when the water charges are actually due.	3873	Advance Collection of Revenues-Water Charges	4632	Receivables-Water & UGD Charges	Journal voucher
Refund of Deposit:					
Refund of Initial Water Supply Deposit	2288	Other General Expenses-Others	4721	Bank Account-Nationalised Bank-General	Payment Voucher

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Transaction Type	Account to be debited		Account to be credited		Voucher to be prepared
	Account Code	Account Head	Account Code	Account Head	
Notice Fee/Warrant Fee/Penalty etc :					
Demand raised for notice fee/ Warrant Fee (on the basis of KMF No 27)	4632	Receivables-Water & UGD Charges	1458	Fees-Others (With separate detail code for notice fee/warrant fee/etc., in respect of water charges)	Journal voucher
On receipt of for notice fee/ Warrant Fee (on the basis of KMF No 16)	4711	Cash in Hand	4632	Receivables-Water & UGD Charges	Receipt voucher
On levy and receipt of Penalty	4711	Cash in Hand	1448	Penalties and Fines-Others	Receipt voucher
Remission and refund:					
Remission of current year's water charges (in cases where the water charges due is not yet received by the ULB, and included in Receivables Account)	1492	Remission & Refund of Water Supply and UGD Charges	4632	Receivables-Water & UGD Charges	Journal voucher

Transaction Type	Account to be debited		Account to be credited		Voucher to be prepared
	Account Code	Account Head	Account Code	Account Head	
Remission of current year's water charges (in cases where the water charges due is already received by the ULB, and	1492	Remission & Refund of Water Supply and UGD Charges	3863	Refunds Payable-Other Incomes	Journal voucher
has to be refunded)					
Payment of remission/ refund granted	3863	Refunds Payable-Other Incomes	4721	Bank Accounts-Nationalised Banks-General	Payment voucher
Provisions and write-off:					
If the provision required is more than the existing provision, additional provision shall be made for the shortage.	2614	Provision for Doubtful Receivables-Water & UGD Charges	4664	Provision for Doubtful Receivables-Water & UGD Charges	Journal voucher
If the provision required is less than the existing provision, the excess provision shall be reversed.	4664	Provision for Doubtful Receivables-Water & UGD Charges	1871	Excess Provision written back-Doubtful Receivables	Journal voucher

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Transaction Type	Account to be debited		Account to be credited		Voucher to be prepared
	Account Code	Account Head	Account Code	Account Head	
Write off of receivables when the dues pertain to a year for which provision for doubtful receivables does not exist.	2638	Revenues written off	4632	Receivables-Water & UGD Charges	Journal voucher
Write off of receivables when the dues pertain to a year for which provision for doubtful receivables exists	4664	Provision for Doubtful Receivables-Water & UGD Charges	4632	Receivables-Water & UGD Charges	Journal voucher
Subsequent recovery of amounts written off	4712	Cheques in Hand	2828	Prior Period Income-Others	Receipt voucher

CHAPTER

8

ASSIGNED REVENUES

Assigned Revenues

8.1 Assigned revenues are usually in the nature of a share in the revenues of the Government, determined on the basis of the revenues collected by the State.

Accounting Policies

8.2 Share of Duty on Transfer of Properties shall be accounted as income during the year on actual receipt. However, at year-end, income shall be accrued if the advice/sanction order is received and the amount is ascertained, before finalising the accounts for that year.

Accounting Procedures and Entries

Recording of receipt of Stamp Duty Surcharge:

8.3 On receipt of advice from the DR's office and credit to Treasury Account, the Accounts Department shall record the details of Assigned Revenues in the Summary of Daily collections in KMF No 20. To account the receipt of assigned revenues, the Accounts Department shall pass the following entry:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4741	Treasury Account - General	Dr.	40,000		Receipt Voucher
1211	To Stamp Duty Surcharge collected by State Government	Cr.		40,000	

Recording accrual of Stamp Duty Surcharge at year end:

8.4 At the end of the year, the Accounts Department shall verify whether any advice or sanction has been received for Stamp Duty Share. The amount of such receivables shall be accrued as income at the end of the year. The Accounts Department shall pass the following entry:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4653	Receivables from Government Assigned Revenues	Dr.	55,000		Journal Voucher
1211	To Stamp Duty Surcharge collected by State Government	Cr.		55,000	

Reversal of Stamp Duty Surcharge Accrued at beginning of next year:

8.5 The accrual of income at the end of the year shall be reversed at the beginning of the next year, by passing the following entry:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
1211	Stamp Duty Surcharge Collected by State Government	Dr.	55,000		Journal Voucher
4653	To Receivables from Government - Assigned Revenues	Cr.		55,000	

Receipt of accrued stamp duty surcharge in the next year:

8.6 Since the accrued revenue has been reversed in the above entry, the entry will be made as per the normal practice, mentioned in paragraph 8.4 above, on receipt of the stamp duty in the next year. For example, if an amount of Rs 60,000 is received in the subsequent year pertaining to the previous year, the entry shall be :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4741	Treasury Account - General	Dr.	60,000		Receipt Voucher
1211	To Stamp Duty Surcharge collected by State Government	Cr.		60,000	

The Account “Stamp Duty Surcharge Collected by State Government” in the General Ledger shall show a debit entry of Rs 55,000, and a credit entry of Rs 60,000, thus accounting net income of Rs 5,000 on account of Stamp Duty Surcharge.

LEDGER

Stamp Duty Surcharge collected by State Government (Account Code 1211)

FUND: General Fund (1-01)

Cr.											
Date	Voucher No.	Particulars	Account Code	Folio	Amount (Rs.)	Date	Voucher No.	Particulars	Account Code	Folio	Amount (Rs.)
1	2	3	4	5	6	7	8	9	10	11	12
1-4**		Receivables from Government - Assigned Revenues	4653 00		55,000.00						
		To Balance c/d Total			5,000.00 60,000.00			Treasury Account - General	4741		60,000.00
								Total			60,000.00

8.7 On the other hand, if the amount received during subsequent year is Rs 50,000, instead of Rs 60,000, the net income will be a negative figure (- Rs 5,000).

Cr.											
Date	Voucher No.	Particulars	Account Code	Folio	Amount (Rs.)	Date	Voucher No.	Particulars	Account Code	Folio	Amount (Rs.)
1	2	3	4	5	6	7	8	9	10	11	12
1-4**		Receivables from Government - Assigned Revenues	4653 00		55,000.00						
		To Balance c/d Total			55,000.00			Treasury Account - General	4741		50,000.00
								Total			5,000.00 55,000.00

CHAPTER

9

RENTALS, FEES & OTHER INCOMES

Rentals, Fees & Other Incomes

9.1 ULBs derive a substantial portion of their revenue from Property Tax, Water Charge and Grants. In addition, they also have certain other sources of revenue like Rentals from Municipal Properties, License Fees, etc. This chapter contains the accounting procedures for such 'Other Incomes'.

Accruable and Non-accruable Incomes

9.2 Some of these sources of income are susceptible to accrual i.e. the amount of the income can be estimated with certainty before its receipt. Such forms of income shall be accounted on accrual basis. For example:

- Rental Income from Municipal Properties (Rent from shops, commercial complexes, etc.,)
- Lease Rental Income
- Trade License Fees and
- Ground Rent on Advertisement

9.3 Examples of forms of income not susceptible to accrual, and which have to be accounted on cash basis are:

- Rent from guest houses, community halls, auditoriums etc.,
- Rent from daily markets, collected departmentally
- Fees for Birth / Death Certificate
- Fees for Katha Extract and Katha Transfer
- Building Sanction Fees
- Development / Betterment Fees
- Crematorium Charges, Copy Fees, etc.,

9.4 To decide whether a revenue item shall be accounted on accrual or cash basis, the test of 'susceptibility to accrual' shall be carried out. The DCB Register in the prescribed format shall be maintained for all accruable incomes, as explained in section 9.6 below.

Accounting Policies

9.5 The following Accounting Policies shall govern the accounting of transactions relating to “Other Incomes”:

- a. Revenues in respect of rents from properties shall be accrued at the beginning of the year, based on terms of agreement.
- b. If a lump sum amount has been received for the lease period, it shall be treated as an 'advance' and recognised as income on a straight-line basis over the lease term.
- c. Ground rent on advertisement shall be accrued based on demand, or based on the contract.
- d. Trade license fees shall be accrued at the beginning of the year, based on demand raised.
- e. Revenue in respect of Notice Fee, Warrant Fee, and Distraint Fee, Penalty, etc., shall be recognised when the demand for the same are raised.
- f. All other forms of Income, in respect of which demand is ascertainable in time, and can be raised in the regular course of operations of the ULB, and shall be recognised in the period in which they become due, with reference to agreement/sanction order or other documents.
- g. All other Incomes, which are of an uncertain nature or for which the amount is not ascertainable in time or where demand is not raised in regular course of operations of the ULB, shall be recognised on actual receipt.

Refunds and Remissions

- h. Refunds, remissions of fees & other forms of income for the current year shall be adjusted against the income; if it pertains to previous years then it shall be treated as a prior period item.

Provision and write offs

- i. Provision shall be made on the balance of all receivables pertaining to rental, fees and other income based on the following provisioning norms:
 - Outstanding for more than 2 years but not exceeding 3 years: 50%
 - Outstanding for more than 3 years: 100%
- j. If the provision required at the end of the accounting year is more than the provision existing at the beginning of the year, the additional provision shall be treated as an expense. On the other hand, if the provision required at the end of the accounting year is less than the provision existing at the beginning of the year, the excess provision shall be written back, treating it as an income.

- k. Write-offs of receivables in respect of rental, fees and other forms of income, shall be adjusted against the provisions for doubtful receivables if a provision already exists against such receivables, and shall be treated as an expense, if no provision exists. Such write offs shall have the effect of reducing the “receivables”. Any subsequent collection or recovery of such written off receivables shall be recognised as 'Prior Period Income'.

Forms & Registers

9.6 The forms and registers which are relevant to rental income, fees and other income, and the period at which they have to be prepared or maintained are given in Table 1 below. These forms and registers provide the basis for passing entries for demand, daily collection, and any change in demand, any adjustment, etc. The daily income and collection accounting procedure is explained in detail in Chapter 5 General Procedures.

Accounting Entries

Accrual of income

9.7 Accrual of income of different types of accruable incomes shall be done on the following basis :

- a. Trade License Fees: Trade licenses are issued upto March 31st from the date of issue of applications. Fresh licenses for existing trades shall be issued from 1st April to 31st March next. Therefore, income in respect of trade license fees accrues on 1st April every year. Income in respect of licenses issued subsequent to 1st April accrues on the date of issue of licenses.
- b. Rental income: Rent from office buildings, commercial complexes, etc., which have to be collected on monthly basis as per the terms of rental agreements are susceptible to accrual. However, since it is cumbersome to pass monthly accrual entries, the entire income for the year from such properties shall be calculated, and the total amount shall be accrued at the beginning of the year. Rent from guest houses, community halls and auditoriums which are not susceptible to accrual shall be recognized as income on cash basis as and when received.
- c. Ground rent on advertisement: Demand for ground rent for the municipal land on which advertisement boards are erected, is raised by ULBs from the date of application, till 31st March of the financial year.
- d. Any other accruable income: Accrual entry for any other accruable income shall be passed at the beginning of the year.

Passing Accrual Entry:

9.8 The concerned departments shall prepare the Summary Statement of Demand Raised or Income Accrued (KMF No 13), and send it to Accounts Department on or before 1st of April every year in respect of all accruable incomes for which it is responsible. Based on this Statement, the Accounts Department shall pass the accrual entries. For example, for accruing rent from a commercial complex, the following entry shall be passed :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4621	Receivables -Rent	Dr.	8,00,000		Journal Voucher
1321	To Rent from Buildings-commercial complex	Cr.		8,00,000	

Entries for accrual in respect of new demands during the year, change in demand, adjustments etc:

9.9 The Department shall maintain a Register of Changes in Demand or Adjustments (KMF No 27), and send a monthly Summary of Changes in Demand or Adjustments to Accounts Department (KMF No 13A)) by 7th of every month. The Statement shall show the details of new demands, increase or decrease in demand, adjustment of advance, deposit if any, etc. Necessary journal entries as shown in Table 2 below, shall be passed on receipt of this form.

Accounting of collections:

9.10 The prescribed procedure of issue of receipts, maintenance of collection registers, preparation of daily collection summaries, preparation of receipt vouchers, etc., as prescribed in Chapter 5-General Procedures shall be followed.

9.11 In respect of accruable incomes, amounts collected are credited to the 'receivables account'. However, items which have to be accounted on cash basis, shall be recognised as income on collection, and credited directly to the relevant income code.

9.12 For example, in the case of cash collections, the Accounts Department shall pass the following entry based on Summary of Daily Collections (KMF No 18):

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4711*	Cash in Hand Account	Dr.	2,800		Receipt Voucher

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4621	To Receivables-Rent	Cr.		2,000	Receipt Voucher
4631	To Receivables-Trade License Fees	Cr.		500	
1411	To Fees for Birth/Death Certificate	Cr.		100	
1412	To Fees for Khatha Extract	Cr.		200	

Note: In the case of cheque collections, the Cheque in Hand Account (4712) shall be debited based on KMF No 19, and in the case of bank collections the relevant bank account shall be debited, based on KMF No 20.

Deposits

Receipt of Deposit: In respect of let out municipal properties, a deposit is taken at the time of allotment of shops on monthly rent, after confirmation by the council. When any such deposit is received, and included in the Summary of daily collection (KMF No 18/19/20), the deposit shall be accounted as liability using appropriate account codes. It shall also be recorded in the Register of Deposits (KMF No 67).

9.14 Refund/adjustment of deposit: When such a deposit has to be refunded on termination of agreement, the concerned department shall prepare a Deposit Refund/Adjustment/Lapse Advice in KMF No 69, and send it to the Accounts Department with other necessary documents or file. The Accounts Department shall verify the Advice with the Register of Deposits, and send it to the Commissioner for approval. After the Commissioner's approval, payment shall be made according to prescribed payment procedure, with a necessary note in the Register of Deposits. In cases where the deposit has to be adjusted against dues of the person who has deposited the amount, the same procedure shall be followed for approval of the adjustment, and a journal voucher shall be prepared for passing the entry for adjustment of deposit. In this case also, appropriate notes shall be made in the Register of Deposits.

9.15 Forfeited/Lapsed deposits: Rule 117 of KMABR, 2006, prescribes lapsing of deposits not claimed within three financial years after they have fallen due for refund. Such lapsed deposits shall be recognized as income of the ULB. At the end of each accounting year, the Accounts Department shall, along with the concerned departments, examine such items, and prepare a list of such lapsed deposits. The Accounts Department shall obtain Deposit Refund/Adjustment/Lapse Advices from concerned departments in respect of deposits to be lapsed, and

pass necessary journal entries, after obtaining the approval of the Commissioner or Chief Officer, as the case may be.

Cess Income

9.16 In Chapter 6 Property Tax, we have discussed the collection of cess such as health cess, library cess, beggary cess, etc., and their remittance to appropriate authorities. These cesses are liabilities by nature. However, there are certain cesses which are collected by ULBs, and retained as income. In some cases, part of the cess collected has to be retained as income, and the balance has to be remitted to the appropriate authorities. The Cess has to be treated as income or liability, or partly as income, and partly as liability, depending on the nature of cess. For example, in the case of slum improvement cess, which is collected along with building license fees, 30% of the cess is retained by ULBs, and utilised for improvement of slums, whereas 70% is remitted to Karnataka Slum Clearance Board. Therefore, out of the total slum improvement cess collected, 30% shall be accounted under 'Cess Income' (Account code 1823), and 70% shall be accounted under 'Cess Payable (Account Code 3851-05)'.

Other income-related transactions:

9.17 Accounting of other transactions such as advance receipt of rent/trade license fees, refunds and remissions, provision for doubtful receivables, etc., shall be done in the same manner as in the case of property tax. The entries to be passed under different circumstances are given in Table 2.

Internal Controls

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

- A quarterly reconciliation shall be carried out by the Accounts Department and the concerned Department in respect of amounts collected and balances in receivable accounts in the General Ledger Accounts and in the relevant DCB Registers.
- A quarterly reconciliation shall be carried out by the Accounts Department in respect of deposits as per Register of Deposits and as per the ledger.
- The Accounts Department shall co-ordinate with the banks on a daily basis and ascertain the status of the cheques/drafts deposited.

Table 1: Forms and Registers pertaining to Rental, fees & Other Income

Form No	Name of the Form	Due Date/Periodicity	Department/Person responsible
KMF No 13	Summary Statement of Demand Raised or Income Accrued	On or before 1st April	Concerned Department
KMF No 13A	Summary Statement of Changes Demand or adjustments	On or before 7th of subsequent month	Concerned Department
KMF No 14	Form of Receipt	As and when collection is made	Concerned Bill Collector/ designated person responsible for collection.
KMF No 15	Register of Cheques Received	As and when Cheques are received, for cheque collections	Cashier
KMF No 16/16A	Collection Register	At the end of every day, for cash & cheque collections. Collection Register shall be maintained in KMF No 16A for bank collections, if any.	Bill collectors and Designated persons responsible for writing the Register in case of bank collections, if any)
KMF No 17	Chitta	At the end of every day, for cash collections	Cashier
KMF NO 18	Summary of Daily Cash Collection	At the end of every day, for cash collections	Cashier
KMF No 19	Summary of Daily Cheque Collection	At the end of every day, for cheque collections	Cashier

Form No	Name of the Form	Due Date/Periodicity	Department/Person responsible
KMF No 20	Summary of Daily Collection through Bank or Treasury	At the end of every day, for bank collections	Concerned Department
KMF No 25	Special DCB Register - for items due for collection on monthly basis (Eg : Rent)	To be updated on daily basis	Concerned Department
KMF No 26	Miscellaneous DCB Register - for other items except License Fees (Eg : Advertisement Tax)	To be updated on daily basis	--do--
KMF No 26A	DCB Register-License Fees	To be updated on daily basis	--do--
KMF No 27	Register of Changes in Demand or Adjustments	As and when there is a change in demand or adjustment..	--do--
KMF No 28	Suspense Register	Whenever collections are received without necessary details	--do--

Table 2: Entries for transactions pertaining to Rent, Fees and Other Income

Transaction Type	Account to be debited		Account to be credited		Voucher to be prepared
	Account Code	Account Head	Account Code	Account Head	
Accrual of income					
Rental income for the year from commercial complexes	4621	Receivables- Rent	1321	Rent from Buildings- Commercial Complexes	Journal voucher
Trade License Fees	4631	Receivables-Trade License Fees	1421	Fees for Trade License	Journal voucher
Receipt of Rent, fees and other income					
Receipt of Rental in Cheque	4712	Cheques in Hand	4621	Receivables- Rent	Receipt voucher
Receipt from sale of tender forms in cash	4711	Cash in Hand	1521	Sale of Tender forms	Receipt voucher
Receipt from sale of forms/ publications in cash	4711	Cash in Hand	1528	Sale of Forms/ Publications	Receipt voucher
Remittance of collections in Bank					
Remittance of cash collections	4721	Bank Account- Nationalised Banks -General	4711	Cash in Hand	Contra Voucher
Remittance of cheque collections	4721	Bank Account- Nationalised Banks -General	4712	Cheques in Hand	Contra Voucher

Transaction Type	Account to be debited		Account to be credited		Voucher to be prepared
	Account Code	Account Head	Account Code	Account Head	
License Fees Received in Advance					
Receipt of Trade License Fees in advance in cash	4711	Cash in Hand	3878	Advance Collection of Revenues-Others	Receipt voucher
Adjustment of Trade License Fees received in advance - This has to be done during the period when the License Fees are actually due.	3878	Advance Collection of Revenues- Others	4631	Receivables-Trade License Fees	Journal voucher
Receipt/Refund/Adjustment/Lapse of Rent Deposits :					
Receipt of Rent	4712	Cheques in Hand	3721	Deposits-Revenues-Rent Deposit	Receipt Voucher
Refund of Deposit	3721	Deposits-Revenues -Rent Deposit	4721	Bank Account-Nationalised Banks-General	Payment Voucher
Adjustment of Deposit against rental dues	3721	Deposits-Revenues -Rent Deposit	4621	Receivables- Rent	Journal voucher
Lapse of Deposit	3721	Deposits-Revenues -Rent Deposit	1811	Deposits Lapsed	Journal voucher

Chapter 9 - Rentals, Fees & Other Incomes

Transaction Type	Account to be debited		Account to be credited		Voucher to be prepared
	Account Code	Account Head	Account Code	Account Head	
Cess Income :					
Receipt of Slum Improvement Cess	4712	Cheques in Hand	1823	Slum Improvement Cess (30 %)	Receipt Voucher
			3851-05	Cess Payable-Slum Improvement Cess (70%)	
Notice Fee/Warrant Fee/Penalty etc :					
Demand raised for notice fee/ Warrant Fee (e.g.: on trade license fees) (on the basis of KMF No 27)	4631	Receivables-Trade License Fees	1458	Fees-Others (With separate detail code for notice fee/warrant fee etc in respect of trade license fees)	Journal voucher
On receipt of for notice fee/ Warrant Fee (on the basis of KMF No 16)	4711	Cash in Hand	4631	Receivables-Trade License Fees	Receipt Voucher
Provisions and write off:					
If the provision required is more than the existing provision, additional provision shall be made for the shortage.	2615	Provision for Doubtful Receivables- Other Fees, User charges & Other Charges	4665	Provision for Doubtful Receivables- Fees, User Charges & Other Charges	Journal voucher

Transaction Type	Account to be debited		Account to be credited		Voucher to be prepared
	Account Code	Account Head	Account Code	Account Head	
If the provision required is less than the existing provision, the excess provision shall be reversed.	4665	Provision for Doubtful Receivables- Fees, User Charges & Other Charges	1871	Excess Provision written back - Doubtful Receivables	Journal voucher
Write off of receivables - (Eg: Rent) when the dues pertain to a year for which provision for doubtful receivables does not exist.	2638	Revenues written off	4621	Receivables- Rent	Journal voucher
Write off of receivables (Eg Rent) - when the dues pertain to a year for which provision for doubtful receivables exists	4665	Provision for Doubtful Receivables- Fees, User Charges & Other Charges	4621	Receivables- Rent	Journal voucher
Subsequent recovery of amounts written off	4712	Cheques in Hand	2828	Prior Period Income-Others	Receipt voucher

CHAPTER
10

PUBLIC WORKS

Public Works

10.1 Public Works transactions generally include construction/ expansion/major modification/repair of buildings, development of land, construction of roads, construction of water works, construction of drainage systems or other public utilities. The Engineering Department is involved in these activities and engages private contractors, wherever it is necessary. Thus, ULBs have some typical transactions with contractors which may require a special accounting treatment.

10.2 Public works can be of the following types :

Capital works: Work taken up by the ULB resulting in the construction or creation of a new fixed asset, or addition to an existing fixed asset is considered as a 'Capital Work'. Expenditure on a capital work is accounted as "Capital Work-in-Progress" and capitalised on completion of the work.

Repair works: Work carried out with the intention to maintain a fixed asset in good working condition, or to bring back the fixed asset to its original condition is in the nature of maintenance, and is called 'Repair Work'. Expenditure on such work is to be treated as 'revenue expenditure' in the year in which such repairs are carried out.

Deposit works: ULBs may have some of their works and schemes executed by the Public Works Department (PWD). Such a system requires the ULBs to deposit the estimated amount of expenditure with PWD, and is referred to as 'Deposit Works'. A deposit work may be a capital work, or repair work.

Delegated Loan Works: In some cases, the KUWSDB or any other Agency may raise loans, or issue bonds or securities on behalf of the ULB for the purpose of undertaking certain capital works. Under this system, the amount of the loan raised on behalf of the ULB shall be treated as a

loan received by the ULB, as well as advance paid by the ULB to KUWSDB or any other Agency. Such a system is referred to as a “Delegated Loan Work”.

Accounting Policies

10.3 The following Accounting Policies shall govern the accounting of transactions relating to Public Works:

- a. The Earnest Money Deposit, Security Deposit received, and Retention Money, if any, recovered from Contractors' bills shall be recognised as liabilities. If deposits are forfeited or lapsed, they shall be recognised as income in the year when they are so forfeited or lapsed.
- b. The cost of fixed assets shall include cost incurred/money spent in acquiring or installing or constructing fixed assets and interest on borrowings attributable to acquisition or construction of qualifying fixed assets up to the date of commissioning of the assets.
- c. Any addition or improvement to the fixed asset that results in increasing the utility or capacity or useful life of the asset shall be capitalised and included in the cost of asset. Expenditure incurred to maintain the asset and sustain its functioning shall be charged off as revenue expenditure.
- d. Assets under erection/installation on existing projects and capital expenditures on new projects shall be shown as "Capital Work-in-Progress".
- e. Deposit given to PWD for Deposit works shall be treated as an asset (advance) initially. The advance shall be adjusted against the amount payable for the works, on the basis of monthly statement of outlay received by PWD.
- f. In case of Delegated loan works, the amount of loan shall be treated as advance to KUWSDB or any other agency, and also as a loan from the Government or as public issue of bonds or securities, as the case may be. On receipt of monthly statement of expenditure from the Agency, the total amount of expenditure incurred shall be adjusted against advance, and shall be transferred to capital work-in-progress. Any payments/ adjustment made towards repayment of loan shall be reduced from the loan liability.

Forms & Registers

Contractor's bill (KMF No 38)

10.4 This form is used by the Engineering Department, to prepare the bill/claim in respect of work done by a contractor. The bill may be a running bill, or the final bill, and the bill shall display the fact (i.e. whether running bill or final bill shall be displayed on the bill. The facing sheet of the form

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has details of the work, work order reference, gross value of work, various deductions to be made from the bill, and net amount. The bill shall bear the signatures of the Junior/Asst Engineer who prepared the bill, the Asst Executive Engineer or Executive Engineer who verified the bill, the Accountant or Accounts Officer, and the Commissioner. The continuation sheet of the format has details of the work and the measurements.

Nominal Muster Roll (MF No 39)

10.5 When it is decided to execute a work, by engaging labourers on daily wages basis, the Engineer executing the work shall maintain a Nominal Muster Roll with all details required therein, to value the cost of labour utilised for the work. Rule 78 of KMABR, 2006, explains in detail the requirements to be followed in the case of departmental labour, and the procedure to be followed for preparation of nominal muster roll.

Daily Labour Report (KMF No 40)

10.6 Daily Labour Report is prepared by the subordinate in charge of the work, showing details of labour employed, and submitted to the Engineer/Commissioner/ Chief Officer and Accounts Section every evening. The NMR is cross-checked with the Daily Labour Report by the Engineer and by the Accounts Department when the NMR is presented for payment.

Register of Public Works (KMF No 41)

10.7 The Register of Public Works is maintained by the Engineering Department. For each work order, details of the work, and various bills raised under the work order, deposits received, refunded, etc., shall be recorded.

10.8 Other forms and registers which are relevant to public works, and the intervals at which they have to be prepared or maintained are given in Table 1 below. These forms and registers provide the basis for passing entries for transactions related to public works.

Summary Statement of Status of Capital work-in-Progress (KMF No 42)

10.9 This Statement shall be prepared by the Engineering Department to show the status of Capital Work-in-Progress at the end of each Quarter, from the Register of Public Works and the relevant files. The Statement shall reflect the details and value of Capital Work-in-Progress at the end of the Quarter, as well as the value of work orders remaining unexecuted. It shall be sent to the Accounts department on or before 7th of the subsequent month, and shall be used by the Accounts department, to reconcile all the Capital Work-in-Progress accounts, jointly with the Engineering Department.

10.10 Other Forms and Registers related to Public Works are as per Table 1.

Accounting Procedures and Entries

A. Works Executed by Contractors

10.11 Earnest Money Deposit (EMD) may be received from the bidders for the tender. On award of tender, the EMD shall be refunded to the unsuccessful bidders.

10.12 The ULB may also collect fees for tender forms and processing fees from the bidders which shall be accounted on cash basis, by issuing receipts and recording in the collection register, as explained in Chapter 5 General Procedures.

10.13 A contract may be entered into with the successful bidder. Every contract awarded shall be documented through a 'Work Order' and an 'Agreement'. This Order and the Agreement describe the work to be carried out, the time limit for completion of work, the payments to be made, security deposit to be remitted by the contractor, etc.

10.14 The Security Deposit shall be obtained from the successful bidder or contractor as per the terms of the contract. Normally, the Security Deposit is deducted from the contractor's bills.

10.15 A Register of Public Works shall be maintained by the Engineering Department, in KMF No. 41, showing details of each work order, value of work order, agreement number, details of work completed, etc. The relevant columns therein shall be recorded, as soon as the Agreement is signed and the Work Order issued.

10.16 The EMD and Security Deposit shall be recorded in separate Registers of Deposits maintained in KMF No 67.

10.17 Advance may be paid to the contractor as per the terms of the Agreement, if the Agreement provides for it.

10.18 At each stage of completion of work, the engineer shall prepare a Contractor's bill (KMF No. 38), which shall be duly certified by a senior engineer. The bill shall be entered in the Departmental Register of Bills Received (KMF No 21) and Register of Public Works (KMF No 41). It shall then be sent along with the Measurement Book and the relevant file to the Accounts Department for verification. On completion of the entire work, the final bill shall be prepared by the Engineer concerned, and certified by the senior engineer. In the case of small works, only the final bill may be prepared on completion of the work, without preparing running bills.

10.19 On receipt of the bill, the Accounts Department shall enter the bill in the "Register of Bills Received by Accounts Department" (KMF No 23). It shall then verify the bill with the Work Order, Measurement Book, Register of Public Works (KMF No 41), etc., and forward the bill to the

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Commissioner for approval, with a recording in the note sheet of the file. After approval of the bill, a journal voucher shall be prepared by the Accountant for accounting the bill, the various deductions such as security deposit, income tax, works contract tax, royalty, etc., and the net payment to be made to the Contractor. Based on the availability of funds, the Accounts Department shall prepare a payment voucher and a cheque for the net amount payable to the contractor in the order of seniority, and send them to the Commissioner along with the approved bill for his signature. Signature of the payee shall be taken on the Payment voucher, while releasing the cheque to the contractor.

10.20 Remittances of statutory deductions such as income tax, works contract tax, royalty, etc., shall be made on the due dates. The Accounts Department shall record the Journal Voucher Number, Payment Voucher Number, and Cheque Number in the note sheet of the file.

10.21 Earnest Money Deposit and Security Deposit shall be refunded after successful performance of the terms of contract on the recommendation of the Engineer, by making an entry in the note sheet of the file, as per the prescribed procedure (Refer Paragraph 10.22 below).

10.22 In case of capital Works, the expenditure incurred shall be capitalised after completion of the work, and disclosed as an asset in the Balance Sheet.

Earnest Money Deposit (EMD)

10.23 Persons bidding for contracts shall pay EMD by remitting cash or DD to the cashier. No cheques shall be accepted towards EMD. The Receipt in KMF No 14 shall be issued to the Contractor. The EMD shall then be accounted in the collection register of the cashier, and the summary of daily collections as explained in Chapter 5 General Procedures. The cashier shall record cash collections in the Chitta and the DDs received in 'Register of Cheques Received' (KMF No 15).

10.24 The EMD received shall be entered by the Accountant in the Register of Deposits (KMF No 67) maintained separately for EMD received.

10.25 Once the tender is opened, and the contract is awarded, EMD is refunded to all unsuccessful bidders. For refunding the EMDs, the concerned department shall prepare a Deposit Refund/Adjustment/Lapse Advice (KMF No 69), and send it to Accounts Department, which shall verify the Advice with the Register of Deposits (EMDs) mentioned above, satisfy the genuineness of the claim and the correctness of the amount, and prepare the payment voucher, after getting the approval of the Commissioner on the Refund/Adjustment/Lapse Advice.

10.26 In the case of refunding the earnest money to the successful bidder after performance of the contract terms, the same procedure shall be followed.

Security deposit

10.27 The procedure followed for accounting of receiving Security Deposit in cash, and refund of deposit is similar to that of Earnest Money Deposit. However, as stated above, most of the times, the security deposit is deducted from contractor's bills.

10.28 A Separate register shall be maintained for Security Deposit received. Refund of deposit shall be made based on the Deposit Refund/Adjustment/Lapse Advice as explained in para 10.22 above, and details of the refund shall be noted in the Register, against the deposit to be refunded.

10.29 Some ULBs follow the practice of obtaining bank guarantees or NSCs in lieu of deposits, pledged in their favour. Such NSCs or bank guarantees shall not be accounted in the ULBs' books of account. They shall be pledged in favour of the Commissioner or Chief Officer, and kept in safe custody, and recorded in the Register of Bank Guarantees (KMF No 68) or Register of Securities (KMF No 70).

Advances to contractors

10.30 **Payment of advance to a contractor:** The ULB may pay advance to a contractor, as per the terms of agreement. The Advance paid shall be debited to the Creditors' Contractors' Payable Account and shall be adjusted at the time of payment of the contractor's bills, in accordance with the terms of the contract.

10.31 **Material supplied to the Contractor:** If any material is supplied from the Stores to the contractor for execution of works, the copy of the Material Issue Note (KMF No 55) shall be prepared by the Store-keeper, and sent to Accounts Department. The cost of material supplied shall be treated as advance paid to the contractor, and accounted in the same way as explained in para 10.30 above. The procedure to be followed for issue of material is explained in detail in Chapter 11 Stores Related Transactions.

Recoveries/adjustments from contractors' bills

10.32 On receipt of the approved bill from the Commissioner, the Accounts Department shall verify all the recoveries which have to be made from the bill as per statutory requirements as well as for advance adjustment, etc., as per the terms of the Work Order. Some of the common recoveries are:

Type of Recoveries	Account Code	Explanation
Income Tax deducted at Source	3845-01	Income tax deducted at source (TDS) under section 194C of the Income Tax Act, 1961. The current rate of TDS is 2% for contractors with applicable surcharge and education cess. The amount shall be remitted to the Income Tax Department within 7 days from the end of the month of deduction.

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Type of Recoveries	Account Code	Explanation
Works Contract Tax	3845-02	This tax is levied under Section 6 of the Karnataka Value Added Tax Act. Presently 4% of bill amount is required to be deducted and deposited with the Commercial Tax Department within 20th of the following month.
Royalty	3847-01	Royalty is collected by ULBs on the basis of G.O. issued by the Government of Karnataka and is to be remitted to the Department of Mines & Geology. Royalty is to be deducted at @ 2.5% per cubic metre of sand, jelly, etc. The detailed rates are prescribed in the Scheduled Rate (know as 'SR rate') list of Public Works Department. Details of royalty are to be maintained in Royalty Register (KMF No 43).
Contractors Beneficiary Fund	3847-02	This 'CBF' deduction is made @ Rs.10 for every Rs.10,000. The amount is to be remitted to the Contractors' Beneficiary Fund of Karnataka State Government Contractors Association (Registered).
Security Deposit/ Retention Money	3712	Security Deposit of 5% is deducted from contractors' bills, and retained till satisfactory performance of the terms of the contract. Retention money may also be retained as per the terms of the contract. The security deposit/retention money is refunded after satisfactory performance of the contract terms.
Advance to Contractors	3812	The advance given to the Contractors shall be adjusted as per the Agreement.
Cost of material issued to the contractor	3812	The cost of material issued from stores to contractor for the work shall to be adjusted from the bill, after making entries in the Register of public works.

Note: The rates of statutory recoveries, conditions and procedures may change from time to time, depending on amendments to the relevant Statutes.

Accounting of Contractors' Bills

Expenditure on Capital Works:

10.33 On verification by the Accounts Department and approval by the Commissioner or Chief Officer, the contractor's bill shall be accounted by passing a journal entry. Expenditure on all capital works shall be debited to "Capital Work-in-Progress". Separate Capital Work-in-Progress Accounts shall be opened for different class of activities, as given in the Chart of Accounts (under major code 43).

Expenditure on repair works:

10.34 The procedure for preparation of the bill, verification and approval in respect of contractors' bills relating to repair works, etc., is the same as that for capital works. However, the expenditure shall be treated as revenue expenditure, and debited to respective "Repairs & Maintenance" Account (under major code 23).

Outsourced operations:

10.35 ULBs are increasingly resorting to outsourcing maintenance works such as streetlight maintenance, solid waste management, health and sanitation, etc. Bills pertaining to such outsourced operations shall be accounted in the same manner as contractors' bills.

Passing entries for Contractor's bills:

a. Bills for capital works :

10.36 The following entry shall be passed for accounting a contractor's bill for capital work :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4321	CWIP-Building-Class I	Dr.	5,86,000		Journal Voucher
3812	To Creditors - Contractors Payable (.....Contractor)*	Cr.		5,15,094	
3712	To Security Deposit from Contractors /Suppliers	Cr.		29,300	
3845-01**	To Recoveries Payable - Tax Deducted Contractors- Income Tax	Cr.		11,720	

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
3845-02**	To Recoveries Payable - Tax Deducted Contractors-Works Contract Tax	Cr.		29,300	Journal Voucher
3847-02**	To Recoveries Payable - Other Deductions from contractors-CBF	Cr.		586	

Notes Important :

1) * indicates reference to the contractor's account in the contractors' sub-ledger. The entry shall be posted in the General Ledger (Account Code 3812) as well as in the contractor's account in the sub-ledger.

2) ** These are mandatory detail codes prescribed in the Chart of Accounts. For other accounts, detail codes shall be created by the ULB, in accordance with KMABR, 2006 and KMAM.

b. Bills for Repair/Maintenance works :

10.37 The following entry shall be passed for accounting a contractor's bill for repair/maintenance work :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
2351	Repairs & Maintenance - Roads, Pavements and Footpaths	Dr.	1,25,000		Journal Voucher
3812	To Creditors Contractors Payable (.....Contractor)*	Cr.		1,16,125	
3712	To Security Deposit from Contractors /Suppliers	Cr.		2,500	
3845-01	To Recoveries Payable - Tax Deducted - Contractors-Income Tax	Cr.		6,250	
3845-02	To Recoveries Payable - Tax Deducted - Contractors-Works Contract Tax	Cr.		125	

Notes:

i) * Indicates reference to the contractor's account in the contractors' sub-ledger. The entry shall be posted in the General Ledger (Account Code 3812) as well as in the contractor's account in the sub-ledger.

2) The journal entry shall include all applicable recoveries such as CBF, royalty, etc.

Passing entries for payment to contractors, payment of recoveries etc:

a. Payment of Advance :

10.38 Payment of advance to a contractor shall be debited to Creditors-Contractors' Payable Account. Simultaneously, it shall also be debited to the personal account of the individual contractor in the Contractors' Sub-ledger. The entry to be passed shall be the same as for payment of bills, as explained in 10.37 below.

b. Payment of bills :

10.39 The procedure to be followed for approval of a contractor's bill and payment is explained above, and in detail in Chapter 5 - General Accounting Procedures. After accounting the approved bill by a journal entry, the payment voucher and cheque shall be prepared by the Accounts Department in the order of priority, and sent for the signature of the Commissioner or Chief Officer. The payment voucher and cheque shall be for the net amount payable to the Contractor, after all deductions, adjustments towards advance, if any, etc.

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
3812	Creditors Contractors Payable (.....Contractor)*	Dr.	1,09,875		Payment Voucher
4721	To Bank Account- Nationalised Banks-General	Cr.		1,09,875	

Note:

1) * Indicates reference to the contractor's account in the contractors' sub-ledger. The entry shall be posted in the General Ledger (Account Code 3812) as well as in the contractor's account in the sub-ledger.

2) Budget code-wise classification of payment to the contractor shall be shown for the gross amount of the bill, on the payment voucher, for the purpose of recording the payment in KMF No 6.

Remittance of statutory recoveries:

10.40 The Income Tax and Works Contract Tax deducted from the bills of the contractors shall be paid by the Accounts Department to the concerned authorities within the due dates. On payment of Income Tax and Works Contract Tax deducted, the Accounts Department shall pass the following entry:

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a. For remittance of income tax deducted at source:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
3845-01	Recoveries Payable -TDS from Contractors	Dr.	15,575		Payment Voucher
4721	To Bank Account-Nationalised Banks-General	Cr.		15,575	

b. For remittance of income tax deducted at source:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
3845-02	Recoveries Payable -Works Contract Tax	Dr.	32,300		Payment Voucher
4721	To Bank Account-Nationalised Banks-General	Cr.		32,300	

Maintenance of contractors' sub-ledgers

10.41 The Accounts Department shall maintain a separate Sub-ledger for Creditors Contractors Payable (3812). This sub-ledger shall be in KMF No 5. Separate folios shall be opened for each contractor. While posting entries pertaining to contractor's bills and payments from the books of prime entry to General Ledger, the same entries shall also be posted to the account of the Contractor in the Contractors' Sub-ledger. For example, the net amount payable to a 'Contractor A' after deductions shall be posted from the Journal Book, to the credit side of Creditors- Contractors' Payable Account (3812) in the General Ledger which is considered as the 'Control Account'. Simultaneously, the entry shall be posted to the credit side of Contractor A's Account in the Contractors' Sub-Ledger. Payment made to Contractor A shall be similarly posted from the Bank Book to the debit side of Creditors - Contractors' Payable Account (3812) in the General Ledger, as well as to the debit side of Contractor A's Account in the Contractors' Sub-Ledger.

10.42 At the end of each month, a "sub-ledger schedule" shall be prepared from the Sub-ledger, showing the Contractor's name and the closing balance at the end of the month. The total of all the balances in the Schedule shall be reconciled with the balance in the control account in the General Ledger.

B. Works Executed by Engineering Department

Departmental Labour

Some work may be carried out in-house by the Engineering Department of the ULB itself. Wages of casual/temporary workers paid through Nominal Muster Roll will be part of the cost of the work, and shall be charged to the work. The Engineer concerned shall verify the NMR with Daily Labour Report and Measurement book, and pay the wages out of the advance held by him. The NMR shall then be sent to the Accounts Department for verification and accounting, the entries for accounting these transactions shall be:

a. For payment of advance to the Engineer :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4818	Advance to employees- Others	Dr.	20,000		Payment Voucher
4721	To Bank Account-Nationalised Banks-General	Cr.		20,000	

b. For payment of wages out of the advance, in case of capital works :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4381	CWIP-Other Fixed Assets	Dr.	18,000		Journal Voucher
4818	Advance to employees-Others	Cr.		18,000	

c. For payment of wages out of the advance, in case of repair works :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
2352	Repairs & Maintenance-Roadside Drains	Dr.	18,000		Journal Voucher
4818	Advance to employees-Others	Cr.		18,000	

Note: The account codes 4381 and 2352 are illustrative. The actual account codes to be used depend upon the nature of departmental work carried out.

Material consumed

10.43 Apart from the other expenses such as wages, accounting entries need to be passed for materials consumed in such works. The process of issuing materials from the stores shall be the same as provided in Chapter 11 on Stores. For issue of material to Engineering Department, the Store-keeper prepares a Material Issue note (KMF No 55). He shall also prepare a Monthly Summary of Material issued to other Departments (KMF No 56), and send it to Accounts Department. The summary may include material issued in respect of capital works and also material issued for repair works. Based on KMF No 55 and KMF No 56, the Accounts Department shall pass the following entry on a monthly basis :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4331	CWIP - Roads, Pavements and Footpaths	Dr.	25,000		Journal Voucher
2334	Consumption of Lighting Stores	Dr.	5,000		
4528	To Public Works related Stores	Cr.		30,000	

Capitalisation Of Capital Work-in Progress

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

10.45 When a work is completed in all respects, either through a contractor, or by departmental execution, a completion report shall be prepared by the Engineer in charge of executing the work. The Completion Certificate shall be scrutinized by the Senior Engineer, and approved by the Commissioner, by making an entry in the note sheet of the file. An entry shall also be made in the Register of Immovable Properties other than Land (KMF No 45) by the Engineering Department. One copy of the Completion Certificate along with KMF No 45 and the relevant file shall be sent to the Accountant, who shall verify the entry made in KMF No 45, and pass the entry for capitalisation of the total cost of the asset. The following is an illustrative entry for capitalization of a fixed asset :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4121	Buildings - class I	Dr.	35,60,000		Journal Voucher
4321	To CWIP - Buildings - class I	Cr.		35,60,000	

If the loan is utilised for acquiring more than one asset, interest during construction shall be apportioned proportionately to the assets.

10.46 The amount to be capitalised at the completion of the construction of the original work shall be inclusive of the amount of interest charged to the work.

10.47 As explained in Paragraph 10.9 above, the Engineering Department shall prepare a Statement of Status of Capital Work-in-Progress (KMF No 42), and send it to the Accounts Department, which shall reconcile the Statement with the balances as shown in the Ledger.

Capitalisation of Interest During Construction Period

10.48 Where fixed asset is constructed out of borrowed funds, the cost of the fixed asset shall include interest on such loan during the construction period. The interest that shall be considered for this purpose is the accrued interest, whether paid or not, till the date of completion.

10.49 The amount of interest to be debited to the fixed asset under consideration shall bear the same proportion to the total interest payable on the loan, as the cost of the particular fixed asset bears to the total project cost for which loan was received.

10.50 The entry to be passed for capitalizing interest during construction period is :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry		Debit Amount	Credit Amount	Voucher to be Prepared
4321	CWIP- Buildings-class I	Dr.	1,20,000		Payment Voucher
4721	To Bank account- Nationalised Banks-General	Cr.		1,20,000	

10.51 The Accountant shall ensure that the entry for capitalisation of interest is recorded in the Register of Immovable Properties to account for the total value of the fixed asset.

C. Works Executed by Other Agencies

Deposit Works

10.52 Under the system of Deposit Works, a work is executed by PWD, on behalf of the ULB. The gross estimated expenditure of the work is paid to PWD in one lump sum. The amount paid is treated as an advance. The Executive Engineer of PWD shall send a monthly statement, of outlay incurred during the month and up-to-date outlay on the works concerned. The Municipal Engineer shall check the Statement, and certify its correctness, and make entries in the Register of Public Works to monitor the progress of expenditure. The approval of the Commissioner shall then be taken on the Statement by making entries in the note sheet of the file relating to the Deposit work, and handed over to the Accounts Department. On receipt of this statement in the Accounts

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Department, a journal voucher shall be prepared by the Accounts Department debiting the “Capital Work-in-Progress” Account, and crediting the “Advance” Account. The unspent balance of the advance shall be claimed from the Public Works Department, immediately after the completion of the work. The same procedure shall be followed in case of deposit work executed by any other agency.

10.53 While making payment to PWD, the Accounts Department, shall, in consultation with the Engineering Department, pass the following entry :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4833	Advances to Government type Agencies- Deposit Works	Dr.	10,00,000		Payment Voucher
4721	To Bank Account-Nationalised Banks-General	Cr.		10,00,000	

10.54 On receipt of the monthly statement of outlay mentioned in Para 10.46 above, the Accountant shall pass the following entry after due verification by the Engineering Department :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4331	CWIP - Roads, Pavements and Footpaths	Dr.	5,90,000		Journal Voucher
4833	To Advances to Government type Agencies- Deposit Works	Cr.		5,90,000	

Refund of Excess Deposit:

10.55 After the work is completed, any excess amount of advance with PWD shall be refunded on a claim by the Commissioner. On such amount being refunded, the accounts department shall pass the following entry, after making entries in the note sheet of the file :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4712	Cheques in Hand Account	Dr.	10,000		Receipt Voucher
4833	To Advances to Government type Agencies- Deposit Works	Cr.		10,000	

10.56 When the ULB decides on executing projects with loan assistance, it is the policy of the Government to permit the ULB to enter into a legally valid agreement with the KUWSDB or any other Agency, to raise a loan on their behalf, execute the project and then hand over it to the ULB,

- (i) For being utilized and maintained.
- (ii) For repaying the loan in installments and paying interest on such loans periodically.

10.57 The loan is generally raised in the open market as a loan or debenture by KUWSDB or any other Agency, with the guarantee given by the Government and a legally valid agreement signed by the ULB. The loan proceeds are then utilised by the Agency for execution of the project on behalf of the ULB. This is called 'delegated loan works'.

10.58 The Agency shall send an 'Advice showing details of delegated loans raised' in KMF No. 36. The Engineering Department, on verification, shall make entries in the note sheet of the relevant file, and then forward it to the Accounts Department, which shall, in consultation with the Commissioner and the Engineering Department, pass entries, accounting the amount shown in the Advice both as a Loan, and as advance paid to the Agency for execution of work. Simultaneously, the Engineering Department shall make entries in the Register of Public Works to monitor completion of the work. Entries shall also be made in the Register of Loans (KMF No 71) by the Accounts Department. The entry to be passed is :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4834	Advance for Delegated Loan Works	Dr.	20,00,00,000		Journal Voucher
3628	To Unsecured Loans from State Government - Others	Cr.		20,00,00,000	

10.59 The Agency shall send a 'progress report on the project under-taken under the delegated loan' in KMF No. 37 on a monthly basis. On receipt of KMF No 37, the Engineering Department shall check up the Report, make entries in the note sheet of the file, and get it approved by the Commissioner. Then, the following entry shall be passed by the Accounts Department to account the expenditure during the month :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4351	CWIP-Water supply Source and Transmission systems	Dr.	20,00,00,000		Payment Voucher
4834	Advance for Delegated Loan Works	Cr.		20,00,00,000	

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10.60 The monthly entries shall be passed, and the Register of Public Works shall be updated with the details furnished in this progress report till the project is completed and handed over to the ULB.

Loan Works

10.61 In case of Loan Works, loans are sanctioned to the ULB by the Government for a particular work, but released to KUWDSB or any other Agency for execution of work. In such cases, the ULB is required to execute an agreement, with regard to the loan repayment and interest payment, and forward the same to the Accountant General, who will issue a letter of advice to the Agency. On receipt of the advice, the Agency will take action to execute the work.

10.62 The entries to be passed, and the procedure to be followed for updation of Register of Loans shall be the same as in the case of delegated loan works.

Internal Controls

10.63 The following internal controls shall be observed by the ULB in respect of transactions related to Public Works, by the Engineering Department, and the Accounts Department:

- Availability of adequate budget allocation shall be ensured before floating tenders, issue of work orders, and undertaking any work.
- On the completion of a capital work, reconciliation shall be carried out in respect of expenditure as shown in the Register of Public Works and the CWIP Account in the General Ledger.
- The Accountant shall ensure that the total value of work completed, including interest during the construction period is reflected in the General Ledger.
- On receipt of Summary Statement of Status on Capital Work-in-Progress (KMF No 42), the total expenditure incurred as stated in the Statement shall be reconciled with the CWIP Accounts in the General Ledger.
- Before making payment to the Contractor, it shall be ensured that no amount is due from contractor which has to be adjusted before payment (For example advance paid, or material issued).

Table 1: Forms and Registers pertaining to Public Works related transactions

Form No	Name of the Form	Due Date/Periodicity	Department/Person responsible
KMF No 21	Departmental Register of bills Received	As and when bills are received/raised	Concerned Department
KMF No 23	Register of bills Received by the Accounts department	As and when bills are received	Accounts Department
KMF No 36	Advice showing the Details of Delegated Loan raised	As and when a delegated loan is raised	Executing Agency (For example KUWSDB)
KMF No 37	Progress Report on the Project undertaken under Delegated Loans	7th of every month	--do--
KMF No 38	Contractor's Bill	As and when work/a stage of work is complete	Concerned Department
KMF No 39	Nominal Muster Roll	As and when work is carried out using departmental labour.	Engineer in charge of the Work
KMF No 40	Daily Labour Report	Daily, during the period of carrying out work through departmental labour.	--do--
KMF No 41	Register of Public Works	To be updated whenever there is a claim	Engineering Department
KMF No 42	Summary Statement of Status of Capital Work-in-Progress	7th of month subsequent to the Quarter end.	--do--
KMF No 43	Royalty Register	7th of subsequent month	Accounts Department

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Form No	Name of the Form	Due Date/Periodicity	Department/Person responsible
KMF No 44A	Register of Land under Roads	As and when land under road is acquired, disposed off, a new road is created, etc.,	Engineering Department
KMF No 45	Register of Immovable Properties (Other than Land)	As and when a fixed asset is acquired, disposed off, and also at the end of the year for updation of depreciation details.	Engineering Department
KMF No 71	Register of Loans	As and when a delegated loan is raised/received, and repayment is made	Accounts Department

Table 2: Entries pertaining to Public works related transactions

Transaction Type	Account to be debited		Account to be credited		Voucher to be prepared
	Account Code	Account Head	Account Code	Account Head	
Receipt of EMD in Cash	4711	Cash in Hand	3711	EMD from Contractors/Suppliers	Receipt Voucher
Receipt on account of sale of tender forms, in cash	4711	Cash in Hand	1521	Sale of Tender Forms	Receipt Voucher
Payment of advance to contractor	3812	Creditors-Contractors Payable	4721	Bank Account-Nationalised Bank -General	Payment Voucher
Material issued to a contractor	3812	Creditors-Contractors Payable	4528	Stock-in-Hand - Public works related Stores	Journal voucher
Contractor's bill for capital work	432-438 *	Capital Work-in-Progress	3812	Creditors-Contractors Payable (...Contractor) †	Journal voucher
			3845\‡ 3847	Recoveries Payable-Tax Deducted-Contractors\ Recoveries Payable - Other Deductions from Contractors ‡	
			3712	Security Deposit\ Retention Money from Contractors and suppliers	

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Transaction Type	Account to be debited		Account to be credited		Voucher to be prepared
	Account Code	Account Head	Account Code	Account Head	
Contractor's bill for repair work	234-237 §	Repairs & Maintenance	3812†	Creditors-Contractors Payable (...Contractor)†	Journal voucher
			3845\‡ 3847	Recoveries Payable-Tax Deducted-Contractors\	
				Recoveries Payable-Other Deductions from Contractors‡	
			3712	Security Deposit\ Retention Money from Contractors and suppliers	
Payment to the Contractor	3812†	Creditors-Contractors Payable (...Contractor)†	4721	Bank Account-Nationalised Bank - General	Payment Voucher
Refund of EMD	3711	EMD from Contractors/ Suppliers	4721	Bank Account-Nationalised Bank - General	Payment Voucher
Refund of Security Deposit	3712	Security Deposit\ Retention Money from Contractors and suppliers	4721	Bank Account-Nationalised Bank - General	Payment Voucher
Amount paid to PWD against Deposit Works	4833	Advance to Government type agencies - Deposit Works	4721	Bank Account-Nationalised Bank -General	Payment Voucher

Transaction Type	Account to be debited		Account to be credited		Voucher to be prepared
	Account Code	Account Head	Account Code	Account Head	
Work carried out by PWD as per monthly statement from it	432-438*	Capital Work-in-Progress*	4833	Advance to Government type agencies - Deposit Works	Journal Voucher
Loan sanctioned, and amount released under Delegated Loan Works	4834	Advance for Delegated Loan works	3628	Unsecured Loans from State Government - Others	Journal Voucher
Work carried out by the Executing Agency under Delegated Loan Works as per monthly statement from it	432-438*	Capital Work-in-Progress*	4834	Advance for Delegated Loan works	Journal Voucher
Capitalisation of interest during construction period	432-438*	Capital Work-in-Progress*	4721	Bank Account-Nationalised Banks-General	Payment Voucher
Capitalisation of CWIP on completion of work	41	Fixed Asset	432-438*	Capital Work-in-Progress*	Journal Voucher

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- * **CWIP:** *Select the appropriate account code under “Capital Work-in-Progress (43)” from the Chart of Accounts.*
- † **(....Contractor):** *Whenever an entry is passed debiting or crediting a contractor, the contractor's name shall be written within brackets. This indicates the account to which the amount has to be posted in the “Creditors-Contractors” Sub-ledger.*
- ‡ **Recoveries Payable:** *Select the appropriate account code under “Recoveries Payable (3845 or 3847) ”*
- § **Repairs & Maintenance:** *Select the appropriate account code under “Repairs & Maintenance (24-27)” from the Chart of Accounts.*

CHAPTER

11

STORES RELATED TRANSACTIONS

Stores Related Transactions

ULBs have limited transactions through regular stores, as contractors are generally asked to procure stores items directly for their work. However, a few ULBs purchase material such as bitumen, street light maintenance materials, health and sanitation materials, water treatment material, etc. Wherever such a system of procurement of materials exists, the procedures prescribed in this Chapter shall be followed.

- 11.1 The financial transactions carried out by Stores Department will arise on account of:
- a. Receipt of Earnest Money Deposit (EMD) from the bidders to a contract for supplies
 - b. Refund of EMD to the unsuccessful bidders
 - c. Payment of advance to the Supplier, if any, as per the agreement
 - d. Delivery of material and its documentation
 - e. Payments to Suppliers
 - f. Adjustments of Security Deposits
 - g. Issue and Consumption of materials
 - h. Write-off / disposal of obsolete, scrap and unusable materials

Accounting Policies

11.2 The following Accounting Policies shall govern the accounting of transactions relating to stores:

- a. Purchase of material, etc., shall be accounted on admission of the bill by the ULB, and shall be treated as “stock in hand” till it is issued.
- b. Issue of material shall be accounted based on First-in-First-out (FIFO) method in the following manner :
 - In the case of material issued to contractors, the cost of material issued shall be treated as advance paid to Contractors, and adjusted from their bills as per the terms of the contract.

- In the case of material issued to other departments or ULB employees for capital work to be carried out, the cost of material issued shall be accounted as “capital work-in-progress”. On completion of work, if any material is left unused, such material shall be taken back to stock, by crediting capital work-in-progress.
 - In the case of material issued to other departments or ULB employees for repairs or maintenance work, cost of material issued shall be accounted as “expense”. On completion of work, if any material is left unused, such material shall be taken back to stock, by crediting the account where cost of material was originally debited.
- c. Cost of stationery purchased shall be treated as expenses at the time of purchase, irrespective of its value, by maintaining the Stationery Stock Register, and keeping a watch over its proper utilization.
- d. Revenue in respect of disposal of material shall be accounted on actual receipt.

Forms & Registers

Register of Stores (KMF No 53)

11.3 The Store-keeper shall maintain the Register of Stores (KMF No 53) for all kinds of material procured. Separate register shall be maintained separately for each Fund, and separately for the following category of material :

- Conservancy related stores (Account code 4511)
- Water Supply related Stores (Account code 4512)
- Medical Supply Stores (Account code 4513)
- Lighting related Stores (Account code 4514)
- Food Grain Stores (Account code 4515)
- Stores-Others (Account code 4518)
- Public works related Stores (4528)

11.4 The Register has columns for receipts, issues and balance quantity and value. Material Receipt Notes (MRNs) for material received, and Material Issue Notes (MINs) for material issued shall be entered in this Register on daily basis, and balance shall be arrived at. These entries shall be checked daily, by an Officer authorised for this purpose.

11.5 The other forms and registers which are relevant to Stores, and the intervals at which they have to be prepared or maintained are given in Table 1. These forms and registers provide the basis for passing entries for stores related transactions.

11.6 The procedure regarding accounting of EMD and security deposit, advance paid to suppliers, etc., shall be the same as in the case of contractors.

Accounting Procedures and Entries

Receipt of Materials

11.7 As per the terms of procurement order and agreement, the Supplier shall deliver the material to the ULB at its office. The Supplier's bill shall be entered in the Departmental Register of Bills Received (KMF No 21). The Store Keeper shall then verify the quality, quantity and rate, get it approved by the authorised officer, and prepare a Material Receipt Note (MRN) in KMF No 54, in duplicate. If there is any shortage in the quantity of material received, the MRN shall be prepared for the 'actual quantity' received, and the supplier bill shall also be passed for the actual quantity only.

11.8 From the Material Receipt Note, the Store Keeper shall enter the receipt of materials in the Register of Stores maintained (KMF No 53). He shall then prepare a "Detailed Bill of Other Expenditure" in KMF No 59, and send it to the Accounts Department for approval along with one copy of Material Receipt Note, suppliers bill and the relevant file.

Accounting of purchase of material:

11.9 On receipt of the bill and relevant documents from the store-keeper, the Accounts Department shall enter it in the "Register of Bills Received by Accounts Department (KMF No 23)", verify the bill with procurement order, MRN, etc., and send the bill for approval of the Commissioner/Chief Officer. After Commissioner's/Chief Officer's approval, the bill comes back to Accounts Department, where the following entry is passed to account the bill :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4514	Stock in Hand - General Stores-Lighting related Stores	Dr.	24,000		Journal Voucher
3811	To Creditors - Suppliers Payable (..... Supplier)*	Cr.		24,000	

Accounting of payment made to supplier:

11.10 After the bill is accounted, depending on the availability of funds, the Accounts Department shall prepare a payment voucher, and a cheque, and send the same along with the file to the Commissioner, for his signature. The entry to be passed for the payment is :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
3811	Creditors-Suppliers Payable (...Supplier)*	Dr.	24,000		Payment Voucher
4721	To Bank Account-Nationalised Bank-General	Cr.		24,000	

***Note:** The 'Creditors-Suppliers Payable (Code No. 3811)' is a control account, and all entries debited or credited to this account shall also be debited or credited to the personal account of the Supplier in the "Suppliers' sub-ledger".

Issue of Material from Stores

11.11 Material shall be issued from Stores to other departments, or to contractors, on the basis of indents received. Store Keeper shall prepare a Material Issue Note (MIN) in KMF No 55, in duplicate, and get the signature of the authorised employee/contractor. Separate series of MINs shall be maintained for material issued to Contractors, and for material issued to other departments of the ULB. He shall enter the details of issue in the Register of Stores, before issuing the material.

Accounting of issue of material to Contractors:

11.12 The copies of MINs for issue of materials to contractors shall be sent to Accounts Department as and when materials were issued. On receipt of a MIN, the Accounts department shall pass the following entry for issue of material :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
3812	Creditors-Contractors' Payable (...Contractor)	Dr.	12,800		Journal Voucher
4514	To Stock in Hand General Stores- Lighting related Stores	Cr.		12,800	

Accounting of issue of material to other departments:

11.13 In the case of material issued to other Departments, the Store-keeper shall summarise all the MINs for the month, in the "Summary of material issued to other Departments (KMF No 56)". KMF No 56 shall be prepared in duplicate. One copy of the summary shall be sent to the Accounts Department, on approval by the Engineer or authorised officer, along with copies of all MINs in respect of material issued to other departments during the month, within the 7th day of the subsequent month.

11.14 Material issued to other departments may consist of material issued for capital works, as well as material issued for repair works. On receipt of KMF No 56, the Accounts department shall pass the following entry for material issued by Stores to other departments during the month:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4331	CWIP - Roads, Pavements and Footpaths	Dr.	25,000		Journal Voucher

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
2334	Consumption of Lighting Stores	Dr.	5,000		Journal Voucher
4528	To Stock in hand-Public Works related Stores	Cr.		25,000	
4514	To Stock in Hand-General Stores-Lighting related Stores	Cr.		5,000	

Disposal of Materials

11.15 The unutilised/unusable material in the Stores of the ULB may be disposed of as per the policy framed by the ULB. Details of such sales shall be entered in Register of Miscellaneous Sales (KMF No 34).

11.16 Normally, disposal of such material is carried out by way of an auction. EMD may be collected from the bidders, and after the auction is over, EMD may be refunded to all unsuccessful bidders immediately. The details of the EMD received shall be entered in the Register of Miscellaneous Sales. However, since the EMDs of unsuccessful bidders are refunded on the auction venue itself, and don't reach the hands of the cashier, the collection and accounting procedure prescribed in Chapter 5 - General Procedures need not be followed in this case, and no entries shall be passed in the books of account.

11.17 For EMD of the successful bidder retained by the ULB, a receipt shall be issued, and it shall be received by the cashier, and treated in the same manner as daily collections.

11.18 Accounting disposal of material. The following entry shall be passed for the disposal of material, for example, in case where material of value Rs 2,300 is sold for Rs 2,100, the following entries shall be passed :

a. For accounting amount realised from sale of material:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4711	Cash in hand	Dr.	2,100		Receipt Voucher
4513	To Stock in Hand-General Stores-Medical Supply Stores	Cr.		2,100	

b. For accounting loss incurred from sale of material:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
2641	Stores written off	Dr.	200		Journal Voucher
4513	To Stock in Hand-General Stores-Medical Supply Stores	Cr.		200	

c. If the amount realised from the sale of material is more than the value of the material, the excess amount realised shall be treated as 'Other Income', and credited to 'Other Income- Others (1888)'.

Write-off of Material

11.19 Normal loss of material due to spoilage, damage, evaporation or any other reason in the Stores of the ULB may be written-off in accordance with the prescribed procedure. For example, if there is a normal loss of value Rs 500 in conservancy related stores, on the basis of intimation received and duly approved by the Municipal Commissioner / Chief Officer from the Stores, the Accounts Department shall pass the following entry:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
2641	Stores written off	Dr.	500		Journal Voucher
4511	To Stock in Hand-General Stores -Conservancy related Stores	Cr.		500	

Valuation of Material (FIFO Method)

11.20 In FIFO method, it is assumed that material which is received first, is issued first. Material issued is valued on the basis of cost of the material that is in stock for the longest period of time. This is explained below by way of an example :

15th June	Purchase	100 units @ Rs 3 per unit
20th July	Purchase	50 units @ Rs 4 per unit
2nd Sept	Issue	80 units
18th Sept	Issue	40 units
20th Sept	Purchase	100 units @ Rs 5 per unit
25th Sept	Issue	50 units

Entries in Register of Stores

Date	Receipts				Issue				Balance						
	MRN No	Quantity	Rate Rs	Value Rs	MRN No	Quantity	Rate Rs	Value Rs	Quantity	Rate Rs	Value Rs	Total Value Rs			
15 June		100	3	300					100	3	300				
20 July		50	4	200					100	3	300				
									50	4	200		500		
02 Sept									80	3	240				
									20	3	60				
									50	4	200	260			
18 Sept															
									20	3	60				
									20	4	80	30	4	120	120
20 Sept		100	5	500					30	4	120				
									100	5	500		620		
25 Sept									30	4	120				
									20	5	100		80	5	400

Stock Reconciliation

11.21 Yearly Statement of Closing Stock (KMF No 57) : By the 7th of April, the Store-keeper shall prepare a statement of stock as at the year end (i.e. as on 31st March), separately for each Fund, and send it to the Accounts Department. The Statement shall list out the items in stock on the respective dates, with quantity and value, as reflected in the Register of Stores. The stock as shown in the Statement shall be reconciled with the balance of stock-in-hand as per General Ledger, jointly by the Accounts Department and the Store-keeper.

Maintenance of Sub-ledgers:

11.22 The Accounts Department shall also maintain a sub-ledger for Creditors Suppliers Payable (3811). This sub-ledger shall be in the same format as General Ledger (Form KMF No 5). Separate

folios shall be opened for each Supplier. The entries posted in the General Ledger for purchase of material, payment to supplier, etc., shall also be posted in the personal account of the Supplier in the Sub-ledger. At the end of each month, a schedule shall be prepared from the Sub-ledger, listing the balances in the various Suppliers' accounts as at the last day of the month. The total of all the balances shall be reconciled with the balance in the Creditors-Suppliers available Account in the General Ledger.

Internal Controls

11.23 The following internal controls shall be observed by the ULB in respect of transactions related to Stores:

- The Store-keeper shall ensure availability of adequate budget allocation before issuing a procurement order, after considering all commitments made against the budget allocation.
- At the end of the financial year, the Commissioner/Chief Officer shall arrange for physical verification of stock, and compare it with the balance in the General Ledger. Discrepancy, if any, shall be reconciled, and reason for discrepancy ascertained, and necessary action shall be taken.
- The Commissioner/Chief Officer shall authorise one or two Officers to periodically carry out verification of stock, at the time of receipt of supply and report to him, on the discrepancies, if any.
- On a yearly basis, the Accounts Department shall verify the Closing Stock Statement (KMF No 57) received from the Store-keeper and verify it with the stock balances as per General Ledger, and discrepancies, if any, shall be reconciled.
- The Accounts Department shall ensure that all the dues recoverable including the advance paid to the supplier, if any, are recovered before making the final payment to him.

Table 1: Forms and Registers pertaining to Stores related transactions

Form No	Name of the Form	Due Date	Department Responsible
KMF No 21	Departmental Register of bills Received	As and when bills for supply of material are received	Concerned Section
KMF No 23	Register of bills Received by Accounts Department	As and when Accounts Department receives the bills from the Store-keeper	Accounts Department
KMF No 53	Register of Stores	On a daily Basis	Store-keeper
KMF No 54	Material Receipt Note	As and when material is received and accepted.	--do--
KMF No 55	Material Issue Note	As and when material is issued	--do--
KMF No 56	Summary of Material Issued to Other Departments	Within 7th day of every month	--do--
KMF No 57	Statement of Closing Stock	Within 7th April of subsequent year	--do--

Table 2 : Entries pertaining to Stores related transactions

Transaction Type	Account to be debited		Account to be credited		Voucher to be prepared
	Account Code	Account Head	Account Code	Account Head	
Receipt of material and approval of Supplier's bill	451/ 452*	Stock-in-hand General Stores\ Stock-in-hand Public Works related Stores	3811	Creditors- Suppliers Payable	Journal voucher
Payment to supplier	3811	Creditors-Suppliers Payable	4721	Bank Account- Nationalised Banks-General	Payment Voucher
Issue of material to a contractor for repair work	3812	Creditors- Contractors Payable	451/452	Stock-in-hand- General Stores/ Public Works related Stores	Journal voucher
Issue of material to a contractor for capital work	3812	Creditors- Contractors Payable	452	Stock-in-hand - Public Works related Stores	Journal voucher
Issue of material to other departments for capital work	432- 438	Capital Work-in- Progress	452	Stock-in-hand- General Stores Public Works related Stores	Journal voucher
Issue of material to other departments for repair/ maintenance work	233- 237	Repairs & Maintenance	452	Stock-in-hand - Public Works related Stores	Journal voucher

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Transaction Type	Account to be debited		Account to be credited		Voucher to be prepared
	Account Code	Account Head	Account Code	Account Head	
Sale proceeds of material, received in cash, where the amount realized is less than the cost of material	4711 2641	Cash in hand Stores Written off	451/452	Stock-in-hand- General Stores/ Public Works related Stores	Receipt Voucher or Journal Voucher
Sale proceeds of material, received in cash, where the amount realized is more than the cost of material	4711	Cash in hand	451/452 1888	Stock-in-hand- General Stores/ Public Works related Stores Other Income- Others	Receipt Voucher

* Note: Appropriate account code shall be selected under Stock-in hand (45) from the Chart of accounts.

CHAPTER
12

EMPLOYEE RELATED
TRANSACTIONS

Employee Related Transactions

12.1 Establishment expenses refer to the cost incurred on employees of the ULB. Apart from employees of the ULB, the ULB also pays the salary of employees who are on deputation from Government departments. Monthly salaries and allowances of employees are payable by the ULB. In the case of CMCs, TMCs, TPs, etc., the retirement benefits such as pension and gratuity are met by the Government, whereas, in the case of corporations, the retirement benefits are met by the corporations themselves.

Accounting Policies

12.2 The following Accounting Policies shall govern the recording, accounting and treatment of employee related transactions:

- a. Expenses on pay, wages and allowances shall be accounted on accrual basis, at the end of every month.
- b. Statutory deductions including those for income tax, profession tax, etc., shall be recognised as a liability in the same period in which the corresponding pay or wage is recognised as expense.
- c. Terminal benefits payable by the ULB such as leave encashment shall be accounted as and when due for payment to employees, i.e. on their retirement from the ULB. 'Actuarial valuation' of the liability shall not be considered, due to practical limitations.
- d. Leave encashment claimed by, and paid to employees during service shall be accounted on payment.
- e. Where contributions are made to the Government for meeting retirement benefit obligations, (as in the case of deputed State Government employees), the amount due towards pension and leave salary contribution shall be recognised when it becomes due.

- f. Interest accruing for the year on loans or advance given to employees, shall be recognised as revenue at the beginning of the year.

Forms & Registers

Proposition Statement for Revision of Establishment (KMF No 48)

12.3 Whenever any proposal to add to, or modify an existing sanctioned establishment, whether permanent or temporary is to be made, a proposition statement in KMF No 48 shall be prepared in duplicate, clearly showing, its financial impact, and giving the full explanation of the grounds for the proposed change.

Scale Register (KMF No 49)

12.4 A Scale Register in Form No. KMF 49 shall be maintained in the ULB, in which every appointment shall be entered under the initials of the Municipal Commissioner or Chief Officer or the Officer authorised by him. A page is allotted to the establishment chargeable to each item of the budget. Whenever any revision is made, the revised number of posts and scale of pay and allowances shall be noted in the columns provided for the purpose. Temporary establishment shall be recorded separately at the end of the space allotted for the permanent establishment and shall not be mixed up with it. The period for which the temporary establishment is sanctioned and the order of sanction shall be distinctly specified in the Scale Register. All fixed recurring charges such as house rent allowance, conveyance allowance, leave and pension contribution, etc., shall be recorded on a separate page of the Scale Register.

Pay Bill cum Acquittance Roll (KMF No 50)

12.5 A Pay Bill is prepared at the end of every month, based on the employee muster (attendance register) and service book, and previous month's pay bills. The Pay Bill provides computation of gross pay as well as deductions in respect of general provident fund, income tax, profession tax, group insurance premium, loan recovery, etc., for each individual employee, to arrive at the net pay of the employee for the month. The 'Function Code' under which the pay of the employee has to be classified shall also be mentioned against each employee's name. The Pay Bill shall be maintained in a Register, with separate sheets for each month, in order to serve as a permanent record.

Abstract of Pay Bill cum Acquittance Roll (KMF No 50A):

12.6 This Form shall have separate account code-wise and function-wise summaries of the Pay Bill. The Form shall be prepared in duplicate, separately for each Fund. The original is meant for attaching to the journal voucher. The duplicate copy shall be pasted to the Acquittance Register described above.

12.7 The Establishment section shall prepare both KMF No 50 and 50A at the end of each month, get them approved by the Commissioner/Chief Officer or the authorized officer, and send them to

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the Accounts Department. The Accountant shall verify the Pay bill and the Abstract, and return the Pay Bill to the Establishment Section, retaining one copy of the Pay bill Abstract. He shall prepare a journal voucher for accruing the pay for the month, and attach the copy of the Pay bill Abstract to the voucher.

Periodical Increment Certificate (KMF No 51)

12.8 Whenever a periodical increment is claimed on behalf of a municipal employee in the pay bill, an increment certificate in KMF No 51 shall be attached to the bill. The increment certificate in respect of the drawing officer (non-gazetted), shall be passed by the next higher authority.

Annual Return of Establishment (KMF No 52)

Detailed statements of pensionable establishment as it stood on 1st March shall be prepared by the ULB in KMF No 52, separately for temporary and permanent establishment. Similar statements shall also be prepared in respect of non-pensionable establishment, separately for temporary and permanent establishment. The Statements, collectively called the "Annual Return of Establishment", shall be and sent to the Controller, not later than 15th of May every year.

Register of Advances (KMF No 61)

12.10 Register of advances in KMF No 61 shall be maintained by the Establishment Department, for recording details of advance paid to each employee, recoveries made, and balance due. A separate Register may be maintained for each type of advance. The Register shall be updated from time to time, for new advances given and recoveries made out of employees pay. At the end of every year, the balances due from the employees shall be arrived at, and carried forward to a new register opened for the subsequent year.

Register of interest on Loans and Advances (KMF No 62)

12.11 In respect of any interest-bearing advance given to employees (say Vehicle Advance, House-building Advance, etc.), the details of interest accrued, and recovered shall be recorded in the above Register maintained by Establishment Department, and the balance of interest due shall be arrived at the end of the year, and carried forwarded to a new Register opened for the subsequent year.

12.12 Other Forms and Registers related to property tax are listed in Table 1.

Accounting Procedures and Entries

Accounting of Pay Bill

12.13 On the basis of the Pay Bill, the following entry shall be passed at the end of every month, for accounting the expense and the corresponding liability :

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Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
2111	Pay	Dr.	1,46,200		Journal Voucher
2112	Dearness allowance	Dr.	58,600		
2113	House Rent Allowance	Dr.	10,350		
2118	Allowances and Benefits- Others	Dr.	5,120		
3841	To Recoveries Payable- General Provident Fund (GPF)	Cr.		3,500	
3842	To Recoveries Payable- Employees' Insurance	Cr.		1,500	
3843	To Recoveries Payable- Employees'-Tax Deducted	Cr.		2,500	
3844	To Recoveries Payable- Employees-Others	Cr.		1,500	
4811	To Advances-Festival Advance	Cr.		3,000	
4812	To Advances-Vehicle Advance	Cr.		3,000	
4813	To Advances - House building Advance	Cr.		5,300	
4641	Receivable - Interest Receivable from Employees	Cr.		1,000	
3821	To Employee related Liabilities-/Pay, Allowances and Benefits Payable	Cr.		1,98,970	

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Notes:

1) In case of Allowances and Benefits-Others (2118), mandatory detail codes as prescribed in the Chart of Accounts for different types of other allowances shall be used.

2) For "Recoveries Payable-Employees' Insurance (3842), mandatory detail codes as prescribed in the Chart of Accounts for different types of other recoveries shall be used. Similarly, for Recoveries Payable-Employees-Tax Deducted (3843), and Recoveries Payable-Employees-Others (3844), mandatory detail codes are prescribed for various items such as income tax deducted at source, professional tax, family benevolent fund, loan installments, union subscription fee, etc.

Payment of net pay

12.14 Most ULBs are now following the practice of paying the employees' pay by way of credit to their individual accounts in the bank. The same practice shall continue. Those ULBs which are making cash disbursement of pay shall also switch over to the system of crediting net pay to the bank accounts of the employees. The Accountant shall prepare a Payment voucher for the total net pay, and send it along with the cheque, for Commissioner's/Chief Officer's signature. The cheque shall then be sent to the bank, along with the list of employees, and the net amount to be paid to each of them. Some ULBs follow the practice of issuing a letter of instruction to the bank to credit the accounts of the employees, instead of issuing a cheque, on receipt of which, the bank will debit the account of the ULB for the total amount of net pay, and credit the individual accounts of the employees.

12.15 On issue of a cheque to the bank for payment of pay and allowances, the following entry shall be passed :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
3821	Employee related Liabilities- Pay, Allowances and Benefits Payable	Dr.	1,98,970		Payment Voucher
4721	To Bank Account-Nationalised Banks-General	Cr.		1,98,970	

(From KMF No 50A, the budget code-wise classification for the gross amount of salary shall be written on the back side of the voucher, for the purpose of recording the payment in KMF No 6.)

12.16 In the case of payment by issue of instruction to the Bank, the same entry as shown above shall be passed on receipt of advice from the bank.

12.17 Cash payment of pay and allowances shall be avoided as far as possible. In case of such cash payments, contra vouchers shall be prepared for withdrawal of cash from the bank. The cash

so drawn shall be recorded in the Register of Cash Drawn and Disbursed (KMF No 2), and paid to employees through this Register. The payment voucher for accounting the disbursement shall be prepared by the Accountant based on the entry in the Register.

Remittances of statutory or other recoveries:

12.18 The statutory and other recoveries from employees' pay shall be remitted to the appropriate authorities on due dates, by preparing necessary payment vouchers and cheques. The following entries shall be passed for remittances of statutory recoveries made out of pay and allowances :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
3841	Recoveries Payable-General Provident Fund (GPF)	Dr.	3,500		Payment Voucher
4721	To Bank Account-Nationalised Banks-General	Cr.		3,500	
3843	Recoveries Payable Employees' - Tax Deducted	Dr.	4,000		Payment Voucher
4721	To Bank Account-Nationalised Banks-General	Cr.		4,000	
3843	Recoveries Payable Employees' - Tax Deducted	Dr.	1,500		Payment Voucher
4721	To Bank Account-Nationalised Banks-General	Cr.		1,500	

Pay of employees on deputation

12.19 The pay of employees deputed from the Government is generally met from the ULBs resources. The amount shall thus be included in the entries given above. However, in respect of deputed employees, there is a commitment by the ULB towards contribution to the Government towards Pension and Leave Salary. Hence, the following additional treatment is required.

a. Contribution towards Pension and Leave Salary: The ULB is required to make a contribution towards the Pension and Leave Salary of deputed employees. This amount shall be paid from the ULB's resources and shall not be deducted / recovered from the salary. The ULB shall pass the following entry to account its liability towards such contribution :

Chapter 12 - Employee Related Transactions

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
2132	Pension Contributions for Employees on deputation	Dr.	8,000		Journal Voucher
2133	Leave Salary Contributions for Employees on Deputation	Dr.	6,000		
3858	To State Government Dues Payable - Others	Cr.		14,000	

On payment of the amount to state government, the entry to be passed shall be:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
3858	State Government Dues Payable - Others	Dr.	14,000		Payment Voucher
4742	To Treasury Account-General	Cr.		14,000	

b. Recovery towards KMAS: As per Section 367 of the Act, ULBs are required to contribute in advance, $\frac{1}{4}$ percent of their revenue to the Consolidated Fund of the State, in order to meet the expenditure incurred on the Karnataka Municipal Administrative Service (KMAS), in the manner and time prescribed by the Government, by order. In case of failure to do this, on the part of the Municipal Commissioner/Chief Officer, the Deputy Commissioner of the district shall direct the Treasury Officer/Sub-treasury Officer, the custodian of Municipal Fund, to pay such amount. In this case, the Treasury Officer/Sub-treasury Officer shall himself debit the account of the ULB for such amount, and credit it to the Government Account, under intimation to the Commissioner/Chief Officer. The entry for accounting the liability for the Contribution shall be as under:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
2134	Contribution towards KMAS Officers	Dr.	10,000		Journal Voucher
3858	To State Government Dues Payable - Others	Cr.		10,000	

The entry for payment of KMAS dues shall be the same as in the case of Pension and Leave Salary contribution in respect of deputed employees.

Wages of temporary staff

12.20 The salary of temporary employees (who are not part of the permanent establishment) shall be accounted on accrual basis, under “Wages (2121), by crediting to” Employee related Liabilities - Wages Payable (3822)”.

Payment of arrears:

12.21 If the pay of any employee is withheld or could not be paid for some reason, the details shall be recorded in the Abstract Pay Bill (KMF No 50A) with reasons. However, since this amount is included in the journal entry passed for accounting the pay bill, it is not necessary to prepare a bill once again for such amount. Payment of such withheld pay shall be made by preparing a payment voucher, with the approval of the Commissioner/Chief Officer. The details of payment and the payment voucher reference shall be noted in the abstract of the pay bill against the name of the employee, to avoid duplicate payment.

Supplemental pay bills

12.22 Whenever, arrears arising out of any omission in the original Pay Bill, or any increase in the pay or allowances with retrospective effect, or any new allowance granted by a special order, etc., have to be paid, a supplemental bill shall be prepared by the Establishment Section in the same manner as the original Pay Bill, and in the same format (KMF No 50), by making entries in the respective monthly pay bills in order to avoid double payment. For accounting and payment of the supplemental pay bill, the procedure prescribed for pay bills shall be followed.

Loans and Advances to Employees

Advances granted to employees

12.23 Apart from Permanent / Miscellaneous Advance given to employees for meeting expenses on behalf of the ULB, they may also be given advances such as:

- a. Festival Advance
- b. Vehicle Advance
- c. House Building Advance, etc.,

12.24 On payment of loans and advances by the ULB, the Accounts Department shall pass the following entries:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4812	Advance - Vehicle Advance	Dr.	10,000		Payment Voucher
4721	To Bank Account-Nationalised Banks-General	Cr.		10,000	

Interest on loans and advances granted to the employees

12.25 Based on the Register of interest on loans and advances to employees (KMF No 62), the Establishment Department shall prepare a Statement of Demand Raised or Income Accrued in KMF No 13 at the beginning of every year (on or before 7th April). The Statement shall be sent to Accounts Department for passing an accrual entry for the interest due for the year. The entry to be passed shall be:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4641	Receivable - Interest Receivable from Employees	Dr.	10,000		Journal Voucher
1748	To Interest on Loans and Advances to Employees	Cr.		10,000	

12.26 Normally, as per the terms of the sanction, recovery of the principal amount of interest-bearing advance assumes precedence over recovery of interest, i.e. recovery of interest shall start after the principal amount is recovered in full. In such cases, an entry for accrual of interest is passed at the beginning of every year, even though, actual recovery starts after the principal is fully recovered. The total of interest due for the year shall be calculated and recorded in the “Register of Interest on Loans and Advances to the employees (KMF No 62)” at the beginning of every year. The entry to be passed in such cases is the same as explained above.

12.27 The balance in the “Receivable Interest from Employees (4641)” indicates the interest accrued till the end of that year less amount received till date. The individual balance of interest due from each employee shall be available in KMF No 62.

Recovery of advances and interest

12.28 Recovery of advances and interest shall normally be done from the pay of the employees, and shall be deducted in the pay bill every month, till the advance or interest is fully recovered. The entry for recovery of advance is illustrated in paragraph 12.13 above.

Recovery of advance and interest in the case of transferred employees and employees on deputation

12.29 In cases where an employee to whom an advance is paid is transferred to another ULB, before the entire advance is recovered, the ULB where the employee is transferred to, shall be informed about the outstanding advance and interest through the “last pay certificate (LPC)”. That ULB shall recover the installments and interest as per the sanction terms, and remit the same to the ULB from where the employee has availed the advance on the monthly basis. To monitor the recovery and remittance of such dues, the ULB shall make entries in the relevant register on a separate page. The recovery of the installment and interest the amount shall be accounted by crediting the “Employees

Related Liabilities-Others (3828)”, and on remittance of the amount recovered to the ULB where the employee has taken the advance, this account shall be debited. The Advance given to the employee shall not be accounted in the books of this ULB.

Leave Encashment

12.30 Employees are eligible for encashment of their leave in the following manner:

- During the tenure of their service, upto a maximum of 30 days in a block of 2 Years
- On superannuation, upto a specified number of days of accumulated leave

12.31 Leave encashment during the service of an employee shall be accounted on cash basis, as and when claimed, and paid. Leave encashment dues on retirement of an employee shall be calculated, and accrued on retirement of the employee, by debiting “Leave Encashment at end of Service (2141)”, and crediting “Terminal and Retirement Benefits Payable account (3824)”.

Unpaid Pay & Wages

The balance in “Employee related Liabilities Pay, allowances & Benefits Payable (3821)” after passing entries for payment represents the unpaid pay and allowances, including deputed employees. Similarly, the balance in “Employee related Liabilities Wages Payable (3822)” represents the unpaid wages of temporary employees.

Internal Controls

12.33 The following internal controls shall be observed by the ULB in respect of transactions related to Employees:

- a. The pay bills shall be checked with previous month's bill and entries in the scale register, for ensuring that all salary bills are included.
- b. Similarly, bills for arrears (supplemental bills) shall be checked with reference to monthly pay bills, with necessary entries for such supplemental claims, in order to avoid double claims.
- c. Reconciliation shall be carried out at the year end, between balances as per Register of Advances (KMF No 61) and Register of interest on Loans and Advances to Employees (KMF No 62), and balances in the relevant accounts in the General Ledger.
- d. Both the officer designated for preparing the pay bill and the Accountant shall be responsible for non-recovery/short recovery of advance and interest, in time.
- e. Every month, the Accounts Department or other officers of the ULB designated shall verify that the Pension Fund contribution and Leave Salary contribution for employees on deputation are deposited with the Government before 7th of next month. Similarly, they shall see that contribution under section 367(1) is remitted to the Government before 25th April every year.

Table 1: Forms and Registers pertaining to Employee related transactions

Form No	Name of the Form	Due Date	Department Responsible
KMF No 48	Proposition Statement for Revision of Establishment	Whenever there is a proposition to add to, or modify an existing sanctioned establishment	Establishment Section
KMF No 49	Scale Register	Whenever there is revision in the number of posts, scales of pay	Establishment Section
KMF No 50	Pay Bill cum Acquittance Roll of Permanent or Temporary Establishment	At the end of every month	Establishment Section
KMF No 50A	Abstract of Pay Bill cum Acquittance Roll	At the end of every month	--do--
KMF No 51	Periodical Increment Certificate	Whenever a periodical increment is claimed on behalf of a municipal employee in a pay bill.	--do--
KMF No 52	Detailed statement of the permanent/ temporary pensionable /non-pensionable establishment as it stood on 1st march (Annual return of Establishment)	Before the end of March every year.	--do--

Form No	Name of the Form	Due Date	Department Responsible
KMF No 61	Register of Advances	As and when advances are paid to, or recovered from employees	Establishment Department
KMF No 62	Register of Interest on Loans and Advances to Employees	As and when advances are paid, and interest is recovered from employees	Establishment Department

Table 2: Entries pertaining to Employee related transactions

Transaction Type	Account to be debited		Account to be credited		Voucher to be prepared
	Account Code	Account Head	Account Code	Account Head	
Accrual of Pay and allowances of permanent establishment, for the month, and deduction of statutory recoveries, installment of advances, interest on advances, etc.,	2111	Pay	3821	Pay, Allowances and Benefits-Payable	Journal voucher
	2112	Dearness Allowance			
	2118	Allowances and Benefits -Others	3841	Recoveries Payable-General Provident fund (GPF)	
			3842-01	Recoveries Payable-Employees' Insurance-KGID	
			3842-03	Recoveries Payable-Employees' Insurance-LIC	
			3843-01	Recoveries Payable-Employees-Income Tax Deducted at Source	
		3843-02	Recoveries Payable-Employees -Professional Tax		
		3844-01	Recoveries Payable- Employees -Others-Family Benevolent Fund		

Transaction Type	Account to be debited		Account to be credited		Voucher to be prepared
	Account Code	Account Head	Account Code	Account Head	
			3844-02	Recoveries Payable- Employees- Others-Loan Installments	
			3844-03	Recoveries Payable- Employees- Others-Subscriptions to employees Union	
			4811	Advances-Festival Advance	
			4812	Advances-Vehicle Advance	
			4813	Advances-House Building Advance	
			4641	Receivables-Interest from Employees	
Accrual of Wages of temporary establishment	2121	Wages	3822	Employee related Liabilities - Wages Payable	Journal voucher
Payment of Pay and allowances of permanent establishment	3821	Pay, Allowances and Benefits- Payable	4721	Bank Account- Nationalised Banks-General	Payment Voucher

Chapter 12 - Employee Related Transactions

Transaction Type	Account to be debited		Account to be credited		Voucher to be prepared
	Account Code	Account Head	Account Code	Account Head	
Payment of Wages of temporary establishment	3822	Employee related Liabilities - Wages Payable	4721	Bank Account-Nationalised Banks-General	Payment Voucher
	3841	Recoveries Payable -General Provident fund (GPF)	4721	Bank Account-Nationalised Banks-General	Payment Voucher
Remittance of Recoveries	3842-03	Recoveries Payable -Employees' Insurance-LIC	4721	Bank Account-Nationalised Banks-General	Payment Voucher
	3842-01	Recoveries Payable -Employees' Insurance-KGID	4721	Bank Account-Nationalised Banks-General	Payment Voucher
Entries similar to the above shall be passed for all types of recoveries from employees' pay.					
Pension and leave salary contribution on respect of deputed employees	2132	Pension Contributions for Employees on deputation	3823	Employee related Liabilities-Contributions Payable	Journal Voucher
	2133	Leave Salary Contributions for Employees on deputation	3823	Employee related Liabilities-Contributions Payable	Journal Voucher
Contribution towards KMAS Contribution	2134	Contributions towards KMAS Officers	3858	State Government Dues-Others	Journal Voucher
Payment of KMAS Contribution	3858	State Government Dues-Others	4721	Bank Account-Nationalised Banks-General	Payment Voucher

Transaction Type	Account to be debited		Account to be credited		Voucher to be prepared
	Account Code	Account Head	Account Code	Account Head	
Payment of various types of advances to ULB Employees	4811	Advances-Festival Advance	4721	Bank Account-Nationalised Banks-General	Payment Voucher
	4812	Advances-Vehicle Advance	--do--	--do--	--do--
	4813	Advances-House Building Advance	--do--	--do--	--do--
	4814	Advances-Travel / Transfer Advance	--do--	--do--	--do--
Accounting of interest due on Advance to employees	4641	Receivables-Interest from Employees	1748	Interest on Loans and Advances to Employees	Journal Voucher
Recovery of advance and interest dues of an employee transferred from another ULB where he has taken advance.	3821	Pay, Allowances and benefits-Payable	3828	Employee-related Liabilities-Others	Journal Voucher
Remittance of dues (advance and interest) recovered from the transferred employee, to the ULB where	3828	Employee-related Liabilities-Others	4721	Bank Account-Nationalised Banks-General	Payment Voucher

Chapter 12 - Employee Related Transactions

Transaction Type	Account to be debited		Account to be credited		Voucher to be prepared
	Account Code	Account Head	Account Code	Account Head	
the employee was working earlier.					
Payment of leave encashment claim during service.	2114	Leave Encashment to employees	4721	Bank Account-Nationalised Banks-General	Payment Voucher
Liability to pay leave encashment and retirement benefits on retirement of an employee	2141 2142 2148	Leave Encashment at end of service Death cum Retirement Gratuity Terminal and Retirement Benefits -Others	3824	Employee related Liabilities - Terminal and Retirement Benefits Payable	Journal Voucher
Subsequent Payment of retirement Benefits	3824	Employee related Liabilities - Terminal and Retirement Benefits Payable	4721	Bank Account-Nationalised Banks-General	Payment Voucher

CHAPTER
13

HEALTH & SANITATION

Health & Sanitation

13.1 The Health Department is primarily responsible for monitoring solid waste management, sanitation and other public health related activities, maintenance of birth and death records, and issue of birth and death certificates, issuing trade licenses for specified trades and occupations, maintenance of hospitals, dispensaries & maternity homes, etc., within the territorial limits of the ULB.

13.2 The main sources of income earned by the Health Department are as follows :

- Solid Waste Management Fees/Cess
- Birth and Death Certificate Fees
- Trade License Fees
- Income from slaughter houses
- Sale of Garbage/Manure/Compost
- Income from burial and burial ground and electrical crematoria

13.3 Besides incurring the usual administrative expenses such as establishment expenses, printing, stationery, office expenses, etc., the Health Department incurs expenses, directly related to its activities. Following is an illustrative list of the expenses related to Health Department:

- Street cleaning and sweeping, garbage clearance, etc.,
- Dumping ground maintenance
- Repairs & maintenance of SWM and sanitation related equipment and vehicles
- Crematoria operation and maintenance
- Consumption of Stores (Cleaning material, insecti-cides, disinfectants, medical related stores), etc.,
- Dog catching and monkey catching expenses
- Public Health programmes/ schemes related expenses such as family welfare expenses, pulse polio vaccination expenses, school children health program related expenses, AIDS awareness expenses, etc.,
- Implementation of any other state / Central Govt scheme

Accounting Policies

Income

13.4 The following Accounting Policies shall govern the accounting of transactions relating to various activities as given below:

- a. Trade license Fees shall be accrued at the beginning of the year, based on demand raised.
- b. Solid Water Management Fees/Cess, if applicable, shall be accrued at the beginning of the year, based on demand raised.
- c. Any income, the right for collection of which is formed out and entrusted to contractors, shall be accounted accrued as per the terms of the contract.
- d. Any other income susceptible to income shall be accrued in an appropriate manner, based on the nature of the income.
- e. Income such as birth and death certificate fees, SWM Fees to be collected from individual households, sale of compost and manure, etc., shall be accounted on cash basis.

Provision and write offs

- f. Provision shall be made on the balance of all receivables pertaining to License fees and other fees/cess which are accruable, based on the following provisioning norms:
 - i. Outstanding for more than 2 years but not exceeding 3 years: 50%
 - ii. Outstanding for more than 3 years: 100%
- g. If the provision required at the end of the accounting year is more than the provision existing at the beginning of the year, the additional provision shall be treated as an expense. On the other hand, if the provision required at the end of the accounting year is less than the provision existing at the beginning of the year, the excess provision shall be written back, treating it as an income.
- h. Write-offs of receivables in respect of taxes shall be adjusted against the provisions for doubtful receivables if a provision already exists against such receivables, and shall be treated as an expense, if no provision exists. Such write offs shall have the effect of reducing the "receivables". Any subsequent collection or recovery of such written off receivables shall be recognised as 'Prior Period Income'.

Accounting for Income and Other Receipts

Income from hospitals, dispensaries, maternity homes etc

13.5 In the case of collections of income from hospitals, dispensaries, maternity homes, etc., a Collection Register (KMF No 16), shall be maintained by the person responsible for receiving cash at the respective units, and shall be remitted to the ULB, periodically. Receipts (KMF No. 14) shall be used for such collections in those units. From the Collection Register, it is recorded in the Chitta and Summary of Daily Collection Register, along with other collections for the day, and accounted through a receipt voucher, as explained in Chapter 5 - General Procedures.

Trade License Fees:

13.6 Trade licenses are issued by the ULBs from the date of application, till 31st March of the financial year. Before the beginning of every year, new licenses shall be issued in respect of existing licenses. If the ULBs are following the practice of issuing licenses for more than a year (say for five years), the License fees received shall be treated as 'advance collection of license fees', and recognised as income over the period of license.

Other Incomes

13.7 The other incomes pertaining to the health and sanitation related activities shall be accounted for in the manner as has been described under section 'Accounting for Other Incomes' on 'actual receipt basis' in Chapter 9 - Rentals, Fees, and Other Incomes.

Expenditures Pertaining to Health and Sanitation

13.8 The accounting for expenditures pertaining to sanitation, scavenging, hospitals, dispensaries, etc., shall be similar to that described in Chapter 10 - Public Works (for expenditure incurred through awarding of contracts to outside parties for carrying out certain activities), Chapter 11 - Stores (for expenditure incurred on purchase of stores such as medicines, insecticides, disinfectants, etc., which are purchased in bulk, on annual contract basis, and issued to the Department for being used periodically), and Chapter 14 - Other Revenue Expenditures in respect of all other expenditures pertaining to health and sanitation related activities.

13.9 At the year end, the Health Department shall ensure that all the bills received in respect of expenses incurred before the last date of the accounting period, are processed and forwarded to the Accounts Department for accounting by 30th April of the next financial year.

Internal Controls

13.10 The following internal controls shall be observed in respect of transactions related to Health & Sanitation:

- a. All collections in hospitals, dispensaries, maternity homes, etc., are properly accounted and remitted to the ULB regularly.
- b. Records for purchase and use of material pertaining to health and sanitation are properly recorded and material in stock is properly reconciled.
- c. Large scale purchase of public health/sanitary materials shall be avoided, and any stock in the stores shall not exceed two months' requirement.
- d. The Accounts Department shall ensure that all the bills/invoices were journalised before release of the payments.

Table 1: Forms and Registers pertaining to Health & Sanitation related transactions

Form No	Name of the Form	Due Date	Department Responsible
KMF No 13	Summary Statement of Demand Raised or Income Accrued	On or before 1st April	Health Department
KMF No 13A	Monthly Summary Statement of Change in Demand or Adjustment	On or before 7th of next month	Health Department
KMF No 14	Form of Receipt	As and when collection is made	Concerned health Inspectors/designated persons
KMF No 15	Register of Cheques Received	As and when Cheques are received, for cheque collections	Cashier
KMF No 16	Collection Register	At the end of every day	Concerned health Inspectors/designated persons
KMF No 17	Chitta	At the end of every day, for cash collections	Cashier
KMF No 18	Summary of Daily Cash Collection	At the end of every day, for cash collections	--do--
KMF No 19	Summary of Daily Cheque Collection	At the end of every day, for cheque collections	--do--
KMF No 20	Summary of Daily Collection through Bank or Treasury	At the end of every day, for bank collections	Concerned health Inspectors/ designated persons
KMF No 21	Departmental Register of bills received	As and when bills are received in the department	Health Department

Form No	Name of the Form	Due Date	Department Responsible
KMF No 23	Register of bills Received by the Accounts department	As and when bills are received	Accounts Department
KMF No 26A	DCB Register (License Fees)	On daily basis	Health Department
KMF No 27	Register of Change in Demand or Adjustment	On or before 7th of subsequent month.	--do--
KMF No 28	Suspense Register	Whenever collections are received without necessary details	Health Department
KMF No 38	Contractor's Bill in respect of outsourced SWM work	As per the terms of the Contract.	Health Department
KMF No 39	Nominal Muster Roll in respect of SWM work, if carried out departmentally	As per procedures prescribed in KMABR - 2006.	Health Department
KMF No 40	Daily Labour Report in respect of SWM work, if carried out departmentally	Daily	--do--

Table 2: entries pertaining to Health & Sanitation related transactions

Transaction Type	Account to be debited		Account to be credited		Voucher to be prepared
	Account Code	Account Head	Account Code	Account Head	

The entries are similar to those in the case of Rent, fees and other income.

CHAPTER
14

**OTHER REVENUE
EXPENDITURE**

Other Revenue Expenditure

14.1 The “Other Revenue Expenditure” discussed in this Chapter cover all revenue expenditures other than employee related expenses covered in Chapter 12. Employee related transactions, and public work related expenses covered in Chapter 10 Public Works. They also include expenditure on outsourcing of operations such as solid waste management, street-lighting, water supply, etc.

14.2 Examples of revenue expenditure are :

- Rent, Rates and Taxes
- Books and Periodicals, Printing & Stationery, Photocopying Charges
- Travelling and Conveyance
- Honorarium, sitting fees, and other council related expenses
- Legal and other professional fees
- Advertisement and Publicity
- Office Maintenance Expenses;
- Telephone and other communication Expenses
- Insurance
- Power & Fuel
- Operating expenses such as solid waste management, street light maintenance, water supply, repairs and maintenance of equipments, etc.,

Accounting Policies

14.3 The following Accounting Policies shall govern the accounting of transactions relating to Other Revenue Expenditures:

- a. All expenses in the nature of procurement of goods and services, supported by a work order or procurement order shall be accrued on approval of the bills.
- b. All other expenses shall be accounted on payment. However, any bills remaining unpaid at the end of the year shall be accrued at the year-end.

- c. Bills pertaining to the year and approved before 30th April of the subsequent year shall be accrued at the year-end.
- d. Provision shall be made at year-end for bills pertaining to the year, but not approved till 30th April of the next financial year.
- e. Any expenditure for which the payment has been made in the current period but the benefit and/or service is likely to arise in a future period shall be treated as 'prepaid expenses'.
- f. The expenditure for the current period shall include the proportionate value of the benefits and/or services arising in the current period, even if the payment has been made in the previous period.

Accounting Procedures and Entries

14.4 The concerned department, on receipt of bill or invoice for goods purchased or services rendered, shall record the bill in the Register of Bills Received (KMF No 21). The bill shall be checked by the Officer responsible for the expenditure, and a claim in the Detailed Bill of Other Expenditure (KMF No 59) prepared in duplicate. The bill, along with the relevant file shall be forwarded to the Accounts Department for verification.

14.5 On receipt of the bill from the concerned department, the Accounts Department shall enter the particulars thereof in the Register of Bills Received by the Accounts Department (KMF No. 23) maintained by it. It shall then verify the bill with the Procurement Order Material Receipt Note, or any other relevant document, and pass the bill by affixing the seal. Deductions, if any shall be recorded, and the bill, shall be submitted to the Commissioner/Chief Officer for approval.

14.6 Even though some of the registers prescribed in Schedule V of KMABR, 2006, are not accounting records, they have relevance to accounts since they are meant for proper internal control. For example, in the case of printing of ticket books, entries are made in the Stock Register of Ticket Books (KMF No 32). Bills for purchase of fuel, repair of vehicles, purchase of vehicle spares, etc., are recorded in the "Log book for Vehicles (KMF No 58)". Stamps purchased are entered in Stamps Register (KMF No 64). Bills for stationery purchases are recorded in the Stationery Stock Register (KMF No 65). Entries have to be made in the relevant fixed asset registers for purchase of fixed assets such as furniture & fittings, vehicles, equipment, etc. While passing the bills, the Accounts Department may call for the relevant registers, and ensure that necessary entries are made in them.

14.7 **Accounting of approved bills:** As per Rule 36(2) of KMABR, 2006, establishment expenses, and expenses on procurement of goods and services shall be accrued on approval by the Commissioner/Chief Officer. Other revenue expenditure shall be accounted on cash basis, during the year, and accrual entry shall be passed for any bills outstanding at the end of the year.

Chapter 14 - Other Revenue Expenditure

14.8 Therefore, bills in respect of services such as legal charges, professional or consultancy charges, audit fees, outsourced services, etc., shall be accounted on accrual basis, by debiting appropriate expenditure accounts, and crediting appropriate liability accounts. At the time of payment of the bills, the liability accounts credited earlier shall be debited. In the case of contracts for outsourced services, the entries passed shall be similar to the entries prescribed in the case of contractors' work bills. (Please refer to Chapter 10 Public works). In the case of other accruable expenses, for example, a bill for professional services, the entry shall be :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
2253	Professional Fees	Dr.	15,000		Journal Voucher
3913	To Creditors - Expenses Payable	Cr.		15,000	

14.9 In the case of all other expenses, the approved bills shall be accounted by debiting the respective expenses at the time of payment, through payment vouchers. The following entry shall be passed for accounting such bills :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
2273	Office Expenses- Communication Expenses	Dr.	25,700		Payment Voucher
4721	To Bank Account-Nationalised Banks-General	Cr.		25,700	

14.10 After approval, the original bill shall be attached to the journal voucher/payment voucher as the case may be, and the duplicate copy of the bill shall be sent back to the concerned department along with the file. The procedure for accounting/paying the bill is explained in Chapter 5 - General Procedures.

Treatment of expenses involving pre-payment

14.11 In case of expenses for which payment is made in the current year, but the benefit is likely to be received in the next year, either fully or partly, the portion pertaining to the subsequent year shall be treated as "Pre-paid Expenses". A typical example is premium on vehicle insurance which is normally paid for a period of 12 months from the date of renewal. The accounting of such expenses is explained below by way of an example :

14.12 If the insurance premium of Rs 48,000 is payable in advance for a calendar year, e.g.,

January 2007 to December 2007, the bill for this is received, and paid in the month of December 2006. The expenditure shall be accounted on cash basis at the time of payment. The portion pertaining to January 2007 to March 2007 shall be accounted as expenditure of the year 2006-2007, while the portion pertaining to April 2007 to December 2007 shall be accounted as prepaid expenses of the year 2007-2008. The entry to be passed, shall be :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
2213	Insurance	Dr.	12,000		Payment Voucher
4881	Pre-paid Expenses	Dr.	36,000		
4721	To Bank Account-Nationalised Banks-General	Cr.		48,000	

14.13 Recording of insurance expense in next year. In April 2007, the Accountant shall pass the following entry to account the expenditure pertaining to 2007-08 :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
2213	Insurance	Dr.	36,000		Journal Voucher
4881	To Prepaid Expenses	Cr.		36,000	

Accrued Expenditure at the end of the year:

14.14 There may be instances of expenditures incurred at the end of the year, in respect of which bills are approved in the beginning of the next year. Under the accrual system, expenses have to be accounted in the year in which they are incurred. At the same time, only approved bills can be accounted. In order to ensure, to the extent possible, that expenses are fully accounted for in the year of expenditure, a cut off date of 30th April is fixed, and the accrual entries are passed for all bills pertaining to the current year, but approved on or before 30th April of the subsequent year.

14.15 Each department shall prepare a "Statement of bills pending approval as at 31st March" in KMF No 60. After obtaining the approval of the Commissioner/Chief Officer on the Statement, it shall be sent to Accounts Department, by 7th May.

14.16 On the basis of KMF No 60 received from various Departments, the Accounts Department shall pass an entry in the books of the year that has just ended, for the portion of the bills pertaining

Chapter 14 - Other Revenue Expenditure

to that year, treating them as expenditure related to the year. For example, on compilation of KMF No 60 received by the Accounts Department, from various Departments, the Accounts Department arrives at the following outstanding bills :

Bill of Contractor 'A' for repair of building	:	Rs 1,35,600
Bill for stationery purchased	:	Rs 2,200
Telephone bill for the month of March	:	Rs 38,240
Advertisement bill	:	Rs 5,000

The entry to be passed for providing for the above expenditure shall be:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
2361	Repairs & Maintenance-Buildings	Dr.	1,35,600		Journal Voucher
2222	Printing, Stationery and Photo-copying Charges	Dr.	2,200		
2273	Office Expenses-communication Expenses	Dr.	38,240		
2268	Advertisement and Publicity Charges	Dr.	5,000		
3918	To Provision for Expenses -Others	Cr.		1,81,040	

14.17 In the beginning of the next financial year, the Accountant shall reverse the entry passed at the end of the previous year, by passing the following journal entry :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
3918	Provision for Expenses	Dr.	1,81,040		Journal Voucher
2361	Repairs & Maintenance-Buildings	Cr.		1,35,600	
2222	Printing, Stationery and Photo-copying Charges	Cr.		2,200	

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
2273	Office Expenses-communication Expenses	Cr.		38,240	Journal Voucher
2268	Advertisement and Publicity Charges	Cr.		5,000	

Entry at the time of subsequent approval/payment: In the next year, the bills shall be approved and paid on priority. If the bills are of the accruable type (Contractors/suppliers'/service charges bills) as per KMABR, 2006, they shall be accounted immediately on approval by passing a journal entry, as explained in Chapter 10 Public Works. Other bills shall be accounted on payment, as explained in para 14.9 above. The entries to be passed for accounting the bills on approval are as follows:

14.18 For accounting contractors' bills for repair of building :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
2361	Repairs & Maintenance-Buildings	Dr.	1,35,600		Journal Voucher
3811	To Creditors-Contractors' Payable	Cr.		1,26,108	
3845	To Recoveries Payable-Tax Deducted-Contractors	Cr.		2712	
3712	To Security Deposit/ Retention Money from Contractors/ Suppliers	Cr.		6780	

a. For accounting other bills :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
2222	Printing, Stationery and Photo-copying Charges	Dr.	2,200		Payment Voucher
2273	Office Expenses-communication Expenses	Dr.	38,240		

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
2268	Advertisement and Publicity Charges	Dr.	5,000		Payment Voucher
4721	To Banks-Nationalised Banks -General	Cr.		45,440	

Permanent Advance

14.19 Permanent Advance refers to those advances, which are granted to the Heads of the Departments for incurring urgent expenditure, usually of a minor nature involving payments of small amounts. The Accountant shall maintain a Permanent Advance Register in KMF No 63, to record permanent advances given, expenditure incurred, amount recouped, and the balance remaining. A separate folio shall be maintained for the permanent advance given to each person. At regular intervals, the concerned officer shall prepare a Detailed Bill of Other Expenditure, and forward it along with the bills, to the Accounts Department. After verification of the bills, and obtaining Commissioner's/Chief Officer's approval, the Accounts Department shall replenish the Permanent Advance, to the extent of amount spent and approved.

Accounting of payment of Permanent Advance:

14.20 When payment of permanent advance is made to an official, the following entry shall be passed by a payment voucher:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4841	Permanent Advance	Dr.	2,500		Payment Voucher
4721	To Bank Account-Nationalised Banks-General	Cr.		2,500	

14.21 On submission of accounts by the Officer for expenses incurred periodically, the following entry shall be passed to account the expenses by a journal voucher:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
2222	Printing, Stationery & Photocopying Charges	Dr.	200		Journal Voucher
2231	Travelling & Conveyance	Dr.	150		
4841	To Permanent Advance	Cr.		350	

14.22 For replenishment of the permanent advance, the same entry as explained in 14.20, shall be passed by using a payment voucher.

Confirmation of Permanent Advance at the year end:

14.23 As per the requirement of Rule 111(5) of KMABR, 2006, at the end of each year, the Accounts Department shall obtain a confirmatory certificate from all officers to whom Permanent Advances are given, and reconcile the balances with the balance in the General Ledger and the Permanent Advance Register.

Miscellaneous Advance

14.24 Miscellaneous Advances may be given to officers of the ULB for incurring specific and urgent expenditure (one-time advance). The amount shall be debited to Advances to Employees Others (Account Code 4818), with a separate detail code for "Miscellaneous Advance". The entry for payment of miscellaneous advance shall be :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4818	Advance to employees- Others	Dr.	5,000		Payment Voucher
4721	To Bank Account-Nationalised Banks-General	Cr.		5,000	

Expenses incurred against Miscellaneous Advance given:

14.25 The concerned officer shall prepare a "Detailed Bill of Other Expenditure (KMF No 59)", and submit it to the Accounts Department, with all supporting documents such as bills, sanction order, etc., for expenditure incurred against the miscellaneous advance. The Accounts Department shall enter the bill in the Register of Bills received by Accounts Department (KMF No 23), pass the bill, and send it to Commissioner/Chief Officer's for approval. After approval by the Commissioner, the bill shall be accounted.

Accounting of expenditure incurred less than the advance:

14.26 Consider the example of a Miscellaneous Advance of Rs 5,000 granted to the Engineering Department for damage control during a flood. If the Engineering Department incurs an expenditure of Rs 3,200, the entry to be passed for accounting the expenditure shall be :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
2382	Operating Expenses-Dumping or Tipping Charges	Dr.	3,200		Journal Voucher
4818	To Advance to Employees - Others	Cr.		3,200	

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The excess cash shall be remitted by the officer to the Cashier, who shall issue a receipt (KMF No. 14), and account it through Collection Register and Chitta. During the regular course of accounting daily collection, the Accountant shall include this amount in the receipt voucher for the day. The entry for refund of the excess amount shall be:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4711	Cash in Hand	Dr.	1,800		Receipt Voucher
4818	To Advances to Employees - Others	Cr.		1,800	

Accounting of expenditure incurred more than the advance:

14.27 In the above example, if the expenditure incurred is Rs 6,000 against an advance of Rs 5,000, the entry to be passed for accounting the expenditure shall be :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
2382	Dumping or Tipping Charges	Dr.	6,000		Journal Voucher
4818	To Advances to Employees - Others	Cr.		6,000	

To pay the balance due to the official, the following entry shall be passed:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4818	To Advances to Employees - Others	Dr.	1,000		Payment Voucher
4721	To bank-Nationalised Banks -General	Cr.		1,000	

Internal Controls

14.28 In respect of 'other revenue expenditure', the concerned Department, and the Accounts Department shall ensure that :

- Budget availability with respect to the expenditure incurred at the time of accruing of the expenditure.

- The procedure for verification and approval of bills shall be diligently followed by concerned departments, with reference to relevant files.
- All contractors' claims shall be accompanied by Contractors' bills (KMF No 38), and all other bills shall be accompanied by a Detailed Bill of Other Expenditure (KMF No 59). All relevant supporting documents shall be annexed to the respective bills.
- Appropriate classification both in terms of expenditure head and the period in which the expenditure was incurred, shall be ensured, with reference to the nature of the bill and the date of the bill, respectively.
- At the time of payment to Suppliers/Contractors and any other claimants, it shall be ensured that no amount is due from them, which has to be adjusted before payment.

Table 1: Forms and Registers pertaining to Other Revenue Expenditure

Form No	Name of the Form	Due Date	Department Responsible
KMF No 21	Departmental Register of bills Received	As and when bills are received/ raised	Concerned Department
KMF No 23	Register of bills Received by the Accounts department	As and when bills are received	Accounts Department
KMF No 32	Stock Register of Ticket Books	As and when ticket books are received by the Department concerned, and issued to the concerned staff.	Revenue Department
KMF No 38	Contractor's Bill	As and when work is carried out by a contractor/service provider	Executing Department
KMF No 39	Nominal Muster Roll	As and when work is carried out departmentally.	--do--
KMF No 40	Daily Labour Report	To be prepared at the end of the day in case of departmental work.	--do--
KMF No 58	Log book for vehicles	As and when there is vehicle movement or repair	Driver
KMF No 59	Detailed Bill of Other Expenditure	As and when a claim (other than contractors' bill) has to be made	Concerned department
KMF No 60	Statement of Bills pending approval	By 7th May	Concerned department

Form No	Name of the Form	Due Date	Department Responsible
KMF No 63	Permanent Advance Register	As and when advance is given, or recoupment is made	Accounts Department
KMF No 64	Stamps Register	As when stamps are received or used.	General Department (Office Manger/ Administration Officer)
KMF No 65	Stationery Stock Register	As when stationery stock is received, and stationery issued on the basis of indents.	--do--

Table 2: Entries pertaining to Other Revenue Expenditure

Transaction Type	Account to be debited		Account to be credited		Voucher to be prepared
	Account Code	Account Head	Account Code	Account Head	
Approved bill for outsourced SWM service	2391	Outsourced SWM Expenses	3812	Creditors-Contractors Payable (...Contractor)	Journal Voucher
			3845\ 3847	Recoveries Payable-Tax Deducted-Contractors\ Recoveries Payable- Other Deductions from Contractors	
			3712	Security Deposit\ Retention Money from Contractors and suppliers	
Purchase of Street Lighting Material	4514	General Stores-Lighting related Stores	3811	Creditors-suppliers' Payable	Journal Voucher
Approved bill for Professional Charges (Say auditor's bill)	2253	Professional Fees	3813	Creditors-Expenses Payable	Journal Voucher
			3846	Recoveries Payable-Tax Deducted-Others	
Payment of the above professional charges bill	3813	Creditors-Expenses Payable	4721	Bank Account-Nationalised Banks-General	Payment Voucher

Transaction Type	Account to be debited		Account to be credited		Voucher to be prepared
	Account Code	Account Head	Account Code	Account Head	
Payment on account of prepaid expenditure	4881	Prepaid Expenses	4721	Bank Account-Nationalised Banks-General	Payment Voucher
Adjustment of prepaid expenditure when it is actually due	2213	Insurance	4881	Prepaid Expenses	Journal Voucher
Making year-end provisions for expenses	2392	Outsource Street Lighting Expenses	3918	Provision for Expenses-Others	Journal Voucher
	2253	Professional Fees			
	2268	Advertisement & Publicity Expenses			
Reversal of provisions made as above, at the beginning of the subsequent year	3918	Provision for Expenses-Others	2392	Outsource Street Lighting Expenses	Journal voucher
			2253	Professional Fees	
			2268	Advertisement & Publicity Expenses	
Payment of permanent advance	4841	Permanent Advance	4721	Bank Account-Nationalised Banks-General	Payment Voucher
Accounting of expenditure out of permanent advance	2231	Travelling Expenses	4841	Permanent Advance	Journal Voucher
	2222	Printing, Stationery and Photocopying Charges			

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Transaction Type	Account to be debited		Account to be credited		Voucher to be prepared
	Account Code	Account Head	Account Code	Account Head	
	2278	Office Expenses- Others			
Replenishment of Permanent Advance	4841	Permanent Advance	4721	Bank Account- Nationalised Banks-General	Payment Voucher

CHAPTER
15

GRANTS

Grants

15.1 ULBs receive a significant portion of their resources in the form of Grants. The grants may be received with specific terms and conditions about the usage of the funds, or they may be received without any pre-conditions attached. Depending on whether the grants are received for specific purposes, or not, they are classified into General Grants and Specific Grants.

Specific Grants:

15.2 Rule 2(19) of KMABR, 2006, defines a specific grant as 'a grant given for a specific purpose, or use in a particular manner or proportion as per the terms and conditions of the grant'. It requires submission of a periodical utilisation certificate, and is recoverable from the ULB, if not used according to the conditions attached. Swarna Jayanti Shahri Rozgaar Yojana (SJSRY), Malaria Grant, MP Local Area Development Scheme (MPLADS), etc., are examples of specific grants.

General Grants:

15.3 Rule 2(20) of KMABR, 2006, defines a 'General Grant' as a grant which has no conditions attached to its usage. It includes a grant which can be used for other purposes, if the conditions or purposes for which it is received are met or paid out of municipal funds. Examples of such grants are Devolution Grant under the State Finance Commission (SFC Grant), Development Grant, etc.

Accounting Policies

15.4 The following Accounting Policies shall govern the accounting of transactions relating to Grants:

- a. A general grant shall be recorded as 'income' on receipt. At the end of the year, if a sanction order has been received, and the amount is ascertained, the amount sanctioned shall be accounted as income, and also as "Receivable from Government".

- b. A specific grant shall be accounted as a liability on receipt. At the end of the year, if a sanction order has been received, and the amount is ascertained, the amount sanctioned shall be accounted as a liability, and also as “Receivable from Government”.
- c. To the extent a specific grant is used for revenue expenditure, it shall be treated as income, and transferred to a separate income head meant for this purpose. If the amount is used for capital expenditure, the amount of the grant shall be treated as “deferred income”, and shall be allocated to income in proportion to depreciation charged on the fixed asset created out of the grant.
- d. Grants received or receivable as reimbursement of specific expenditure shall be recognised as income in the accounting period in which the corresponding revenue expenditure is charged to the Income and Expenditure Account.
- e. In case any deductions for ULB dues such as loan installments, interest on such loans, electricity charges, etc., are made by the Government from a grant sanctioned to the ULB, the gross amount sanctioned shall be accounted as grant, and the amounts deducted shall be adjusted against the dues in the books of account of the ULB.

Forms and Registers

Grant Register (KMF No 35):

15.5 A Grant Register in KMF No 35 shall be maintained by the Accounts Department to record details of each specific grant received, payments made from the specific Grant, unutilized grant amount, refund of unutilised grant, etc. A separate page shall be maintained for each grant. The Grant Register shall be reconciled with the Grant account in the General Ledger on a monthly basis. The balance in the designated bank account also shall be reconciled with the unutilised grant on a monthly basis.

Accounting Procedures and Entries

Identification of “Fund”:

15.6 General grants shall be recorded in the General Fund. Specific grants shall also be recorded in the General Fund, unless the purpose for which the grant is received pertains specifically either to Water Supply or for Commercial Activity, in which case it will be recorded in the Water Supply & Sewerage Fund or the Enterprise Fund, respectively.

Accounting of General Grants

Receipt of grant

Chapter 15 - Grants

15.7 As there are no conditions imposed by the Government for utilising a general grant, the amount is treated as part of the ULB's income, using an appropriate income code.

15.8 The grant may be received either by way of a cheque, or by credit to the Treasury account. In the former case, the grant received shall be recorded in KMF No 19, and in the latter case, it shall be accounted in KMF No 20. For receipt of SFC Salary grant by way of a cheque, the following entry shall be passed :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4712	Cheques in Hand Account	Dr.	2,28,000		Receipt Voucher
1611	To Grants Received - SFC Salary Grants	Cr.		2,28,000	

Note: In case of credit to Treasury account, the account Treasury Account-Salaries & Other Tied Grants (4742) shall be debited instead of the Cheques in Hand Account.

Deduction of ULB dues from grants

15.9 The Government may adjust any dues from the ULB such as loan installment or interest, electricity charges, etc., from the grant sanctioned to the ULB. In the above example, assume that the grant received is after deduction of Rs 45,000 towards KEB dues for electricity charges in respect of street lighting, Rs 60,000 towards loan installment, and Rs 36,000 towards interest on such a loan. Then, the amounts deducted shall be added to the grant income on one hand, and at the same time, accounted as expenses, loan repayment, etc. As per the details of the deductions in the government order sanctioning the grant, the Accounts Department shall prepare a journal voucher and pass the following entry :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
2311	Electricity Charges - for Street Lighting, Traffic Signals etc	Dr.	45,000		Journal Voucher
3628	Unsecured Loans from State Government-Others	Dr.	60,000		
3832	Interest Accrued and Due on Loans from State Government	Dr.	36,000		
1611	To Grants Received - SFC Salary Grants	Cr.		1,41,000	

Utilisation of grant

15.10 There is no special treatment to be made in case of utilisation of general grants. No separate bank account needs to be maintained, and expenditure out of the amount received shall be accounted in the same manner as other expenditure.

SFC Salary Grant:

15.11 This is a grant received by the ULB from the government which is meant for payment of salary to the ULB staff. This grant is normally credited to the treasury account of the ULB. Salary may be paid either by issuing a cheque for the total net salary as explained in Chapter 12 - Employee related Transactions, or by transferring the amount required for payment of salary to the main bank account of the ULB, and using it for salary payment. In either case, the grant shall be accounted as income, in the General Fund, and the treasury account where it is received is also maintained in General Fund. Inter-fund transfer entry shall be passed, to the extent of salary pertaining to Water Supply and Sewerage Fund, or Enterprise Fund.

Accounting Of Specific Grants

Receipt of grant

15.12 Specific Grants received shall be treated as a liability on receipt, and remitted to the bank account opened specifically for the grant. The entry for receipt of a specific grant shall be as follows:

a. Entry for receiving the cheque :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4712	Cheque in Hand Account	Dr.	5,00,000		Receipt Voucher
3411**	To Grants & Contributions for Specific Purposes from Central Government- Schemes / Programmes	Cr.		5,00,000	

Note: ** A separate detail code shall be used for each specific grant.

b. Entry for depositing the cheque in the specific grant bank account :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4724	Bank Account-Nationalised Banks- Specific Grant	Dr.	5,00,000		Contra Voucher
4712	To Cheque in Hand Account	Cr.		5,00,000	

Utilisation of Grant

15.13 Depending on the purpose for which a specific grant is sanctioned, expenditure out of a specific grant may be in the nature of capital works, purchase of a fixed asset, repair/ maintenance works, or any other revenue expenditure.

Transfers from specific grant (liability) account on utilisation

15.14 Sub-rules (2) and (3) of Rule 72(3) of KMABR, 2006, prescribes transfer entries to be passed at the end of every month, for utilisation of a specific grant for capital and revenue expenditure. The balance in a “Specific Grant” account represents unutilised amount of grant. The transfer entries to be passed are explained in the paragraphs below :

Utilisation of specific grant for revenue expenditure:

15.15 At the end of every month, the total revenue expenditure incurred from each specific grant shall be computed from the Grant Register, and also from the Specific Grant bank account, and an equivalent amount shall be transferred to income, by passing an entry debiting the relevant 'Specific Grant' Account, and crediting the “Transfer from Specific Grants (Liability) in respect of Revenue Expenditure incurred” Account (Account code 1658).

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
3411	Grants & Contributions for Specific Purposes from Central Government-Schemes /Programmes	Dr.	3,00,000		Journal Voucher
1658	To Transfer from Specific Grants (Liability) in respect of Revenue Expenditure incurred	Cr.		3,00,000	

Utilisation of specific grant for capital expenditure:

15.16 At the end of every month, the total capital expenditure incurred out of each specific grant shall be computed from the Grant Register, and also from the Specific Grant bank account, and an amount equivalent to the amount of capital expenditure incurred shall be transferred from the 'Specific Grant' account to 'Deferred Income' (Account code 3491). For example, in case of the SJSRY grant used for construction of a building, the Accounts Department shall pass the following entry by journal voucher:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
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Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
3411	Grants & Contributions for Specific Purposes from Central Government-Schemes/Programmes	Dr.	3,00,000		Journal Voucher
3491	To Deferred Income in respect of Assets created out of Grants & Contributions	Cr.		3,00,000	

15.17 The balance in the specific Grant account after the above transfer entries, shall represent the unutilized grant amount, and shall be reconciled with the specific grant bank account.

Transfer from 'Deferred Income' to Income

15.18 “Deferred Income (Account Code 3491)” represents the amount of grant utilised for capital expenditure. From this account, amount proportionate to the depreciation charged on the asset created, shall be transferred to the income account “Transfer from Deferred Income in respect of assets purchased out of Specific Grants” Account (Account code 1648). This transfer shall start from the year in which the asset is capitalised, and continue every year, till the entire amount of “Deferred Income” created for the asset is fully transferred, or in other words, till the asset is fully depreciated. Therefore, it is necessary to identify deferred income in respect of each specific grant, with the asset that is created out of the specific grant. This can be achieved by maintaining separate detail codes for deferred income in respect of each asset.

15.19 Example: A sewerage plant (Plant No II) was installed at a cost of Rs 30 lakhs. 60% of the cost of the plant was met out of a specific grant, and 40% out of municipal funds. In the first year, the value of work carried out was Rs 20,00,000. The work was completed in the second year (before 30th September).

15.20 So, in the first year, an amount of Rs 12,00,000 shall be transferred to “Deferred Income” as explained above, by passing monthly journal entries. In the second year, an amount of Rs 6,00,000 shall be transferred in a similar fashion. Thus, the balance in the “Deferred Income” account on completion of construction shall be Rs 18,00,000. The entry to be passed for capitalization of the Asset shall be :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4142	Sewerage related Plant & Machinery including STPs	Dr.	30,00,000		Journal Voucher
4342	To CWIP-Sewerage related Plant & Machinery including STPs	Cr.		30,00,000	

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15.21 At the end of the year, an entry shall be passed for depreciation on the assets of the ULB, as prescribed in Chapter 19 Fixed Assets. The prescribed estimated useful life of a sewerage related plant & machinery is '10 years' which means that depreciation has to be charged on the plant at 10% p.a. (i.e. Rs 3 lakhs-full depreciation shall be charged in the first year, since construction is completed before 1st October)).

15.22 Transfer from “Deferred Income” to “Income”: The amount of deferred income (Rs 18,00,000) shall also be treated as income in the same proportion as depreciation i.e. at 10% every year. The balance in the account will become nil in ten years. The entry to be passed for such a transfer shall be :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
3491	Deferred Income in respect of Assets created out of Grants & Contributions	Dr.	1,80,000		Journal Voucher
1648	Transfer from Deferred Income in respect of assets purchased out of Specific Grants-Others	Cr.		1,80,000	

Note: Separate detail codes shall be used with 3491 for each class of asset created out of specific grants.

15.23 The work sheets for calculation of depreciation shall have the details of transfer to and from deferred income, and also the balance amount in “Deferred Income” account. The balance in Account code 3491-01 will become nil in ten years.

Repayment of Unutilised Grants

15.24 Grants are normally to be utilised within a period specified in the Grant Sanction order and there will be no refund. However, generally the grants shall be refunded in the following circumstances:

- On expiry of the period for utilisation of the grant as per sanction order.
- The total amount utilised out of the grant is lesser than the amount of the grant received as per conditions.

The accounts department shall pass the following entry by a payment voucher;

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
3411	Grants & Contributions for Specific Purposes from Central Government-Schemes /Programmes	Dr.	1,00,000		Payment Voucher

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4724	To Bank Account-Nationalised Banks-Specific Grants	Cr.		1,00,000	Payment Voucher

Grants Received as Reimbursement of Expenditure incurred by the ULB

15.25 Grants received as reimbursement of expenditures shall be treated as income, and accounted in the following manner:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4721	Bank Account-Nationalised Banks-General	Dr.	45,000		Receipt Voucher
1621	To Grants received for Reimbursement of Expenses - Census Grant	Cr.		45,000	

Grants Received in kind

15.26 Where the ULB receives a 'grant in kind' in the form of an asset, say land, the value of such an asset shall be recognised at a nominal value of Re.1. The Accountant, on receiving details of the asset, shall pass the following entry to record the transaction :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4118	Land-Others	Dr.	1		Journal Voucher
3111	To - Municipal Fund-Fund Balance	Cr.		1	

Treatment of recoveries from contractors' bills:

15.27 In case of public works (either repair works or capital works) carried out by contractors, there will be recoveries towards income tax deducted at source, works contract tax, EMD and Security Deposit etc. In the case of statutory recoveries such as income tax deducted at source, works contract tax, etc., the ULB normally issues a consolidated cheque on the due date, from the main bank account. Refund of EMD and Security Deposit is also done in due course, from the main bank account. On accounting of such bills, the amounts equivalent to the recoveries shall be transferred from the specific grant bank account to general bank account. The entry for such transfer shall be:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4721	Bank Account - Nationalised Banks - General	Dr.	1,000		Contra Voucher
4724	To Bank Account-Nationalised Banks-Specific Grants	Cr.		1,000	

Grants Received under Central/State Government Schemes

15.28 ULBs may receive some grants under certain schemes designed for the benefit of a set of beneficiaries. In some cases, the scheme expenditure is met by the ULB directly. In some other cases, they are paid to the beneficiaries group who, upon spending, will produce the relevant expenditure / utilisation statement to the ULBs. Examples of such grants are Swarna Jayanthi Shahari Rojga Yojana (SJSRY), Infrastructure Development Scheme for Small and Medium Towns (IDSMT) Scheme, etc. The accounting treatment for grants received, and expenditure incurred shall be the same as in the case of other specific grants.

Swarna Jayanthi Shahari Rojga Yojana (SJSRY):

The Scheme: The SJSRY is a centrally sponsored scheme which came into effect from 1.12.1997, to provide gainful employment to the urban poor. It has two key components, namely, "Urban Self-employment Programme (USEP)", and "Urban Wage employment Programme (UWEP)". The sub-components of these key components are :

Urban Self-employment Programme (USEP):

- Micro Enterprises (ME) Loan and subsidy facility to unemployed persons of BPL family. (Loan will be paid by the Bank, and subsidy will be paid by the ULB).
- Development of Women and Children in Urban Area (DWACUA) Payment of subsidy to groups of women to set up self-employment ventures.
- Thrift and Credit Groups (TCG) Lump sum grant to Thrift and Credit (Self-help) groups of women to create a revolving fund.
- Training of beneficiaries.
- Community Structure Component (CSC) Child health, nutrition, hygiene, medical help to women, aged, etc.

Urban Wage employment Programme (UWEP): Creating urban wage employment to members of BPL Group in urban infrastructure works such as roads, drainages, community halls, etc.

15.30 Accounting treatment: The grant received shall be deposited in a separate bank account, and credited to the Specific Grant (Liability) account in the books of account of the General Fund,

with a separate detail code. Revenue expenditure such as subsidy, grant to self-help groups, training, expenditure on CSC, etc., shall be accounted as Programme Expenses (with separate detail code for SJSRY) on payment out of the SJSRY Bank account. Cost of assets created, if any, including wages paid to unemployed persons shall be debited to capital work-in-progress, and capitalised on completion of work. Transfer from the Specific Grant account to 'income' or 'deferred income' accounts shall be done as explained in Paragraphs 15.19 and 15.20 respectively.

Infrastructure Development Scheme for Small and Medium Towns (IDSMT) Scheme:

15.31 The Scheme: The objectives of the IDSMT Scheme initiated in 1979-80, is to slow down migration from rural areas and small towns to larger cities by the development of selected small and medium towns which are capable of generating economic growth and employment.

Examples of activities under IDSMT are :

- Strengthening master plan road facilities including ring roads, arterial, bypass/link roads and small bridges
- Development of bus/truck terminals
- Construction/upgradation of master plan drains including storm water channels
- Solid Waste Management
- Development of markets and commercial complexes
- Development of parks
- Street lighting
- Slaughter houses
- Major public amenities like gardens, playgrounds, marriage halls, pay and use toilets, etc.,
- Traffic improvement and management schemes

15.32 Accounting treatment: The fixed assets created under IDSMT shall be capitalised. Activities like construction and maintenance of a commercial complex, and generating revenue out of it shall be accounted under Enterprise Fund, if the objective of the activity is to generate surplus, or at least cover costs. The grant received shall be accounted as a liability, and amount equivalent to expenditure incurred shall be transferred to 'income' or 'deferred income' depending on whether the expenditure incurred is revenue expenditure, or capital expenditure, as explained in Paragraphs 15.15 and 15.16 respectively.

Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT):

15.33 The Scheme: The duration of this Scheme is a period of seven years, starting from 2005-06. The objectives of the Scheme are to :

- i) Improve infrastructural facilities and help create durable public assets and quality-

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oriented services in cities and towns

- ii) Enhance public-private partnership in infrastructural development and
- iii) Promote planned, integrated development of towns and cities

15.34 The components of the Scheme are :

- i) Urban renewal or re-development of old (inner) city areas, including widening of narrow streets, shifting of industrial/commercial establishments, to outer city areas to reduce congestion, replacement of old and worn out water pipes, renewal of sewerage/drainage/solid waste disposal systems, etc.,
- ii) Sewerage and Solid Waste Management
- iii) Construction and improvement of drains/storm water drains
- iv) Construction/upgradation of roads/highways/express ways
- v) Parking lots/spaces on public-private partnership basis
- vi) Development of heritage areas
- vii) Prevention and rehabilitation of soil/erosion/landslides in States where such problems are common
- viii) Preservation of water bodies

15.35 Financing pattern: Financing shall be done in the ratio of 80:10:10 (80% is the share of the Central Government, 10% each will be the share of the State government, and of the ULBs). The Nodal Agency (DMA) will release 90% of the total Scheme Funds as soft loan, or grant-cum-loan, or as a grant. ULBs shall open a separate bank account in a commercial bank for each project. They shall also maintain separate registers for utilisation of funds separately for Central and State share, and for loans from financial institutions.

15.36 Accounting Treatment: The grant component of the Scheme fund shall be accounted as a specific grant, and expenditure out of it shall be accounted in the same manner as prescribed for any other ULB expenditure. On monthly basis, total expenditure under the Scheme shall be worked out from the Grant Register, and the Specific Grant bank account. The expenditure shall be appropriated to the different components of the scheme fund (Grant/loan and ULB contribution) proportionately as per the terms of the Scheme. Transfer entries as prescribed in 15.16 above shall be passed for expenditure appropriated to the grant component.

Local body Grants recommended by the Twelfth Finance Commission:

15.37 The Scheme: The Twelfth Finance Commission (TFC) has recommended grants amounting to Rs 25,000 crores payable during the period 2005-10 (Rs 20,000 crores to Panchayats, and Rs 5,000 crores for Municipalities). TFC felt that the grants shall be used to improve service delivery by ULBs in the areas of water supply and sanitation, with priority for expenditure on O&M costs of water supply and sanitation. At least 50% of the grant shall be ear-

marked for solid waste management through public-private partnership. The cost of collection, segregation, and transportation of solid waste, whether carried out in-house, or outsourced, could be met from the grants.

15.38 Accounting treatment: The amounts of 'Local Bodies Grant' (or 'Twelfth Finance Commission Grant' as it is generally referred to, and utilisation of amounts for specified purposes are subject to certification and audit. Therefore, as per the definition in Rule 2(19), it shall be considered as a specific grant, and the accounting treatment explained in Paragraphs 15.15 to 15.22 shall be applicable. The Grant shall be accounted in the books of account of General Fund, and an 'inter-fund transfer entry' shall be passed in respect of expenditure pertaining to water supply and sewerage.

Internal Controls

15.39 The following internal controls shall be observed by the ULB in respect of transactions related to Grants:

- The Accounts Department shall ensure that the grant received for a specific purpose shall not be utilised for any other purpose.
- Grant register (KMF No 35) shall be maintained, and regularly updated by the Accounts Department.
- The Accounts Department and the Department implementing the project/scheme sponsored by the grant shall carry out monthly reconciliation of the expenditure incurred during the period in respect of each of the grant from the General Ledger and the Grant Register maintained by the Accounts Department.
- The unutilised grant shall be reconciled with the balance in the designated bank account on monthly basis.

Table 1: Forms and Registers pertaining to Grants

Form No	Name of the Form	Due Date	Department Responsible
KMF No 35	Grant Register	As and when a grant is received, or a payment is made out of grant funds	Accounts Department, and the concerned Department

Table 2: Entries pertaining to Grant- related transactions

Transaction Type	Account to be debited		Account to be credited		Voucher to be prepared
	Account Code	Account Head	Account Code	Account Head	
Receipt of Grant, transfer to Specific Grant Bank Account etc :					
Receipt of General Grant (say SFC salary grant)	4741	Treasury Account - General	1611	Grants received - SFC Salary Grants	Receipt voucher
Transfer of specific grant received to a separate specific grant bank account	4724	Bank Account - Nationalised Banks - Specific Grants	4741	Treasury Account - General	Contra voucher
Receipt of EMD under a contract for capital work out of specific grant funds	4724	Bank Account - Nationalised Banks - Specific Grants	3711	EMD from Contractors / Suppliers	Receipt voucher

Transaction Type	Account to be debited		Account to be credited		Voucher to be prepared
	Account Code	Account Head	Account Code	Account Head	
Capital Expenditure out of specific grant :					
Accounting of a contractor's bill for capital work under a specific grant (say for Road development)	4331	CWIP-Roads, Pavements and Footpaths	3812	Creditors - Contractors Payable	Journal Voucher
			3845	Recoveries Payable - Tax Deducted - Contractors	
			3712	Security Deposits / Retention Money from Contractors and Suppliers	
Payment of contractor's bill	3812	Creditors - Contractors Payable	4724	Bank Account - Nationalised Banks - Specific Grants	Payment voucher
Remittance of total TDS recoveries for the month to appropriate authorities, from the main bank account of the ULB	3845	Recoveries Payable - Tax Deducted - Contractors	4721	Bank Account - Nationalised Banks - General	--do--
Transfer of amount equivalent to TDS from Specific Grant bank account to main bank account	4721	Bank Account - Nationalised Banks - General	4724	Bank Account - Nationalised Banks - Specific Grants	Contra Voucher

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Transaction Type	Account to be debited		Account to be credited		Voucher to be prepared
	Account Code	Account Head	Account Code	Account Head	
Transfer of amount equivalent to capital expenditure out of specific grant to 'Deferred Income'	3411	Grants & Contributions for Specific Purposes from Central Government-Schemes / Programmes ⁱ	3491	Deferred Income in respect of Assets created out of Grants & Contributions	Journal Voucher
Transfer from 'Deferred Income' to 'Income' in proportion to depreciation on the fixed asset.	3491	Deferred Income in respect of Assets created out of Grants & Contributions	1648	Transfer from Deferred Income in respect of assets purchased out of Specific Grants-Others	Journal Voucher
Revenue Expenditure out of specific grant :					
Expenditure for a programme under specific grant	2528	Programme Expenses	4724	Bank Account - Nationalised Banks - Specific Grants	Payment voucher
Transfer of equivalent from specific grant to 'Income'	3411	Grants & Contributions for Specific Purposes from Central Government-Schemes / Programmes	1658	Transfer from Specific Grants (Liability) in respect of Revenue Expenditure incurred	Journal Voucher

Transaction Type	Account to be debited		Account to be credited		Voucher to be prepared
	Account Code	Account Head	Account Code	Account Head	
Grant in the form of reimbursement of expenditure:					
Grant in the form of reimbursement of expenditure after the expenditure is incurred	4724	Bank Account - Nationalised Banks - Specific Grants	1628	Grants received for Reimbursement of Expenses - Others	Receipt voucher
Mixed funding of a project with grant, loan and ULB contribution components :					
Receipt of grant from the State Government in treasury account	4744	Treasury Account - Specific Grant	3421	Grants & Contributions for Specific Purposes from State Government - Schemes / Programmes	Receipt voucher
Receipt of loan from the State Government in treasury account	4744	Treasury Account - Specific Grant	3628	Unsecured Loans from State Government - Others	Receipt voucher
Transfer of grant and loan amount to a separate bank account for the Scheme	4724	Bank Account - Nationalised Banks - Specific Grants	4744	Treasury Account - Specific Grant	Contra voucher

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Transaction Type	Account to be debited		Account to be credited		Voucher to be prepared
	Account Code	Account Head	Account Code	Account Head	
Transfer of ULB contribution to the same account	4724	Bank Account - Nationalised Banks - Specific Grants	4721	Bank Account - Nationalised Banks - General	Contra voucher
Scheme expenditure	Appropriate account (Creditor's contractors' Payable/recoveries payable/ revenue expenditure/CWIP etc		4724	Bank Account - Nationalised Banks - Specific Grants	Payment voucher
Repayment of loan	3628	Unsecured Loans from State Government - Others	4721	Bank Account - Nationalised Banks - General ⁱⁱ	Payment voucher
Transfer of amount equivalent to revenue expenditure to "Income"	3411	Grants & Contributions for Specific Purposes from Central Government-Schemes / Programmes ⁱⁱⁱ	1658	Transfer from specific Grant (Liability) in respect of Revenue Expenditure incurred	Journal Voucher
Transfer of amount equivalent to capital expenditure to "Deferred Income"	3411	Grants & Contributions for Specific Purposes from Central Government-Schemes / Programmes ^{iv}	3491	Deferred Income in respect of Assets created out of Grants & Contributions	Journal Voucher

- i Transfer Entry shall be passed for the gross amount of grant utilised for capital expenditure.*
- ii Repayment shall be made from the General bank account of the ULB, and not from the Scheme bank account.*
- iii Transfer Entry shall be passed for the gross amount of grant utilised for revenue expenditure.*
- iv Transfer Entry shall be passed for the gross amount of grant utilised for capital expenditure.*

CHAPTER
16

BORROWINGS

Borrowings

16.1 The ULB may borrow funds, on sanction by the Government, either by issuing bonds, or otherwise, for the purposes specified in the approval. These borrowings are generally secured by the guarantee of the Government. Unless specifically approved by the Government, the loans cannot be used for any purpose other than that specified in the approval.

16.2 Under section 86 of the Act, the ULB may, after passing a resolution at a special general meeting of the Council, with the previous sanction of the Government, and subject to such terms as may be prescribed by the Government, borrow either from the Government or from any Bank, Corporation or Financial Institution or in the open market by way of loans or bonds or debentures for the purpose of:

- a. Constructing any work of a permanent nature which it is required or empowered to undertake under the provisions of the Act or
- b. Acquisition of land

16.3 If the terms of the loan or bonds provide for the establishment of a sinking fund for the repayment of the loan, the ULB shall establish it and credit to it, on a periodical basis, funds from the Municipal Fund. Similarly, if the terms of the loan provide for creation of an escrow account, the ULB shall create it and credit to it, the income earmarked for this. The purpose of establishment of a sinking fund or an escrow account is to accumulate money adequate to repay the loan as per the repayment schedule.

Accounting Policies

16.4 The following Accounting policies shall govern the accounting of transactions relating to Borrowings :

- a. A borrowing against the security of tangible asset or assets shall be considered as a secured loan, and a borrowing without the security of any tangible asset or assets shall be considered as an unsecured loan.

- b. Expenses incurred on raising loans shall be treated as “Deferred Revenue Expenditure”, and shall be charged off as expenses in equal installments over a period of five years, or over the tenure of the loan, whichever is lower.
- c. Interest on borrowings shall be recognised on accrual basis, and unpaid interest shall be treated as a liability.
- d. Interest that is due for payment, but remaining unpaid at the year-end shall be credited to 'interest accrued and due'.
- e. Interest pertaining to the year, but the due date for payment of which is in the subsequent year, shall be credited to 'interest accrued but not due'. This amount shall be reversed at the beginning of the next year.
- f. The interest up to the date of commissioning of the asset shall be capitalised.

Forms and Registers

Register of Loans (KMF No 71)

16.5 A Register of Loans shall be maintained by the Accounts Department, with a separate page for each loan. Full particulars of the loan received, repayment of loan, interest due and paid, etc., shall be regularly noted in the Register. In cases where the loan amount is received in installments, each installment is recorded as and when it is taken.

Register of Sinking Funds for Repayment of Loans (KMF No 72)

16.6 If the terms and conditions of the loan require maintenance of a sinking fund for repayment of the loan, a Register shall be maintained in KMF No 72 for this purpose, giving the details of amounts transferred to the sinking fund from time to time, investment of the amount in the sinking fund, interest earned on such an investment, utilisation of the amount for repayment of loan, etc.

Accounting Procedures and Entries

16.7 On receipt of the loan, or proceeds of a Bond issue, the Accounts Department shall pass the following entries:

- a. In cases where Bonds have been issued for raising funds :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4712	Cheques in Hand Account	Dr.	10,00,000		Receipt Voucher
3578/ 3678*	Secured/ Unsecured Bonds & Debentures-Others	Cr.		10,00,000	

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b. In cases where loans are received from the Government:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4712	Cheques in Hand Account	Dr.	10,00,000		Receipt Voucher
3528/ 3628*	To Secured/Unsecured Loans from State Government - Others	Cr.		10,00,000	

Note: 1) Appropriate account code & account head shall be used, depending on whether the bond/loan is secured or unsecured. 2) In case the loan amount is credited to the Treasury Account, the Treasury Account shall be debited, instead of the Cheque in Hand Account.

16.8 Rule 120 of KMABR, 2006, has prescribed that a loan for a specific purpose shall be kept in a separate bank account. The Loan received shall be deposited in a separate bank account through a contra voucher, and the amount shall be utilized for the specific purpose for which the loan is sanctioned.

Accounting Of Interest and Loan Instalments

Accounting of interest accrued and due:

16.9 Interest on a loan falls due on periodical intervals, as per the terms and conditions of the loan agreement. On the due dates for payment of interest, the Accounts Department shall pass the following entry to account the interest that has fallen due:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
2428	Interest on Loans from State Government	Dr.	54,000		Journal Voucher
3832	To Interest accrued & due on Loans from State Government	Cr.		54,000	

Payment of interest due:

16.10 When the interest that has fallen due is paid, the entry to be passed shall be :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
3832	Interest accrued & due on Loans from State Government	Dr.	54,000		Payment Voucher

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4721	To Bank Account-Nationalised Banks-General	Cr.		54,000	Payment Voucher

Interest accrued but not due:

16.11 If the due date for interest does not coincide with the last date of the year, the interest for the period from the last due date for interest payment, till the year end shall be “interest accrued but not due” and a provisional entry shall be passed for the same. The provisional entry shall be :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
2428	Interest on Loans from State Government	Dr.	15,000		Payment Voucher
3928	To Provision for Interest accrued but not due - Others	Cr.		15,000	

Reversal of interest provision in the next year

16.12 At the beginning of the next year, the provision entry made at the end of the previous accounting year shall be reversed by passing the following entry:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
3928	Provision for Interest accrued but not due - Others	Dr.	15,000		Journal Voucher
2428	To Interest on Loans from State Government	Cr.		15,000	

16.13 Accounting of interest accrued and due, and payment thereof in the subsequent year, shall be done in the same manner as explained in explained in Paragraphs 16.9 and 16.10 above.

Repayment of loan installment on due dates:

16.14 For repayment of installment of the loan on due dates, the Accounts Department shall make the following entries in the payment voucher :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
3528/ 3628*	Secured/Unsecured Loans from State Government-Others	Dr.	50,000		Payment Voucher
4721	To Bank Account-Nationalised Banks-General	Cr.		50,000	

Note: Appropriate account code & account head shall be used, depending on whether the bond/loan is secured or unsecured.

Sinking Fund for Repayment of Loan/ Bonds

16.15 If the terms and conditions of the loan provide for establishment of a sinking fund for redemption of the loan, the ULB shall create a “sinking fund for loan repayment” and periodically transfer funds to it from the Municipal Fund. A separate bank account shall be maintained for such a fund, and equivalent amounts shall be transferred from the main bank account of the ULB, to this account. On the due date for redemption of the loan, payment shall be made from the sinking fund bank account. Balance, if any, in the sinking fund account, and the sinking fund bank account shall be transferred to the Municipal Fund and its main bank account respectively, which will have the effect of closing the sinking fund. The entries pertaining to the sinking fund for loan repayment are given in Table 2.

Escrow Account for Repayment/Redemption of Loan/bonds:

Transfer to Escrow Account: Where the terms of sanction for raising loans or issuing Bonds provide for the establishment of an Escrow account, the stipulated percentage of revenue earned from the asset created shall be transferred to the Escrow account. For example, if a loan has been taken for creating water supply infrastructure, and the terms of sanction of the loan stipulates that 30% of water charges collected shall be deposited to Escrow Account, the ULB shall deposit 30% of its daily water charges collection to the Escrow account, and 70% to the main operating bank account. In such a case, a separate bank account shall be maintained to serve as an Escrow Bank Account, where 30% of the daily water charges shall be remitted. The balance in this bank account shall be used only for the purpose of repayment of loan, and payment of interest.

Repayment of loans/bonds, and payment of interest from Escrow Account:

16.16 Entries for repayment of loan and payment of interest from the Escrow Account shall be the same as explained in Paragraphs 16.10 and 16.14 above, the only difference being that, the payment will be out of the Escrow Bank Account instead of the Main Bank Account.

Accounting for Expenditure Incurred in Raising Loans or Issuing Bonds

Loan Issue Expenses:

16.17 The ULB may incur expenses such as credit rating fees, security creation fees, stamp duty, etc., at the time of raising Loans or issuing Bonds. These expenses shall be deferred and shall be classified as Loan Issue Expenses. On payment of such expenses, the Accounts Department shall pass the following entry:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4911	Loan Issue Expenses Deferred	Dr.	50,000		Payment Voucher
4721	To Bank Account - Nationalised Banks - General	Cr.		50,000	

Amortisation of Loan Issue Expenses:

16.18 The Loan Issue Expenses shall be amortised in equal installments over a period of 5 years or the tenure of the loan, whichever is lower. For instance, issue expenses of Rs. 50,000 incurred for raising a loan shall be amortised over a period of 5 years in equal installments of Rs. 10,000/- . The entry for such amortisation shall be:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
2651	Miscellaneous Expenditure written off-Loan Issue Expenses	Dr.	10,000		Journal Voucher
4911	To Loan Issue Expenses - Deferred	Cr.		10,000	

Write-off of loan issue expenses in case of pre-mature redemption of loan/bond:

16.19 In case the loans or bonds are redeemed prematurely, the balance outstanding in the loan issue expenses shall be written-off during the year in which the prepayment or premature redemption has been made.

Delegated loan

16.20 As per Rule 73(b) (1) of KMABR, 2006, a delegated loan is a 'loan raised by any Agency including a Government Agency on behalf of the Municipality, for capital works. The amount of the loan raised is utilised by the Agency for construction, or creation of a fixed asset for the ULB.

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The work carried out by the Agency out of the proceeds of the 'delegated loan' is called a "Delegated Loan Work".

16.21 The entries for raising of delegated loans are prescribed in Chapter 10 Public Works.

16.22 The accounting system for accounting of interest on a delegated loan on due dates, and payment of loan installments and interest is the same as for other loans prescribed in this Chapter.

Internal Controls

The following internal controls shall be observed by the ULB in respect of transactions, related to Borrowings:

- The Commissioner/Chief Officer shall verify the sinking fund account, sinking fund bank account, and sinking fund investments with the Register of Fund, Register of Investments, and the original investment documents, on a quarterly basis.
- The Commissioner/Chief Officer shall monitor the funds borrowed and ensure proper utilisation of them.
- The Accounts Department shall ensure that the present value of the sinking fund investment ties up with the value of the Fund as per the State Government's sanction. If any mismatch is observed, the adequate funds shall be transferred from the Main Bank Account to the Sinking Fund Bank Account.
- The Accounts Department shall ensure that the transfers to the escrow account, out of income collected, are as per the conditions of borrowings.

Table 1: Forms and Registers pertaining to borrowings by ULBs

Form No	Name of the Form	Due Date	Department Responsible
KMF No 66	Register of Investments for Sinking Fund Investments	As and when any investment is made, interest is received, or investment has realised.	Accounts Department
KMF No 71	Register of Loans	As and when a loan is received, and interest and instalments are paid or payable.	--do--
KMF No 72	Register of Sinking Funds for Repayment of Loans	As and when transfers are made to the Sinking fund, investments are made out of the Sinking Fund, and the Sinking Funds is utilised for redemption of the loan.	--do--

Table 2: Entries pertaining to borrowings by ULBs

Transaction Type	Account to be debited		Account to be credited		Voucher to be prepared
	Account Code	Account Head	Account Code	Account Head	
Receipt of loan, repayment, payment of interest etc					
Credit of Loan from State Government in Treasury account	4741	Treasury Account - General	3528/ 3628	Secured/ Unsecured Loans from State Government -Others	Receipt voucher
Repayment of loan	3528/ 3628	Secured/ Unsecured Loans from State Government -Others	4721	Bank Account-Nationalised Banks -General	Payment voucher
Interest Accrued and due on Secured/ Unsecured Loan from State Government	2428	Interest on Loans from State Government	3832	To Interest accrued & due on Loans from State Government	Journal voucher
Payment of interest due	3832	Interest accrued & due on Loans from State Government	4721	Bank Account-Nationalised Banks -General	--do--
Interest accrued but not due (for the period from the latest due date till the end of the year)	2428	Interest on Loans from State Government	3928	Provision for Interest accrued but not due - Others	Journal voucher

Transaction Type	Account to be debited		Account to be credited		Voucher to be prepared
	Account Code	Account Head	Account Code	Account Head	
Reversal of provision at the beginning of the next year	3928	Provision for Interest accrued but not due - Others	2428	Interest on Loans from State Government	Journal voucher
Sinking Fund for loan repayment					
Transfer to Sinking Fund	2923	Transfer to Sinking Fund Loan Repayment	3251	Sinking Funds for Loan Repayment	Journal voucher
Transfer of funds to sinking fund bank account	4723	Bank Account - Nationalised Banks - Earmarked Funds*	4721	Bank Account - Nationalised Banks -General	Contra voucher
Investment of funds available in sinking fund bank account (Say, in State Government Securities)	4423	Investments in State Government Securities - Earmarked Funds	4723	Bank Account - Nationalised Banks - Earmarked Funds	Payment voucher
Interest accrued on the above investment	4642	Receivables - Interest from Others	1718	Interest from Investments	Journal voucher
Investment of funds available in sinking fund bank account (Say, as fixed deposit in bank)	4798	Fixed Deposits in banks	4723	Bank Account - Nationalised Banks - Earmarked Funds	Payment voucher

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Transaction Type	Account to be debited		Account to be credited		Voucher to be prepared
	Account Code	Account Head	Account Code	Account Head	
Interest accrued on the above deposit	4642	Receivables - Interest from Others	1738	Interest from Banks	Journal voucher
Receipt of interest accrued	4723	Bank Account - Nationalised Banks - Earmarked Funds	4642	Receivables - Interest from Others	Receipt Voucher
Amount received on maturity of sinking fund investment	4723	Bank Account - Nationalised Banks - Earmarked Funds	4423 or 4798	Investments in State Government Securities - Earmarked Funds or Fixed Deposits in banks	Receipt Voucher
Payment of interest, and repayment of loan from sinking fund bank account	3528/ 3628 2428	Secured/Unsecured Loans from State Government-Others Interest on loans from State Government	4723	Bank Account - Nationalised Banks - Earmarked Funds	Payment Voucher
Transfer of utilised amount of sinking fund to municipal fund, at the end of the year	3251	Sinking Funds for Loan Repayment	3111	Municipal Fund-Fund Balance	Journal voucher

Transaction Type	Account to be debited		Account to be credited		Voucher to be prepared
	Account Code	Account Head	Account Code	Account Head	
Transfer of surplus, if any, in sinking fund on closure of the loan, to municipal fund	3251	Sinking Funds for Loan Repayment	3111	Municipal Fund-Fund Balance	Journal voucher
Transfer of balance in the sinking Fund Bank Account to the main bank account.	4721	Bank Account - Nationalised Banks -General	4723	Bank Account - Nationalised Banks - Earmarked Funds*	Contra voucher

* Appropriate detail codes shall be created for sinking fund bank account.

CHAPTER
17

EARMARKED FUNDS

Earmarked Funds

17.1 Earmarked funds are of the following types :

- a. SC/ST Development (18% of receipts of the ULB to be set apart for the purpose of SC/ST Development)
- b. Sinking Funds (for redemption of bonds or for replacement of an asset)
- c. Revolving fund, created under certain schemes
- d. Any other ear-marked fund which the Council may decide to create (e.g.: Welfare Fund, City Development Fund, etc.,)

17.2 These funds are created for specific objectives, by earmarking certain percentage of the receipts or income of the ULB. It may also be entrusted to the ULB by an outside Agency, as in the case of the Ashraya Scheme. A separate bank account is to be maintained for each ear-marked fund, and all amounts earmarked for the specific purpose for which the fund is created shall be transferred to, or deposited in, this bank account. All payments pertaining to such an earmarked fund shall be made from this bank account.

Accounting Policies

17.3 The following Accounting Policies shall govern the accounting of transactions relating to Earmarked Funds:

- a. An Earmarked Fund shall be treated as a liability.
- b. Income on investments made from an Earmarked Fund, and profit/loss on their realisation shall be credited to the Earmarked Fund.
- c. Any expenditure of a revenue nature, which is incurred specifically on the scheme/project for which the Earmarked Fund has been created, shall be charged to that fund.
- d. Whenever any capital expenditure is incurred out of an Earmarked Fund, an equivalent amount shall be transferred from the Earmarked Fund account to the Earmarked Fund (Utilised) account (Rule 120(3) of KMABR, 2006).

Forms and Registers

Earmarked Funds Register (KMF No 73)

17.4 The Earmarked Funds Register shall be maintained by the Accounts Department. A separate folio shall be maintained for each Earmarked Fund. All transfers to Earmarked Funds, details of utilisation, etc., shall be recorded in the Register, with voucher references. The balance in the Fund as shown in the Register, and as per Books of account shall be reconciled by the Accounts Department at the end of the month.

Accounting Procedures and Entries

Maintenance of Earmarked Fund account

17.5 The Earmarked Fund account shall be maintained in the books of account of the Fund to which it pertains. For example, a sinking fund for loan repayment shall be maintained in the books of account of the "Fund", where the loan is accounted. Similarly, a sinking fund for asset replacement shall be maintained in the books of account of the "Fund", where the asset is accounted. However, as the SC/ST Development (18%) Fund pertains to the ULB as a whole, it shall be maintained in the residual fund i.e. the General Fund.

Transfers to Earmarked Funds

17.6 Transfers to Earmarked Funds shall be made at intervals and of such amounts as per the terms for creation of the Earmarked Fund. For example, in the case of sinking fund for loan repayment, transfers shall be made as per the terms of the loan, to accumulate sufficient balance in the fund to repay the loan with up-to-date interest at the time of redemption. In case the ULB decides to create a sinking fund for asset replacement, transfers to the fund shall be made as decided by the ULB, to accumulate sufficient funds to replace the asset at the end of its estimated useful life.

17.7 In the case of SC/ST Development (18%) Fund, 18% of the revenues of the ULB shall be earmarked for welfare activities for the benefit of SC/ST, and shall be transferred to this Fund. On a monthly basis, the Accounts Department shall calculate the amount to be transferred, and transfer the amount from the main bank account, to the SC/ST Development (18%) Fund Bank Account. The accounting entries for such a transfer shall be :

- a. For transfer of 18% of revenues earned during the month, to the Earmarked Fund:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
2921	Transfer to SC / ST Development (18%) Fund	Dr.	1,00,000		Journal Voucher
3211	To SC/ST Development (18%) Fund	Cr.		1,00,000	

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b. For transfer of an equivalent amount to the Designated Earmarked Fund Bank Account :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4723	Bank Account -Nationalised Banks- 18% Fund	Dr.	1,00,000		Contra Voucher
4721	To Bank Account-Nationalised Banks-General	Cr.		1,00,000	

Utilisation of Funds

17.8 Earmarked Funds shall be utilised for the purpose for which they are created. The expenditure incurred could be either revenue or capital expenditure. The accounting procedure to be followed is described below.

Utilisation of Earmarked Fund for Revenue Expenditure

17.9 Any revenue expenditure incurred from an Earmarked Fund, shall be debited to the Earmarked Fund. If the expenditure is of a type which has to be accounted on cash basis, it shall be accounted on payment, for which the entry shall be:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
3211	SC/ST Development (18%) Fund	Dr.	6,000		Payment Voucher
4723	To Bank Account -Nationalised Banks- 18% Fund	Cr.		6,000	

17.10 If the expenditure is of a type which has to be accounted on accrual basis, say, a contractor's bill, the expenditure shall be accounted by a journal entry, debiting the Earmarked Fund Account, and crediting the appropriate liability accounts (for instance, the Creditors-Contractors' Payable Account, Recoveries Payable, etc.). Payment for such liabilities shall be made from the Earmarked Fund bank account, and shall be debited to the respective "Liabilities" accounts. Illustrative entries of such transactions are given in Table 2 below.

Utilisation of Earmarked Fund for Capital Expenditure

17.11 The accounting procedure and the entries to be passed for capital expenditure shall be the same as explained in Chapter 10 - Public Works and Chapter 19 - Fixed Assets. However, all payments towards such capital expenditure shall be made from the Earmarked Fund Bank Account (Code no. 4723).

Transfer of funds from the 'Earmarked Fund' to the 'Earmarked Fund (Utilised)' on capitalisation

17.12 At the end of every month, the amount equivalent to the capital expenditure incurred (Gross, including recoveries in case of a contractor's bill) out of each earmarked fund shall be transferred from the respective Earmarked Fund Account, to Earmarked Fund (Utilised) Account. The transfer shall be made by means of the following entry :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
3211	SC/ST Development (18%) Fund	Dr.	1,50,000		Journal Voucher
3331	To Earmarked Funds (Utilised)*	Cr.		1,50,000	

Note: A separate detail head may be used under 3331 for each earmarked fund.

Treatment of recoveries from contractors' bills

17.13 In case of public works (either repair works or capital works carried out by contractors, there will be recoveries towards income tax deducted at source, works contract tax, EMD and Security Deposit, etc. In the case of statutory recoveries such as income tax deducted at source, works contract tax, etc.,; the ULB normally issues a consolidated cheque on the due date, from the main bank account. Refund of EMD and Security Deposit is also done in due course, from the main bank account. On accounting of such bills, the amounts equivalent to the recoveries shall be transferred from the Earmarked Fund Bank Account to the General Bank Account. The entry for such transfers shall be :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4721	Bank Account - Nationalised Banks - General	Dr.	1,000		Contra Voucher
4723	To Bank Account - Nationalised Banks - Earmarked Funds	Cr.		1,000	

Sinking Funds

17.14 The ULBs may maintain sinking funds for asset replacement, or for loan repayment, with the objective of accumulating sufficient funds for replacement of a particular asset when its useful life is over, or for redemption of a loan or bond on due dates.

Sinking fund for loan repayment

17.15 Where the terms of sanction for raising Loans or issuing Bonds provide for establishment of a Sinking Fund, the amount to be earmarked for the Sinking Fund shall be transferred from the Municipal Fund to the Sinking Fund by a journal entry, on periodical basis. A corresponding amount shall be transferred from the General Bank Account to the Sinking Fund Bank Account by way of a cheque, and a contra voucher. To account these transfers, the Accounts Department shall pass the following entries:

a. Transfer the amount from Municipal Fund to the Sinking Fund:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
2923	Transfer to Sinking Fund - Loan Repayment	Dr.	1,00,000		Journal Voucher
3251	To Sinking Fund - Borrowing Repayment Fund	Cr.		1,00,000	

b. Transfer of funds from Bank Account to Sinking Fund Bank Account:

An amount equivalent to the amount transferred to the Sinking Fund from the Municipal Fund (Refer 'a' above), shall be transferred to the Sinking Fund bank account by way of issuing a cheque. The following entry shall be passed in respect of such a transfer:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4723	Bank Account - Nationalised Banks - Earmarked Funds	Dr.	1,00,000		Contra Voucher
4721	To Bank Account-Nationalised Banks-General	Cr.		1,00,000	

Sinking Fund Investment

17.16 Funds are transferred to the Sinking fund, on a periodical basis, in accordance with the terms and conditions of the loan/bond, and may not be utilised till the due date for repayment or redemption. Instead of keeping the funds idle in the Sinking Fund, the ULB may invest the funds in interest-bearing investments. Such investments made in respect of a Sinking Fund shall be entered in the Register of Investments (KMF No 66), in a separate folio. The accounting entries/procedures to be followed for such investments are similar to those followed in respect of other investments, prescribed in Chapter 18 on Investments.

17.17 Interest earned on Investments, credited to the Sinking Fund Account, and shall be updated in the relevant page of the Register of Investments, as well as the Sinking Fund Register.

Repayment of loan out of Sinking Fund

17.18 The loan repayment or redemption and payment of interest shall be made on due dates, from the Earmarked Fund Bank Account. Simultaneously, an equivalent amount shall be transferred from the Sinking Fund to the Municipal Fund.

Sinking fund for replacement of an asset

17.19 The procedure for maintaining a Sinking Fund for asset replacement and the entries to be passed are similar to those in the case of a Sinking Fund for loan repayment. The amount to be earmarked for the Sinking Fund shall be transferred periodically to the Sinking Fund by a journal entry, by using the account code 2924. A separate bank account shall be opened for the Sinking Fund, and the money set aside shall be transferred from the main bank account to this account. Illustrations of such entries are given in Table 2.

17.20 A Register of Sinking Fund for Asset Replacement in KMF No 47 may be maintained to record the money set aside, sinking fund investments made, interest earned, utilisation of funds available for replacement of asset, etc. Details of the sinking fund investments shall also be recorded in the Register of Investments (KMF No 66) maintained separately.

Sinking Fund Investments

17.21 Funds transferred to the Sinking Fund may not be utilised till the due date for loan redemption or till the asset requires replacement. Instead of keeping the funds idle in the Sinking Fund, the ULB may invest the funds in an interest-bearing investments. Details of the investment, interest earned from time to time, and profit/loss on sale or realisation, etc., shall be entered in the Register of Investments (KMF No 66), in a separate folio. The accounting entries/procedures to be followed for such investments are similar to those followed in respect of other investments, prescribed in Chapter 18 on Investments.

17.22 For example, if an investment in State Government securities is made out of the balance available in an Earmarked Fund, the entry to be passed shall be :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4423	Investments in State Government Securities - Earmarked Funds	Dr.	1,00,000		Payment Voucher
4723	To Bank Account - Nationalised Banks - Earmarked Funds	Cr.		1,00,000	

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17.23 Interest earned from the investment shall be credited to the Earmarked Fund Account. The entry for accounting of such interest shall be :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4712	Cheque in Hand Account	Dr.	1,000		Receipt Voucher
3251	To Sinking funds for Loan Repayment*	Cr.		1,000	

* In case of interest earned on investment of amounts available in other sinking funds, the relevant account code (let us say, 3251/3252/3278 or 3288 shall be used, with appropriate detail codes).

The cheque shall be deposited in the Earmarked Fund Bank Account.

Closure of Earmarked Funds

17.24 Once the purpose for which the Earmarked Fund was created is achieved, the unutilised balance in the fund, if any, shall be transferred from the Earmarked Fund to the Municipal Fund by transferring the money from the Earmarked Fund Bank Account to the main bank account. For example, in the case of a sinking fund for asset replacement, any balance in the Sinking Fund (Liability) Account, shall be transferred to the Municipal Fund. Simultaneously, the balance in the Sinking Fund Bank Account shall be transferred to the main bank account. The entries to be passed for such transfers shall be :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
3252	Sinking Funds for Asset Replacement	Dr.	10,000		Journal Voucher
3111	To Municipal Fund-Fund Balance	Cr.		10,000	
4721	Bank Account-Nationalised Banks-General	Dr.	10,000		Contra Voucher
4723	To Bank Account - Nationalised Banks - Earmarked Funds	Cr.		10,000	

Trust & Agency Funds

There may be a situation where funds are received from the government, or any government agency, for implementation of a scheme (for example, the Ashraya Scheme) where the ULB only

acts as a trustee for the funds, and as the nodal agency for implementation of the Scheme. Expenditure out of such a fund, either revenue or capital, doesn't amount to the ULB's expenditure. In such cases, the funds received shall be accounted as under :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4723	Bank Account - Nationalised Banks - Earmarked Funds	Dr.	1,00,000		Receipt Voucher
3278	To Trust & Agency Funds- Others	Cr.		1,00,000	

Discussion on a few Earmarked Funds Normally Existing in ULBs

Ashraya Scheme

17.26 Under this Scheme, funds are received from the Nodal Agency, and distributed as loans to eligible beneficiaries. The loans are recovered along with interest, and paid back to the Nodal Agency. In this case, the ULB acts as a trustee or implementing agency for the Scheme, and therefore, the transactions under this Scheme are accounted under “Trust & Agency Funds (Account code 3278)”. Funds received from the Nodal Agency are credited to this account. Loans paid to beneficiaries are retained in “Loans to Others - Ashraya Scheme (Account Code 4821)” till repaid by the beneficiaries. The amounts recovered from the beneficiaries towards loan repayment and interest are deposited in the account of the Nodal Agency. The accounting treatment for transactions under the Ashraya Scheme is given in Table 2 below. A Register of Advances in KMF No 61 shall be maintained, separately for loans given to beneficiaries under Ashraya Scheme, and the amounts of loans given, recoveries made, interest received, etc., shall be recorded in this Register.

SC/ST Development (18%) Fund

“SC / ST Development (18%) Fund” which originated in 1973-74, requires ULBs to set aside 18% of their 'Revenues' every year, for the welfare of SC / ST people within their jurisdiction. ULBs have been transferring 18% of their revenues to this Fund, and utilising them for the welfare of SC/ST. However, there was no clarity on the types of revenues covered, and the nature of expenditure that could be incurred. The Urban Development Department has issued a clarification in this regard, in Circular No NAE 144 GEL 07, dated 25-6-07. The salient features of the Circular are as follows:

- Borrowings and specific grants shall be excluded while calculating the amount to be transferred to the SC/ST Development (18%) Fund.

Chapter 17 - Earmarked Funds

- b) Taxes, fees, development grants, SFC Grants, etc., shall be considered.
- c) Establishment expenses, cesses, statutory recoveries such as income tax deducted at source, VAT, royalty, expenditure out of specific grants, loan repayments, user charges including water charges, cost of new vehicles and plant & machinery, repairs and maintenance of vehicles, roads, buildings, etc., shall be deducted.
- d) The SC/ST Development (18%) Fund shall be utilised for education related activities, development related activities, and other activities detailed in the Circular.
- e) A separate bank account shall be maintained for SC/ST Development (18%) Fund, and 18% of revenue calculated in the above manner shall be transferred at monthly intervals.
- f) Any excess or shortage in transfer to the SC/ST Development (18%) Fund shall be arrived at, and regularised at the time of reappropriation of budget.
- g) Care shall be taken to utilise the entire amount of SC/ST Development (18%) Fund in the same year. However, if any unutilised balance remains at the end of the year, it shall be carried forward to subsequent year.

17.27 The amounts to be transferred to SC/ST Development (18%) Fund shall be calculated based on the Monthly Receipts and Payments Account. The amount shall be transferred from the main bank account, to the SC/ST Fund (18%) Bank Account on a monthly basis, and shall be utilised for specified SC/ST welfare activities.

Entries for accounting transactions in SC/ST Fund:

17.28 The entries to be passed for transactions in the SC/ST Fund are explained in paragraphs 17.6 to 17.13. As mentioned in paragraph 17.5 above, the SC/ST Development (18%) Fund (Account Code 3211) shall be maintained in the General Fund. Therefore, it is necessary to pass inter-fund transfer entries for appropriation of 18% of collections pertaining to the Enterprise Fund to SC/ST Development (18%) Fund account. No appropriation shall be made to SC/ST Development (18%) Fund out of Water supply and Sewerage Fund collections.

17.29 Payments pertaining to Water Supply and Sewerage Fund or Enterprise Fund out of SC/ST Development (18%) Fund also require inter-fund transfer entries to be passed. Illustrative entries are given in Table 2.

Revenue expenditure from SC/ST Development (18%) Fund:

17.30 The expenditures incurred may be of different types such as distributing school bags, tailoring machines, training expenses, reimbursement of train/bus fare for visiting nearby

government hospitals, etc. The prescribed accounting policy requires all revenue expenditures incurred from an earmarked fund shall be debited to the earmarked fund account. If the revenue expenditures are varied and frequent, and the ULB requires having a break-up of the expenditures, it can maintain a register for keeping track of different types of expenses.

Capital expenditure from SC/ST Development (18%) Fund:

17.31 The procedure to be followed for accounting capital expenditure out of SC/ST Development (18%) Fund is explained in paragraphs 17.11 and 17.12.

Revolving Fund

17.32 The ULB may be required to maintain revolving funds for specific purposes, as per the terms of a scheme, policy of the Government, instructions received, etc. Revolving funds are earmarked funds, and transactions in these funds shall be accounted in the same manner as explained in this Chapter.

17.33 For example, in the case of a commercial complex constructed under the IDSMT Scheme, the Government has issued a Circular stipulating that non-refundable premiums for the lease of shops, and shop rentals shall be credited to a revolving fund. The lease period shall be for a minimum of 20 years. 50% of the non-refundable premiums shall be deposited in fixed deposits. 25% shall be used in 'remunerative schemes', and the balance shall be used in specified developmental works. 50% of the interest earned from the fixed deposits shall be re-invested in fixed deposits, and the balance shall be used for specified developmental works.

17.34 In this case, the non-refundable premiums and rentals collected shall be deposited in the revolving fund bank account. At the end of each month, the Accounts Department shall ascertain the total amount of collections in the revolving fund bank account, and transfer equivalent amount to the revolving fund account, by passing the following entry :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
2928	Transfer to Earmarked Funds - Others	Dr.	50,000		Journal Voucher
3288	To Other Earmarked* Funds -Others	Cr.		50,000	

Note: Appropriate detail code and detail head shall be used for the Revolving Fund.

17.35 Transactions in respect of utilisation of the revolving fund. Other transactions in the Revolving Fund shall be accounted in the same manner as explained in the preceding paragraphs, for other earmarked funds.

Internal Controls

17.36 The following internal controls shall be observed by the ULB in respect of transactions related to Earmarked Funds:

- The Accounts Department shall ensure timely transfer of the mandatory contribution to the Earmarked Fund Bank (for example, in respect of SC/ST Development (18%) Fund).
- The Accounts Department shall ensure that the amount of the Earmarked Fund shall not be utilised for the purpose other than for which the fund was created.
- At the end of every month, the Accounts Department shall reconcile the ledger balance of the Earmarked Fund Account with the Earmarked Fund Register and the Earmarked Fund Bank Account balance.

Table 1: Forms and Registers pertaining to Earmarked Funds

Form No	Name of the Form	Due Date	Department Responsible
KMF No 61	Register of Advances (for Ashraya Scheme Loans)	As and when a loan is given under Ashraya Scheme, and recovery is made.	Concerned Case Worker.
KMF No 66	Register of Investments for Earmarked Fund Investments	As and when any transaction takes place.	Accounts Department
KMF No 72	Register of Sinking Funds for Repayment of Loans	--do--	--do--
KMF No 73	Earmarked Funds Register	--do--	--do--

Table 2 : Entries in respect of transactions pertaining to Earmarked Funds

Transaction Type	Account to be debited		Account to be credited		Voucher to be prepared
	Account Code	Account Head	Account Code	Account Head	
Transactions in an earmarked fund (say, a Sinking Fund for repayment of a loan) :					
Creation of a Sinking Fund for repayment of a loan	2923	Transfer to sinking Fund-Loan Repayment	3251	Sinking Fund for Loan Repayment	Journal voucher
Transfer of equivalent amount of money to Sinking Fund bank account	4723	Bank Account - Nationalised Banks - Earmarked Funds	4721	Bank Account - Nationalised Banks - General	Contra Voucher
Investment of the funds available in the Sinking Fund in State Government Securities	4423	Investments in State Government Securities - Earmarked Funds	4723	Bank Account - Nationalised Banks - Earmarked Funds	Payment voucher
Deposit of funds available in the Sinking Fund in bank, as fixed deposit.	4798	Fixed Deposits in banks	4723	Bank Account - Nationalised Banks - Earmarked Funds	Payment voucher
Receipt of interest from investment/ fixed deposit	4723	Bank Account - Nationalised Banks - Earmarked Funds	3251	Sinking Fund for Loan Repayment	Receipt Voucher

Transaction Type	Account to be debited		Account to be credited		Voucher to be prepared
	Account Code	Account Head	Account Code	Account Head	
Interest accrued (In case of investments with cumulative interest)	4642	Receivables - Interest from Others	3251	Sinking Fund for Loan Repayment	Journal voucher
Repayment of loan from Sinking Fund Bank Account	3628	Unsecured Loans from State Government - Others	4723	Bank Account - Nationalised Banks - Earmarked Funds	Payment voucher
	2428	Interest on Loans from State Government			
Closure of Sinking Fund after closure of the loan	3251	Sinking Fund for Loan Repayment	3111	Municipal Fund - Fund Balance	Journal voucher
Transfer of balance in Earmarked Fund Bank Account, to main operating bank account.	4721	Bank Account - Nationalised Banks - General	4723	Bank Account - Nationalised Banks - Earmarked Funds	Contra Voucher
Transactions in SC/ST Development (18%) Fund :					
Transfer to SC/ST Development (18%) Fund	2921	Transfer to SC / ST Development (18%) Fund	3211	SC/ST Development (18%) Fund	Journal voucher

Chapter 17 - Earmarked Funds

Transaction Type	Account to be debited		Account to be credited		Voucher to be prepared
	Account Code	Account Head	Account Code	Account Head	
Transfer of equivalent amount of money to SC/ST Development (18%) Fund bank account	4723	Bank Account - Nationalised Banks - Earmarked Funds	4721	Bank Account - Nationalised Banks - General	Contra Voucher
Revenue Expenditure pertaining to General Fund from SC/ST Development (18%) Fund	3211	SC/ST Development (18%) Fund	4723	Bank Account - Nationalised Banks - Earmarked Funds	Payment voucher
Capital expenditure from the Fund (for e.g., on creation of a new road in a SC/ST colony)	4331	CWIP - Roads, Pavements and Footpaths	3812	Creditors - Contractors Payable	Journal voucher
			3712	Security Deposits from Contractors /Suppliers	
			3845-01	Recoveries Payable-Tax deducted -Contractors	
Payment to Contractor for capital work	3812	Creditors - Contractors Payable	4723	Bank Account - Nationalised Banks - Earmarked Funds	Payment voucher

Transaction Type	Account to be debited		Account to be credited		Voucher to be prepared
	Account Code	Account Head	Account Code	Account Head	
Transfer of amounts pertaining to statutory recoveries, Security Deposit, etc	4721	Bank Account - Nationalised Banks - General	4723	Bank Account - Nationalised Banks - Earmarked Funds	Contra Voucher
Capitalisation of the above expenditure on completion of the road	4131	Roads, Pavements and Footpaths	4331	CWIP - Roads, Pavements and Footpaths	Journal voucher
Transfer of equivalent amount to the Earmarked Fund (Utilised) Account, for capital expenditure incurred (Gross, including recoveries).	3211	SC/ST Development (18%) Fund	3331	Earmarked Funds (Utilised)	Journal voucher
Inter-fund transactions in SC/ST Development (18%) Fund, :					
Transfer of 18% of revenues from the Enterprise fund	2921	Transfer to SC / ST Development (18%) Fund	4861	Inter-fund Transfer Account - General Fund	Journal voucher (Enterprise Fund)
	4863	Inter-fund Transfer Account- Enterprise Fund	3211	SC/ST Development (18%) Fund	Journal voucher (General Fund)

Chapter 17 - Earmarked Funds

Transaction Type	Account to be debited		Account to be credited		Voucher to be prepared
	Account Code	Account Head	Account Code	Account Head	
	4861	Inter-fund Transfer Account- General Fund	4721	Bank Account - Nationalised Banks - General	Payment voucher (Enterprise Fund)
	4723	Bank Account - Nationalised Banks - Earmarked Funds	4863	Inter-fund Transfer Account - Enterprise Fund	Receipt Voucher (General Fund)
Revenue Expenditure pertaining to Enterprise Fund from SC/ST Development (18%) Fund	3211	SC/ST Development (18%) Fund	4721	Bank Account - Nationalised Banks - General	Payment voucher (General Fund)
	No entry is required in Enterprise Fund, since the entry for appropriation from Enterprise fund is already passed (debit 2921 and credit 4861). The expenditure can be directly accounted in General Fund.				
Capital Expenditure pertaining to Water Supply and Sewerage Fund from SC/ST Development (18%) Fund (for e.g., Water Distribution systems.)	4352	CWIP - Water Distribution systems	4861	Inter-fund Transfer Account - General Fund	Journal voucher (Water Supply and Sewerage Fund)
	4862	Inter-fund Transfer Account- Water Supply and Sewerage Fund	3812	Creditors - Contractors Payable	Journal voucher (General Fund)
			3712	Security Deposits from Contractors/ Suppliers	
			3845	Recoveries Payable -Tax deducted- Contractors	

Transaction Type	Account to be debited		Account to be credited		Voucher to be prepared
	Account Code	Account Head	Account Code	Account Head	
	Since SC/ST Development (18%) Fund Account is maintained in General fund, the Creditor's account can also be maintained in General Fund.				
Payment to Contractor for capital work from General Fund	3812	Creditors - Contractors Payable	4723	Bank Account - Nationalised Banks - Earmarked Funds	Payment voucher (General Fund)
Transfer of amounts pertaining to statutory recoveries, Security Deposit, etc.,	4721	Bank Account - Nationalised Banks - General	4723	Bank Account - Nationalised Banks - Earmarked Funds	Contra Voucher
Capitalisation of CWIP	4152	Water distribution systems	4352	CWIP - Water Distribution systems	Journal voucher (Water Supply and Sewerage Fund)
Transfer from SC/ST Development Fund (18%) Fund to Earmarked Fund (Utilised)	3211	SC/ST Development (18%) Fund	3331	Earmarked Funds (Utilised)	Journal voucher (General Fund)
Transactions under Ashraya Scheme :					
Receipt of funds under Ashraya Scheme	4723	Bank Account - Nationalised Banks - Earmarked Funds	3278	Trust & Agency Funds-Others	Receipt Voucher

Chapter 17 - Earmarked Funds

Transaction Type	Account to be debited		Account to be credited		Voucher to be prepared
	Account Code	Account Head	Account Code	Account Head	
Payment of subsidy to a beneficiary	3278	Trust & Agency Funds-Others	4723	Bank Account - Nationalised Banks - Earmarked Funds	Payment voucher
Payment of loan to a beneficiary	4821	Loans to Others - Ashraya Scheme	4723	Bank Account - Nationalised Banks - Earmarked Funds	Payment voucher
Recovery of loan installments and interest	4711	Cash in hand	4821	Loans to Others - Ashraya Scheme (for collection of principal amount)	Receipt Voucher
			3278	Trust & Agency Funds-Others (for collection of interest)	
Remittance of installment and interest to Ashraya Scheme Nodal Agency's Bank Account	4723	Bank Account - Nationalised Banks - Earmarked Funds	4711	Cash in hand	Contra Voucher
Remittance of loan installments and interest collected from Beneficiaries to the Agency	3278	Trust & Agency Funds-Others	4723	Bank Account - Nationalised Banks - Earmarked Funds	Payment voucher

The above entries are applicable to a situation where loans are disbursed from the Ashraya Scheme bank account maintained by the ULB, and collection towards repayment of the loan and interest are credited to the same account, and returned to the Nodal Agency from this account. The actual entries shall depend upon the terms and conditions laid down by the Nodal Agency.

Transaction Type	Account to be debited		Account to be credited		Voucher to be prepared
	Account Code	Account Head	Account Code	Account Head	
IDSMT Revolving Fund :					
Receipt of non-refundable premium (Lease period is, let us say, 20 years)	4712	Cheque in Hand	3881	Non-refundable Premium (Lump Sum) received for Lease of Assets	Receipt voucher
Accrual of shop rental	4621	Receivables-Rent / Lease Rental	1321	Rent from Buildings - Commercial Complex	Journal voucher
Receipt of shop rental	4712	Cheque in Hand	4621	Receivables-Rent / Lease Rental	Receipt voucher
Deposit of cheques received in bank	4723	Bank Account - Nationalised Banks - Earmarked Funds	4712	Cheque in Hand	Contra Voucher
Transfer of equivalent amount to IDSMT Revolving Fund Account	2928	Transfer to Earmarked Funds - Others	3288	Other Earmarked Funds-Others	Journal voucher
For depositing specified in fixed deposit account, or for re-investing the interest amount	4798	Fixed Deposits in Banks	4723	Bank Account - Nationalised Banks - Earmarked Funds	Payment voucher
Receipt of interest on fixed deposit	4723	Bank Account - Nationalised Banks - Earmarked Funds	3288	Other Earmarked Funds-Others	Receipt voucher

Chapter 17 - Earmarked Funds

Transaction Type	Account to be debited		Account to be credited		Voucher to be prepared
	Account Code	Account Head	Account Code	Account Head	
Capital expenditure out of the Revolving Fund (Extension of the commercial complex)	4321	CWIP-Buildings - Class I	4723	Bank Account - Nationalised Banks - Earmarked Funds	Payment voucher
Transfer to Earmarked fund (Utilised)	3288	Other Earmarked Funds-Others	3331	Earmarked Funds (Utilised)	Journal voucher
Transfer of proportionate amount of non-refundable premium to income	3881	Non-refundable Premium (Lump Sum) received for Lease of Assets	1888	Other Income- Others	Journal voucher

*Note: Appropriate detail heads and codes shall be used. For example,
 3288-01 Other Earmarked funds-Others-IDSMT Revolving Fund,
 1888-02 Other Income-Others-Transfer from Non-Refundable Premium (IDSMT)
 4798-01 Fixed Deposits in Banks (IDSMT Revolving Fund)*

CHAPTER
18

INVESTMENTS

Investments

18.1 ULBs may invest surplus funds in public securities in the name of the ULB and dispose them from time to time as may be necessary.

18.2 Such investments in public securities may be in:

- Securities of the Government of India
- Securities of the Government of Karnataka or any other State Government
- Bonds or other securities for money issued by or on behalf of any local authority or
- A security expressly authorised by an order of the government in this behalf

18.3 Investments shall be classified based on the maturity profile into 'short-term' and 'long-term'. Short term investments are those which are readily realisable, and are intended to be held for not more than twelve months from the date of investment. Investments other than 'short term' investments are treated as 'long term' investments.

Accounting Policies

18.4 The following Accounting Policies shall govern the recording, accounting and treatment of transactions relating to Investments:

- a. Long term investments are investments which are intended to be held by the ULB for more than one year. Long term investments shall be valued at cost, including acquisition charges such as fees, brokerage, duties, etc. Any permanent diminution in the value of the investments shall be reduced from the cost of investments.
- b. Short term investments are investments that are readily realisable, and not intended to be held for more than one year. They shall be valued at cost; including acquisition charges such as fees, brokerage, duties, etc., or market value (if quoted) whichever is lower.
- c. Fixed Deposits are classified under bank accounts in the Chart of Accounts, and therefore, shall not be construed as “investments”.

- d. Interest on long term investments shall be recognised as and when due, and to be accrued proportionately at the period-ends.
- e. Interest on short term investments shall be accounted on receipt.
- f. Dividend income shall be accounted on receipt.
- g. Profit/loss, if any, arising on disposal of investment (net of selling expense such as commission, brokerage, etc.,) shall be recognised in the year in which such a disposal takes place.
- h. Income on investments made from Earmarked Funds and Grants under specific purpose shall be recognised and credited to Earmarked Fund and Specific Grants respectively, whenever accrued. Profit / loss, if any, arising on disposal of investments (net of selling expense such as commission, brokerage, etc.,) made from the Earmarked Fund and Specific Grants shall be recognised in the year in which such a disposal takes place and will be credited/debited to the Earmarked Fund and Specific Grant Account respectively.

Forms and Registers

Register of Investments (KMF No 66):

18.5 ULBs are required to maintain a Register of Investments (In KMF No 66) giving the details of investments, income earned, and realisation on maturity. Details of investment made from the Municipal Fund and various Earmarked Funds shall be recorded separately in this Register.

Accounting Procedures And Entries

18.6 In the Chart of Accounts, investments are classified as follows :

- Investments in Central Government Securities (441)
- Investments in State Government Securities (442)
- Investments in Debentures and Bonds (443)
- Investments in Equity Shares (445) and
- Other investments (448)

18.7 Under the above minor codes, there shall be sub-minor codes for further classification of the investments into Investments-General, Investments-Specific Grants and Investments-Earmarked Funds.

Investments by the ULB

Investment made from Municipal Fund

18.8 Investment in Central Government Securities made from the Municipal Fund shall be accounted by passing the following entry:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4411	Investments in Central Government Securities - General	Dr.	10,000		Payment Voucher
4721	To Bank Account-Nationalised Banks-General	Cr.		10,000	

Investment made from Earmarked (Sinking) Funds:

18.9 The funds available in Sinking funds for loan repayment (or redemption of bonds), or asset replacement will not be required by the ULB till the due date for loan repayment (or redemption of bonds), or till it is time to replace the asset. Instead of keeping the funds idle, the ULB may invest the funds in revenue-yielding investments. For example, investment in Central Government Securities made from an earmarked fund shall be accounted by passing the following entry :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4413	Investments in Central Government Securities - Earmarked Fund	Dr.	10,000		Payment Voucher
4723	To Bank Account-Nationalised Banks - Earmarked Funds	Cr.		10,000	

Income From Investments

Income from Investments (interest/dividend Etc) Out of Municipal Fund

18.10 To record the receipt of interest/dividend on the Municipal Fund Investments, the Accounts Department shall pass the following entries:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4721	Bank Account-Nationalised Banks-General	Dr.	1000		Receipt Voucher
1718	To Interest from Investments	Cr.		1000	

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4721	Bank Account-Nationalised Banks-General	Dr.	1000		Receipt Voucher
1728	To Dividend from Investments	Cr.		1000	

Income from investments (interest/dividend etc) out of Earmarked Funds

18.11 Income earned on investments made out of Earmarked Funds shall be deposited in the designated bank account of the Earmarked Fund. Such income amounts to accretion to the Earmarked Fund or Grant and cannot be utilised for any purpose other than for which the Earmarked Fund has been created. Therefore, such income from investments shall be credited to the account of the Earmarked Fund/Grant itself, instead of treating as income. Refer to Table 2 below for entries in respect of such transactions. Interest earned on investments made from Earmarked Funds shall be updated in the Register of Investments (KMF No 66) as well as the Earmarked Funds Register (KMF No 73).

Cumulative interest on investments:

18.12 Sometimes, the ULB may opt for an investment option where the interest is cumulative in nature, which means that interest is not received by the ULB on due dates, but gets added to the value of investment. On maturity, the principal amount of investment is received along with interest till the date of maturity. The Accounts Department shall account the accrued interest on due dates, by passing the following entry :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4411	Investments in Central Government Securities - General	Dr.	1,000		Journal Voucher
1728	To Interest from Investments	Cr.		1,000	

Interest accrued but not received during the year:

Interest on long term investments from the date of last receipt of interest till the end of the accounting year has to be accrued, irrespective of whether it is due or not due at the end of the year. This is explained with the help of an illustration. For instance, assume that interest on a Municipal Fund Investment of Rs. 1 lakh is payable half yearly on 30th June and 31st December at 10% per annum. For the year 2006-07, Rs. 5,000 is receivable on 30th June 2006, and 31st

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December 2006. However, under the accrual basis accounting, interest for the period from 1st January 2007 to 31st March 2007 is an income of the year 2006-07, though it will be received in the year 2007-08 (on 30th June 2007). Therefore, on 31-3-07, the Accounts Department shall pass the following entry for accounting this income :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4642	Receivable - Interest from others	Dr.	2,500		Journal Voucher
1718	To Interest from Investments	Cr.		2,500	

Reversal of Interest accrued:

18.14 At the beginning of the next accounting period, the entry for accrual of interest on Investment shall be reversed by passing the following entry:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
1718	Interest from Investments	Dr.	2,500		Journal Voucher
4642	To Receivable - Interest from others	Cr.		2,500	

18.15 In the above example, Rs 5,000 being interest for the period 1st January, 2007, to 30th June 2007, shall be received on 30th June, 2007 (i.e in 2007-08), and accounted by crediting the 'interest from investments (1718)' account. The earlier debit entry of Rs 2,500 reduces the net interest income to Rs 2,500, which pertains to the period 1st April 2007 to 30th June, 2007.

Maturity / Disposal of Investment

18.16 Investments may be held till their maturity or may be prematurely withdrawn later satisfying the terms and conditions of the investment.

18.17 Sometimes, on disposal of an investment, the ULB may realize a profit or incur a loss, depending on whether the amount received on disposal of investment is more or less than the cost of investment. In case of a Municipal Fund Investment, the profit earned or loss incurred on disposal of investment shall be recorded as income or expense of the ULB, whereas, in case of an 'earmarked fund investment' or 'grant investment', the profit realised or loss incurred shall be credited or debited, as the case may be, to the Earmarked Fund or Grant.

18.18 Profit or Loss arising on disposal of Earmarked Funds Investments and Grants Investments shall be updated in the Earmarked Funds Register and Grants Register.

Valuation of Investments

18.19 All long-term investments shall be carried / stated in the books of accounts at their cost. In case of market values being less than the carrying value of the investments at the end of the period and the decrease is other than temporary, such diminution in value will be accounted as charge (expenses) to the Income and Expenditure Account in the case of the General Fund Investment or respective funds account as the case may be.

18.20 Short-term investments shall be carried at their cost or market value (if quoted) whichever is lower.

18.21 At the end of the financial year, the accounts department shall ascertain whether any amount has to be provided towards diminution or decline in value of the Short term investments. The provision required in accordance with the accounting policy shall be calculated investment-wise. The total amount of provision so calculated would then have to be compared with the balance in 'Provision for Diminution in Value of Investments' account (Account code no 4498). If the balance falls short of the actual provision required, an entry is passed for additional provision for the shortfall. If the balance in the Account exceeds the provision required, the excess provision shall be written back.

18.22 The entries for making additional provision for the shortfall/writing back excess provision :

a. For making additional provision :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
2622	Provision for diminution in value of long term investments	Dr.	200		Journal Voucher
4498	To Provision for Diminution in value of long-term Investments	Cr.		200	

b. For writing back excess provision :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4498	Provision for Diminution in value of long-term Investments	Dr.	100		Journal Voucher
1878	To Excess Provisions written back - Others	Cr.		100	

18.23 The provision for diminution in value shall be shown as a deduction from Investments, in the Balance Sheet.

Internal Controls

18.24 The following internal controls shall be observed by the ULB in respect of transaction related to Investments:

- The Accounts Department shall ensure that investments are made as per the laws applicable.
- At the end of every month, the Accounts Department shall reconcile the ledger balance of various Investment Accounts with the Investment Register.
- The original documents/certificates pertaining to the investments shall be under the safe custody of the Municipal Commissioner / Chief Officer in the strong room of the ULB, if any, and should be subject to verification by the Auditor and Inspecting officer.
- The Commissioner shall verify the Register of Investments and balances in General Ledger on a quarterly basis.
- The Accounts Department shall, in this behalf, review the Investment Register on a monthly basis, to identify and list out investments maturing within the month, for the information of the Commissioner.
- The Accounts Department shall ensure that interest/dividend on investments is actually received as per the terms of the investments.

Table 1: Forms and Registers pertaining to Investments

Form No	Name of the Form	Due Date	Department Responsible
KMF No 66	Register of Investments	As and when any transaction takes place.	Accounts Department

Table 2 : Entries pertaining to Investments

Transaction Type	Account to be debited		Account to be credited		Voucher to be prepared
	Account Code	Account Head	Account Code	Account Head	
Investment of Municipal Funds in Central Government securities.	4411	Investments in Central Government Securities - General	4721	Bank Account - Nationalised Banks -General	Payment Voucher
Investment of Earmarked Funds in Debentures & Bonds.	4433	Investments in Debentures and Bonds - Earmarked Funds	4723	Bank Account - Nationalised Banks - Earmarked Funds	Payment Voucher
Interest received from investment (Municipal Fund) in Central Government Securities.	4721	Bank Account-Nationalised Banks-General	1718	Interest from Investments	Receipt Voucher
Interest received from investment (Earmarked Fund) in Debentures & Bonds	4723	Bank Account - Nationalised Banks - Earmarked Funds	3288	Other Earmarked Funds-Others	Receipt Voucher

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Transaction Type	Account to be debited		Account to be credited		Voucher to be prepared
	Account Code	Account Head	Account Code	Account Head	
Accrued interest on investments (Municipal Fund) where the interest is cumulative.	4642	Receivable - Interest from others	1718	Interest from Investments	Journal Voucher
Accrued interest on investments (Earmarked Fund) where the interest is cumulative	4642	Receivable - Interest from others	3288	Other Earmarked Funds-Others	Journal Voucher
Amount received on maturity of investment (Municipal Fund)	4721	Bank Account-Nationalised Banks-General	4411	Investments in Central Government Securities - General	Receipt Voucher
Amount received on maturity of investment (Earmarked Fund)	4723	To Bank Account - Nationalised Banks - Earmarked Funds	4433	Investments in Debentures and Bonds - Earmarked Funds	Receipt Voucher
Amount received on maturity of investment (Municipal Fund) with accrued	4411	Investments in Central Government Securities General	4642	Receivable - Interest from others	Journal Voucher
cont.					

Transaction Type	Account to be debited		Account to be credited		Voucher to be prepared
	Account Code	Account Head	Account Code	Account Head	
(cumulative) interest, in the case of 'cumulative interest bearing investment'.	4721	Bank Account-Nationalised Banks-General	4411	Investments in Central Government Securities - General	Receipt Voucher
Amount received on maturity of investment (Earmarked Fund) in the case of 'non-cumulative interest bearing debentures & bonds'.	4723	Bank Account - Nationalised Banks - Earmarked Funds	4433	Investments in Debentures and Bonds - Earmarked Funds	Receipt Voucher
Amount received on maturity of investment (Earmarked Fund) with accrued (cumulative) interest, in the case of 'cumulative interest bearing debentures & bonds'.	4433	Investments in Debentures and Bonds - Earmarked Funds	4642	Receivable - Interest from others	Journal Voucher
	4723	Bank Account - Nationalised Banks - Earmarked Funds	4433	Investments in Debentures and Bonds - Earmarked Funds	Receipt Voucher

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Transaction Type	Account to be debited		Account to be credited		Voucher to be prepared
	Account Code	Account Head	Account Code	Account Head	
Disposal of an investment (Earmarked Fund) in the market for profit	4723	Bank Account - Nationalised Banks - Earmarked Funds	4433	Investments in Debentures and Bonds - Earmarked Funds	Receipt Voucher
	4433	Investments in Debentures and Bonds - Earmarked Funds	1841	Profit/Loss on disposal of Fixed Assets	Journal Voucher
Disposal of an investment (Earmarked Fund) in the market for loss	4723	Bank Account - Nationalised Banks - Earmarked Funds	4433	Investments in Debentures and Bonds - Earmarked Funds	Receipt Voucher
	1841	Profit/Loss on disposal of Fixed Assets	4433	Investments in Debentures and Bonds - Earmarked Funds	Journal Voucher

CHAPTER
19

FIXED ASSETS

Fixed Assets

19.1 Fixed Assets represent those assets, which are meant for long term use. These assets are held for providing services and are not held for resale during the normal course of operations. Fixed Assets may be constructed or acquired by or may be gifted or donated to the ULBs either for its own use or for public benefit, with or without conditions. The accounting treatment in respect of Fixed Assets constructed has been explained in Chapter 10 on 'Public Works'.

19.2 ULBs normally have the following types of fixed assets :

Infrastructure Assets

- Roads and Bridges, Open Drains, Culverts etc.,
- Water Works
- Sewerage and drainage
- Public Lighting
- Public Parks and Playgrounds

Other Assets

- Land
- Buildings
- Furniture, fixtures, fittings and electrical appliances
- Office and other equipments
- Vehicles
- Plant and machinery

Accounting Policies

19.3 The following Accounting Policies shall govern the accounting of transactions relating to Fixed Assets:

- a. Fixed assets shall be recorded at historical cost. The cost of a fixed asset shall include incidental charges, e.g. freight, insurance, site preparation, etc., which are necessary to place the asset into its intended location and condition for use. In the case of a fixed asset acquired out of borrowed funds, interest on borrowings up to the date of commissioning of the asset shall be added to the cost of the fixed asset.
- b. An asset received on a concessional rate shall be accounted at the cost of the asset to the ULB (i.e. at the concessional cost).
- c. An asset received free of cost, shall be recorded at a nominal value of Rupee One.
- d. If an asset is purchased under grant money, and the ownership of the asset does not lie with the ULB, the cost of the fixed assets shall be reduced from the grant and not recognised as a fixed asset.
- e. Assets under construction/ erection/ installation shall be shown as 'Capital Work-in-Progress' till completion of the project, and shall be transferred to fixed assets after completion and commissioning. All costs incurred till the year end, in accordance with the cut-off procedure for expenditure (approved upto 30h April), shall be included in valuation of the asset.
- f. Any addition or improvement to a fixed asset that results in increasing its utility or useful life shall be capitalised.

Depreciation on Fixed Assets

- g. Depreciation shall be charged by the Straight Line Method (SLM) on all fixed assets except land, which is not depreciable.
- h. The rate of depreciation for each type of fixed asset is based on its estimated useful life (the period over which the asset is expected to be useful) as approved by the Government.
- i. For assets added during the year :
 - i) Depreciation shall be provided at full rates for assets, which are purchased / constructed before October 1 of the Accounting Year.
 - ii) Depreciation shall be provided at half the rates for assets, which are purchased/constructed on or after October 1 of an Accounting Year.
- j. For assets disposed of during the year :
 - i) Depreciation shall be provided at full rates for assets, which are disposed of on or after October 1 of an Accounting Year.

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- ii) Depreciation shall be provided at half the rates for assets, which are disposed of before October 1 of an Accounting Year.
- k. Leasehold lands acquired are taken as a part of assets at a total value payable as lease charges over the entire lease period and amortised equally over the lease period.

Revaluation of Fixed Assets

- l. An increase in net book value arising on revaluation shall be credited to a reserve account under the respective fund as 'Revaluation Reserve'. A decrease in net book value arising on revaluation of fixed assets shall be charged to the Income and Expenditure account as depreciation.
- m. Revaluation of a class of assets shall not result in the net book value of that class, being greater than the recoverable amount of the assets of that class.
- n. Depreciation on a revalued asset shall be calculated on the value after revaluation, at rates necessary to charge off the asset over the remaining useful life of the asset.
- o. In case of depreciation on revalued assets, the "Revaluation Reserve" shall be reduced by transfer of an amount equal to additional depreciation on the revalued portion of the asset.

Capital Work In Progress

- p. Until an asset is completed and put into operation, it shall be treated as a "Capital Work in Progress (CWIP)". All contractors' bills for 'Capital Works' shall be first accounted in the CWIP account and on completion, the total amount shall be transferred to the fixed asset account. However, in respect of first and final bill received along with completion certificate, the total amount shall be directly debited to respective fixed asset.

Forms and Registers

Fixed Asset Registers

19.4 Rule 87 of KMABR, 2006, prescribes maintenance of the following fixed asset registers comprising of land, buildings and all other infrastructure, immovable and movable properties belonging to, or vested with the ULB:

- (i) Register of Land (KMF NO 44)
- (ii) Register of Land under Roads (KMF NO 44A)
- (iii) Register of Immovable Properties (other than land) (KMF NO 45)
- (iv) Register of Movable Properties (KMF NO 46)

19.5 The Registers shall be maintained fund-wise. Table 1 specifies the department responsible for maintenance of each fixed assets register. In the case of assets purchased, the relevant fixed

assets register shall be updated immediately on purchase, with relevant entries in the note sheet of the file relating to the purchase. In the case of capital works, the register shall be updated on completion of the work, with corresponding entries in the note sheet of the relevant contract/estimates file.

Accounting Procedures and Entries

Purchase of Fixed Assets

- a. As explained in Chapter 5 - General Procedures, the department which purchases a Fixed Asset shall first enter the bill of the Supplier in the “Departmental Register of bills Received (KMF No 21)” maintained by it. The concerned Department shall verify it with the Procurement Order, budget availability, etc. The Department shall then prepare a “Detailed Bill of Other Expenditure (KMF No 59)”, and send the bill along with the file containing the relevant document such as the Supplier's bill, procurement order, note sheet containing details of the bill, etc., to the Department responsible for maintaining the relevant 'Fixed Assets Register', which shall make the necessary entries in the Register. The detailed bill and the file shall then be sent to the Accounts Department for verification. The Accounts Department shall first make entry in the “Register of bills received by Accounts Department (KMF No 23)”, verify all the documents, and the entry made in the relevant Fixed Assets Register, and forward the bill and the file to the Commissioner for approval. After approval of the bill by the Commissioner, the Accounts Department shall pass the journal entry for accounting the bill. For example, in the case of purchase of furniture, the entry shall be :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4192	Furniture & Fixtures Fittings- Office Furniture	Dr.	50,000		Journal Voucher
3811	To Creditors -Suppliers Payable	Cr.		46,250	
3712	To Security Deposits/ Retention Money from Contractors and Suppliers	Cr.		3,750	

Note: Expenditure such as installation charges, duties, taxes and other incidental expenses, e.g., transport charges, port dues, etc., incurred towards acquisition of an asset shall be treated as part of the cost of the asset.

19.6 Any addition or improvement to the Fixed Asset that results in increasing the utility or useful

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life of the asset shall be capitalised, and included in the cost of Fixed Asset. Repairs and maintenance expenses shall not be treated as an addition to the asset. The procedure to be followed for accounting of any addition or improvement to Fixed Asset shall be the same as explained earlier in this Chapter.

Construction of fixed assets

19.7 The procedures to be followed, and the entries to be passed for construction of fixed assets (capital works) such as roads, bridges, flyovers, and other infrastructure assets, buildings, etc., are explained in detail in Chapter 10 Public works.

Capitalisation of Interest during construction period

19.8 If the fixed asset is constructed out of any loan availed by the ULB, interest on such a loan during the period of construction shall be capitalised by debiting the interest to “Capital Work-in-Progress”. On completion of the work, the entire cost of the fixed asset, including interest during construction shall be transferred from “Capital Work-in-Progress” to the respective fixed asset. Any interest falling due subsequently, shall be treated as revenue expenditure. The entry for accounting interest during and after construction period is explained in Chapter 10 Public Works.

Depreciation on Fixed Assets

Calculation of depreciation

19.9 At the end of every year, the concerned Departments shall prepare a work sheet to calculate depreciation for the assets recorded in the Registers of Immovable/movable properties maintained by them. Depreciation shall be calculated at the rates prescribed in Schedule VII to the Karnataka Municipalities (Accounting & Budgeting) Rules, 2006, and in accordance with the policies prescribed above. These work sheets shall be checked by the Accounts Superintendent/Accountant before accounting. The Registers of Immovable/ movable properties shall then be updated with the amounts of depreciation, accumulated depreciation, and written down value as at the end of the year, for each of the assets, by the concerned Department and the entries in these register and statement of depreciation shall be checked by the Accounts Superintendent, before finalising the accounts for the year.

19.10 In respect of fixed assets whose estimated useful life is over, the assets shall be carried at the nominal value of Rs 1, and no further depreciation shall be charged on them.

Accounting of depreciation:

19.11 Based on the depreciation work sheet, the following journal entry shall be passed for accounting the depreciation:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
2721	Depreciation on Buildings Class I	Dr.	50,000		Journal Voucher
2731	Depreciation on Roads, Pavements and Footpaths	Dr.	1,12,000		
2751	Depreciation on Equipments	Dr.	23,000		
4221	To Accumulated Depreciation on Buildings- Class I	Cr.		50,000	
4231	To Accumulated Depreciation on Roads & Pavements and Footpaths	Cr.		1,12,000	
4251	To Accumulated Depreciation on Equipments	Cr.		23,000	

Sale/Disposal of Fixed Asset

19.12 The Fixed Assets may be disposed of by way of sale either through auction or otherwise. The ULB will normally collect EMD from the bidders, and after the auction is over, the EMD will be refunded to the unsuccessful bidders. The EMD of the successful bidder will be adjusted towards the sale value of the asset, and the balance amount will be collected from him. The accounting of collection of EMD and sale value of the asset shall be done in the same way as explained in Chapter 5 General Procedures, for accounting daily collections. The details of bids received, EMDs collected, outcome of the bid, refund of EMDs, etc., shall be recorded in Register of Miscellaneous Sales/Auction (KMF No 34).

Accounting of sale/disposal of asset:

19.13 On floating the tender for disposal of the asset, the fixed asset shall be transferred to "Fixed Assets under Disposal Account (Account Code 4181)". All subsequent transactions pertaining to the sale/disposal of the asset shall be routed through this account.

19.14 For example, if a vehicle which was purchased for Rs 3,00,000 in May 2003 is going to be disposed of in December 2006, for Rs 85,000. The buyer pays Rs 80,000 after adjusting Rs 5,000 paid by him as EMD. The following entries shall be passed for accounting the disposal of the asset :

a) For transfer of the fixed asset to 'Fixed Asset under disposal Account':

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4181	Fixed Assets under disposal	Dr.	3,00,000		Journal Voucher
4172	To Light Vehicles	Cr.		3,00,000	

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b) For transfer of the accumulated depreciation for the asset to 'Fixed Asset under disposal Account':

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4272	Accumulated Depreciation on Light Vehicles	Dr.	1,12,500		Journal Voucher
4181	To Fixed Assets under disposal	Cr.		1,12,500	

* Note: Accumulated depreciation is calculated at prescribed rate (12.5%) for three years (2003-04 to 2005-06).

c) For accounting depreciation in the year of sale, up to the date of sale (2006-07):

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
2772	Depreciation on Vehicles-Light Vehicles	Dr.	37,500*		Journal Voucher
4181	To Fixed Assets under disposal	Cr.		37,500	

* Note: Depreciation is provided for at full rates in the year of sale, since the asset is sold after 1st October 2006.

d) For adjustment of EMD:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
3788	Deposits from Others-Others	Dr.	5,000		Journal Voucher
4181	To Fixed Assets under disposal	Cr.		5,000	

e) For accounting the amount received from the buyer:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4712	Cheque in Hand Account	Dr.	80,000		Receipt Voucher
4181	To Fixed Assets under disposal	Cr.		80,000	

f) For transferring profit/loss on sale/disposal of fixed asset:

Particulars	Amount Rs
a) Cost of acquisition of the fixed asset	3,00,000
b) Accumulated Depreciation	1,12,500
c) Depreciation in the year of sale, upto the date of sale	37,500
d) Written down value of the fixed asset at the time of sale (a-b-c)	1,50,000
e) Amount realized on sale/disposal of the fixed asset (Rs 80,000 to be paid by the buyer, and Rs 5,000 to adjusted with EMD)	85,000
f) Loss on sale/disposal of the fixed asset	65,000

The loss shall be accounted as follows:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
1841	Profit/Loss on disposal of Fixed Assets	Dr.	65,000		Journal Voucher
4181	To Fixed Assets under disposal	Cr.		65,000	

19.15 On transfer of profit/loss on disposal of asset, the 'Fixed Asset under Disposal' Account will show a nil balance, as shown in the Table below :

Asset under Disposal Account (Account Code 4181)

Dr.				Cr.			
Date	Voucher No	Particulars	Amount	Date	Voucher No	Particulars	Amount
-- -- --	---	To Transfer from Light Vehicles account	3,00,000	-- -- --	---	By Accumulated Depreciation	1,12,500
						By Depreciation	37,500
						By Deposit from Others	5,000
						By Cheques in Hand	80,000
						By Profit/Loss on disposal of fixed assets	65,000
Total			3,00,000	Total			3,00,000

19.16 The details of disposal of the asset shall be noted in the relevant Fixed Asset Register, under attestation by the Departmental Officer and Commissioner/Chief Officer.

Revaluation of Fixed Assets

19.17 According to Rule 90(1) of KMABR, 2006, fixed assets may be revalued under the following circumstances:

- a. Commercial development of the fixed assets are taken up after the land use and architectural control have been approved by the competent authority
- b. At the time of lease, or
- c. At the time of issue of municipal bonds

19.18 Under Rule 90 of KMABR, 2006, revaluation cannot be done for individual assets. It shall be carried either for the entire assets, or for a class of assets.

19.19 Any increase in the value of fixed assets on account of revaluation shall be credited to a reserve account called the "Revaluation Reserve" Account (Account Codes 3365-3368). Any decrease in the value of fixed assets on account of revaluation shall be debited to "Fixed Assets written-off" Account (Account Code 2642).

19.20 The estimated useful life of a fixed asset remains unchanged on revaluation. Depreciation shall be calculated at a rate necessary to write off the value of the fixed asset after revaluation, over the remaining period of useful life.

Depreciation on revalued assets:

19.21 Where the asset is revalued at a value higher than its book value, and a revaluation reserve is created, only depreciation on the original cost of the asset shall be debited to depreciation account. The depreciation on the increased value of the asset shall be debited to the Revaluation Reserve Account. On the other hand, in cases where revaluation results in reduction in the value of the asset, the difference shall be accounted as write off of fixed assets in the year of revaluation.

19.22 The Revaluation Reserve Account shall be maintained in the respective Fund. Revaluation of assets shall be reflected in the relevant fixed asset registers.

19.23 The entries for transactions pertaining to revaluation are explained with the following example :

The assets of a ULB were revalued in September 2006 (2006-07), and the details are as follows:

Particulars	Gross Block Rs	Estimated useful life	Rate of Depreciation	Year of purchase	Accumulated Depreciation Rs	Written down value	Value on revaluation Rs	Increase/Decrease in value
Land-Grounds	1,00,000	--	--	1970	--	1,00,000	60,00,000	+59,00,000
Buildings - Class I	10,00,000	25	4%	1985	8,40,000	1,60,000	5,00,000	+3,40,000
Roads & Pavements, Concrete	30,00,000	30	3.33%	2000	6,00,000	24,00,000	14,00,000	-10,00,000
Plant & Machinery	8,00,000	10	10%	2000	4,80,000	3,20,000	3,00,000	-20,000
Total	49,00,000				19,20,000	29,80,000	82,00,000	52,20,000

19.24 In the above example, there is a decrease in value in two cases, and there is an increase in two cases. The entry to account for revaluation shall be :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
2642	Fixed Assets written off	Dr.	10,20,000		Journal Voucher
4111	Land-Grounds	Dr.	59,00,000		
4121	Buildings-Class I	Dr.	3,40,000		
4131	To Roads, Pavements & Footpaths	Cr.		10,00,000	
4161	To Plant & Machinery	Cr.		20,000	
3361	To Revaluation Reserve-Lands	Cr.		59,00,000	
3362	Revaluation Reserve-Buildings-Class I	Cr.		3,40,000	

Note: Entries shall be made in the relevant fixed assets registers, against each asset that was revalued.

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Depreciation for the year 2006-07 is calculated as follows:

Particulars	Increase/ decrease value	Remaining period of estimated useful life	Normal Depreciation	Increase/ decrease in depreciation on account of revaluation	To be charged off as depreciation	To be adjusted against revaluation Reserve
Land- Grounds	+59,00,000	N.A	--	--	--	--
Buildings	+3,40,000	4	40,000	+35,000	40,000	35,000
Roads & Pavements	-10,00,000	24	1,00,000	-41,667	58,333	--
Plant & Machinery	-20,000	4	80,000	-5,000	75,000	--
			2,20,000		1,73,333	35,000

19.25 The entry for depreciation for the year 2006-07 shall be as follows :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
2721	Depreciation on Buildings Class I	Dr.	40,000		Journal Voucher
2731	Depreciation on Roads, Pavements and Footpaths	Dr.	58,333		
2761	Depreciation on Plant & Machinery	Dr.	75,000		
3362	Revaluation Reserve - Buildings - Class I	Dr.	35,000		
4221	To Accumulated Depreciation on Buildings- Class I	Cr.		75,000	
4231	To Accumulated Depreciation on Roads & Pavements and Footpaths	Cr.		58,333	
4261	To Accumulated Depreciation on Plant & Machinery	Cr.		75,000	

Disposal of a revalued asset

19.26 When an asset that is revalued is disposed off, the balance in the revaluation reserve shall be transferred to Assets Disposal Account (Account Code No 4181). Other entries pertaining to disposal of assets are the same as disposal of other fixed assets.

Assets Under Dispute/litigation

19.27 All the fixed assets accounted in the books of ULBs which are under dispute or litigation shall be disclosed in the financial statements along with notes/remarks that these are under dispute and also the status of the legal case as at the reporting date of the financial statements.

Internal Controls

The following internal controls shall be observed in respect of transactions related to Fixed Assets:

- a. At the time of awarding of a new contract, the concerned department shall ensure the availability of adequate budget allocation after considering all commitments made against that budget allocation before purchasing any new fixed asset.
- b. The department responsible for fixed asset registers shall update the relevant registers regularly, in consultation with the Accounts Department.
- c. The Commissioner/Chief Officer shall make arrangements to conduct physical verification of fixed assets once in a year between 1st April and 5th April of next year. Any discrepancies with the Fixed Assets Register shall be reconciled.
- d. The Accounts Department shall ensure that the amount set aside in the Asset Replacement Bank Account consequent to the depreciation provision made, is utilised only for the purpose of purchase or acquisition of fixed asset for which depreciation has been provided.
- e. Before releasing payment to the supplier, the Accounts Department shall ensure that the fixed assets acquired are recorded in the relevant Fixed Asset Register, under proper attestation by the Departmental Officer.

Table 1 : Forms and Registers pertaining to Fixed Assets

Form No	Name of the Form	Due Date	Department Responsible
KMF No 41	Register of Public Works	To be updated as and when there is a transaction.	Engineering Department
KMF No 42	Summary Statement of Status of Capital Work-in-Progress	7th of April, July, October, and January.	Engineering Department
KMF No 44	Register of Lands	To be updated as and when there is a transaction.	Revenue /Town Planning Department
KMF No 44A	Register of Land under Roads	--do--	Engineering Department
KMF No 45	Register of Immovable Properties (Other than Land)	--do--	Engineering Department
KMF No 46	Register of Movable Properties	--do--	Office Manager/ concerned Department
KMF No 47	Register of Sinking Fund for Asset Replacement	--do--	Accounts Department

Table 2 : Entries in respect of Fixed Assets related transactions

Transaction Type	Account to be debited		Account to be credited		Voucher to be prepared
	Account Code	Account Head	Account Code	Account Head	
Purchase of a fixed asset - for e.g. a car	4172	Light Vehicles	3811	Creditors-suppliers Payable	Journal voucher
Construction of a fixed asset through a contractor - for e.g. a Class I building	4321	CWIP-Buildings Class I	3812	Creditors-contractors Payable	Journal voucher
			3845	Recoveries Payable Tax	
			3712	Deducted-Contractors Security Deposits / Retention Money from Contractors and Suppliers	
Capitalisation of CWIP on completion of construction	4121	Buildings Class I	4321	CWIP-Buildings Class I	Journal voucher
Depreciation on a fixed asset-say a class I building	2721	Depreciation on Buildings-class I	4221	Accumulated Depreciation on Buildings- Class I	Journal voucher
Sale of a fixed asset, say a car					
To transfer the asset to Assets under Disposal account	4181	Fixed assets under Disposal	4172	Light Vehicles	Journal voucher

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Transaction Type	Account to be debited		Account to be credited		Voucher to be prepared
	Account Code	Account Head	Account Code	Account Head	
To transfer the accumulated depreciation on the car to Assets under Disposal account	42*	Accumulated Depreciation	4181	Fixed Asset under Disposal Account	Journal voucher
To provide for depreciation on the car from the beginning of the year, till the date of sale	2772	Depreciation on Vehicles- Light Vehicles-Car	4181	Fixed assets under Disposal	Journal voucher
Transfer of EMD from successful Bidders	3788	Deposits from Others-Others	4181	Fixed assets under Disposal	Journal voucher
To account for the receipt of sale proceeds	4721/ 4711	Cheque in Hand/ Cash in Hand	4181	Fixed assets under Disposal	Receipt voucher
To transfer the profit/loss on sale of asset, and close the Asset under Disposal account.	4181 ⁱ	Fixed assets under Disposal	1841	Profit/Loss on disposal of Fixed Assets	Journal voucher
Transfer of accumulated depreciation on the asset upto the end of the previous year	42*	Accumulated Depreciation	4181	Fixed Asset under Disposal Account	Journal voucher

Transaction Type	Account to be debited		Account to be credited		Voucher to be prepared
	Account Code	Account Head	Account Code	Account Head	
Accounting of depreciation from the beginning of the current year, till the date of disposal	27*	Depreciation	4181	Fixed Asset under Disposal Account	Journal voucher
Transfer of EMD from successful Bidders	3788	Deposits from Others-Others	4181	Fixed Asset under Disposal Account	Journal voucher
Receipt of sale proceeds from the successful bidder	4711/ 4712	Cash/Cheque in Hand	4181	Fixed Asset under Disposal Account	Receipt voucher
Profit on sale/ disposal of asset**	4181	Fixed Asset under Disposal Account	1841	Profit/Loss on disposal of fixed assets	Journal voucher
Loss on sale/ disposal of asset**	1841	Profit/Loss on disposal of fixed assets	4181	Fixed Asset under Disposal Account	Journal voucher

* Appropriate sub-minor head/code under the given minor head/code shall be used.

** The entry '6' or '6A' shall be passed, depending on whether there is profit or loss on sale/disposal of the asset.

ⁱ In case of loss on sale of fixed asset, Profit on sale/disposal of Fixed Assets Account (1841) shall be debited, and Fixed Assets under disposal (4181) shall be credited.

CHAPTER
20

SPECIAL TRANSACTIONS

Special Transactions

20.1 Special transactions are transactions of an unusual nature. A few such transactions are discussed in the following paragraphs.

Capital Work Funded by Loan, Grant from Government, and own Contribution

20.2 In accordance with a scheme sanctioned, a project may be funded partly by a loan, or a delegated loan, partly by a grant, and the ULB's own contribution.

20.3 This is explained with the help of an illustration. A Water Works Scheme for Rs. 1.5 crores is sanctioned of which Rs. 1 crore would be receivable as loan from KUIDFC, and Rs. 40 lakhs as grant from the Government and the balance of Rs 10 lakhs is contributed by the ULB. The said scheme is executed by an independent organisation, i.e., the Karnataka Urban Water Supply and Drainage Board (KUWSDB) on behalf of the ULB. The amount of the loan and grant is directly disbursed to the KUWSDB and the ULB also remits its own contribution to KUWSDB. The accounting treatment for these transactions are explained in the paragraphs below :

Direct disbursement of Loan

20.4 On receipt of intimation of disbursement of loan amount to KUWSDB, the following entry shall be passed :

(Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4834	Advance for Delegated Loan works	Dr.	1,00,00,000		Journal Voucher
3628	To Unsecured Loan from State Government-Others	Cr.		1,00,00,000	

Direct disbursement of Grant

20.5 For grants disbursed directly to the executing agency, on receipt of intimation from the government or executing agency, the Accounts Department shall pass the following entry:

(Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4834	Advance for Delegated Loan works	Dr.	40,00,000		Journal Voucher
3428	To Grants & Contributions for Specific Purposes from State Government-Others	Cr.		40,00,000	

Remittance of ULBs own contribution

20.6 In accordance with the terms of a sanctioned scheme, funds may be remitted by the ULBs as their contribution to executing agency. On transfer of funds, the Accounts Department shall pass the following entry:

(Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4834	Advance for Delegated Loan works	Dr.	10,00,000		Payment Voucher
4721	To Bank Account-Nationalised Banks-General	Cr.		10,00,000	

Capital Work-in-Progress

20.7 As per Rule 73(b) (iv), in case of a delegated loan work, the executing agency shall send a monthly progress report to the ULB on the works undertaken by it. On the basis of this Statement (KMF No 37), the Accounts Department shall pass the following entry:

(Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4351	CWIP-Water Supply Source and Transmission systems	Dr.	-----		Journal Voucher
4834	To Advance for Delegated Loan works	Cr.		-----	

Note: The amount depends on the value of work-in-progress during the month as shown in KMF No 37.

Capitalisation of asset:

20.8 On completion of construction and on capitalisation of the fixed asset, the amount received as Grant shall be transferred to the Capital Contribution by the Government, and the following entry shall be passed:

(Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4151	Water Supply Source and Transmission systems	Dr.	1,50,00,000		Journal Voucher
4351	To CWIP-Water Supply Source and Transmission systems	Cr.		1,50,00,000	

Payment of interest on loans during construction period

20.9 Interest on loans shall be accrued and paid as per the terms of the agreement. In such cases, the interest amount shall be paid to the Government/Financial Institutions. For accounting of payment of interest during the construction period, the Accounts Department shall pass the following entries, by making entries in the Register of loans and intimating the same to the executing agency:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4351	CWIP-Water Supply Source and Transmission systems	Dr.	10,00,000		Payment Voucher
4721	To Bank Account-Nationalised Banks-General	Cr.		10,00,000	

Accrual of interest at the end of the year (within the construction period)

20.10 At the end of the year, if the construction of asset is not yet complete, the amount of interest accrued and due, but remaining unpaid shall be calculated, and accounted as follows :

a. For accounting interest accrued and due:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4351	CWIP-Water Supply Source and Transmission systems	Dr.	10,00,000		Journal Voucher
3832	To Interest Accrued and Due on Loans from State Government	Cr.		10,00,000	

b. For accounting interest accrued, but not due:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
4351	CWIP-Water Supply Source and Transmission systems	Dr.	10,00,000		Journal Voucher
3928	To Provision for Interest accrued but not due Others	Cr.		10,00,000	

20.11 The entries for payment of interest accrued and due illustrated in (a.) above, and reversal of provision for interest illustrated in (b.) above are the same as explained in paragraphs 16.10 and 16.11 in Chapter 16 Borrowings.

20.12 Interest after the construction period shall be accounted in the same manner as explained in paragraphs 16.7 to 16.11 in chapter 16 Borrowings.

Repayment of loan

20.13 In such cases, loan instalments may be paid to the Government for further payment to the lender. On payment of loan instalment, the Accounts Department shall pass the following entries:

(Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
3528/ 3628	Secured/Unsecured Loan from State Government-Others	Dr.	10,00,000		Payment Voucher
4721	To Bank Account-Nationalised Banks-General	Cr.		10,00,000	

Transfer from Specific Grant Account to Deferred Income Account:

20.14 At the end of the year, or on completion of the Project, whichever is earlier, the amount of capital expenditure proportionate to the grant utilised for the capital work shall be transferred from the Grant account to 'Deferred Income' Account under account code 3491, with a detail code for the fixed asset that is created. The entry for this shall be as follows :

(Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
3491	Deferred Income in respect of Assets created out of Grants & Contributions	Dr.	40,00,000		Payment Voucher
4721	To Bank Account-Nationalised Banks-General	Cr.		40,00,000	

Chapter 20 - Special Transactions

20.15 As explained in Chapter - 15 Grants, and Chapter - 16 Borrowings (Loans Received), details of grants and loan received, their utilisation, etc., shall be entered in Grant Register (KMF No 35), and Register of Loans (KM No 71).

Contributions made by ULBs in Creation of Assets not Owned by the ULBs

20.16 ULBs may contribute its share in some projects, which are created by external agencies - for e.g. contribution in any infrastructure projects like multi-city transport. In such cases, ULB does not have any ownership rights on the assets.

Accounting of remittance of ULB's own contribution.

20.17 In accordance with the terms of understanding, funds may be remitted by the ULBs as their contribution, to the executing agency.

20.18 With regard to the payment made, the Accounts Department shall pass the following entry:

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
2558	Contributions made by Municipality	Dr.	2,50,000		Payment Voucher
4721	To Bank Account-Nationalised Banks-General	Cr.		2,50,000	

Joint Venture

20.19 ULBs may also be involved in Joint venture projects. The investment in a joint venture shall be treated as an investment of the ULB. If investments are in kind, like contribution of land for development, the accounting treatment to be adopted will depend on a legally valid agreement between the parties. Public Private Partnerships are one form of joint ventures.

20.20 Public Private Partnership (PPP) is an effective means of establishing cooperation between the public and private sectors and to bundle financial resources, know-how and expertise to address these urban environmental needs. PPPs offer alternatives to full privatisation, combining the advantages of both the public and the private sector. PPPs have been evolved for the development of various projects.

20.21 Some of the areas in which PPPs are evolved are listed below:

- a. Solid Waste Management
- b. Water supply
- c. Street Lighting
- d. Maintenance of Roads and Bridges
- e. Sewerage
- f. Parks
- g. Commercial complexes
- h. Markets
- i. Bus Shelters

CHAPTER
21

PERIOD-END PROCEDURES

Period-End Procedures

21.1 Certain reconciliations and accounting procedures are to be carried out periodically. The procedures to be followed on a daily, monthly, quarterly, half-yearly and annual basis are as described below.

Daily Procedures

Updation of books of prime entry

21.2 The books of prime entry shall be written from the vouchers on a daily basis. The cash books and the bank books shall be totalled and balanced daily. The closing cash and bank balances of the day shall be carried forward to the next day as opening balances.

Physical verification of cash balance

21.3 Cash available with the Cashier as per Chitta and Cash book shall be physically verified daily by the Cashier and the Office Manager/Officer designated for this purpose. The values and denominations of the cash physically verified shall be noted in the Cash Book. This shall be certified by the Cashier and the Office Manager/Officer designated. The cash balance as physically verified shall match the closing cash balance as per the Cash Book.

Deposit of collections (both cash and cheque) in the Bank

21.4 The cash and cheques collected shall be remitted to the main operating bank account on the next working day. Wherever separate bank accounts are maintained fund-wise, remittances of collections shall be made to the bank account of the respective Fund.

Ledger posting

21.5 The entries in the books of prime entry (cash book, bank book and journal book) shall be posted to the relevant accounts in the General Ledger. Entries pertaining to contractors or suppliers shall also be simultaneously posted to the relevant Subsidiary Ledger.

Updating Classified Registers

21.6 The receipt and payment vouchers shall be posted to the relevant Classified Registers, on a daily basis, as prescribed in Chapter 26 - Budget and Budgetary Control.

Monthly Procedures

Payment of pension fund and leave salary contribution in respect of employees on deputation

21.7 The Accounts Department shall ensure that the pension fund and leave salary contribution for employees on deputation have been paid, on time, to the Government.

Remittance of statutory recoveries

21.8 Statutory recoveries such as income tax and professional tax deducted at source from employees' salaries, GPF, KGID, etc., and recoveries from contractors such as tax deducted at source, works contract tax, royalty, if any, etc., shall be remitted to the appropriate authorities on or before due dates.

Transfer to SC/ST Development (18%) Fund

21.9 18% of the revenues collected during the month shall be transferred from Income & Expenditure Account (Account code 2921) to SC/ST Development (18%) Fund (Account Code 3211) by a journal entry. Simultaneously, an equivalent amount shall be transferred from the ULB's main bank account to SC/ST Development (18%) Fund Bank Account.

Transfer from 'Specific Grants' to 'Income' or 'Deferred Income'

21.10 KMABR, 2006, prescribes that at the end of the every month, amounts utilised out of a 'specific grant' shall be transferred as 'Income', or 'Deferred Income' depending on the amounts utilised for revenue expenditure, or capital expenditure. The entries for such transfers shall be passed in accordance with the procedures outlined in Chapter 15 - Grants.

Transfer of funds from Earmarked funds to Earmarked Fund Utilised Account

21.11 The amount utilised for capital expenditure, out of an Earmarked Fund shall be transferred to the Earmarked Fund (Utilised) at the end of every month. The procedure for transfer has been provided in Chapter 17 - Earmarked Funds.

Balancing of Ledger Accounts

21.12 The ledger accounts (General Ledger, as well as Subsidiary Ledgers) shall be totalled and balanced at the end of each month, and carried forward to the subsequent month.

Preparation of Monthly Receipts and Payments Account, Trial Balance and a Consolidated Statement of DCB

21.13 A Receipts and Payments Account, pertaining to each month, and a trial balance as at the end of the month shall be prepared by the Accounts Department. A Consolidated Statement of DCB for the month shall also be prepared by the Accounts Department. All three Statements shall be sent to the Local Audit Circle and the Deputy Commissioner by the 20th of the subsequent month.

Bank Reconciliation

21.14 Bank Reconciliation shall be carried out for each of the Banks at the end of every month. The procedure for bank reconciliation has been provided in Chapter 22 - Reconciliation Procedures.

Reconciliation of Inter-Fund Transfer accounts

21.15 The General Ledger of each Fund will have inter-fund transfer accounts pertaining to transactions with other Funds. The balances in these accounts in the respective ledgers shall be reconciled by the Accounts Department at the end of each month.

Reconciliation of Contractors & Suppliers' Sub-ledgers with Control accounts

21.16 The Schedule of balances shall be prepared from the Contractors' Sub-ledger and the Suppliers' Sub-ledger at the end of every month, listing out the balances of the Contractors and the Suppliers as at the end of the month. The total of the balances shall be checked and reconciled with the balances in the control accounts in the General Ledger. The procedure for reconciliation has been described in Chapter 22 - Reconciliation Procedures.

Quarterly Procedures

Reconciliation of Capital Work in Progress:

21.17 Expenditure incurred on various capital works in progress as shown in the General Ledger shall be reconciled with the Summary Statement of Status on Capital Work-in-Progress (KMF No 42) received from the Engineering Department based on the Register of Public Works (KMF No 41).

Year-end Procedures

Reconciliation of Receivable accounts

21.18 All receivable accounts in the General Ledger shall be reconciled with the respective DCB Registers. The opening balances, collections, accrual entries, and closing balances shall be checked, and it shall be ensured that the closing balances tally with the balances in DCB Registers.

Physical verification of stores

21.19 Physical verification of stores shall be carried out on the last day of the accounting year. The verification shall be carried out by a stock-taking team consisting of personnel drawn from other Departments and the Store-keeper. The physical stock of material shall then be reconciled with the balances as per the Register of stores.

Reconciliation of closing stock with balances in General Ledger

21.20 After the physical verification is carried out, the Stores-in-charge shall prepare a Statement of Closing Stock in KMF No 57 for the stocks held in the Stores, showing the quantity as per Register of Stores, physical quantity of items in store, value arrived at by applying FIFO method of valuation, etc. The Statement, duly authenticated by the Officer-in-Charge, shall be sent to Accounts Department, where the value of closing stock as per the Statement shall be reconciled with the value as per the Ledger.

Physical verification of fixed assets

21.21 The ULB shall establish a system of conducting physical verification of fixed assets with reference to the Register of immovable / movable properties at the end of the year. The details recorded in the verification sheets shall be checked with the relevant Registers of immovable/movable properties and remedial steps shall be taken in case of discrepancies identified.

Reconciliation of fixed asset accounts

21.22 The balances in the various fixed asset accounts in the General Ledger shall be reconciled with the relevant fixed asset registers (KMF No 44, 44A, 45 and 46).

Reconciliation of Deposits and Advances, Loans, etc.,

21.23 The deposits received from contractor/supplier or any other deposits as per the General Ledger at the end of the year, shall be reconciled with the amounts outstanding in the Register of Deposits (KMF No 67). Similarly, the balances in various "Advance" accounts in the General Ledger at the end of the year shall be reconciled with the amounts outstanding in the Register of Advances (KMF No 61). The balances in the General Ledger in respect of any money borrowed by the ULB shall be reconciled with the Register of Loans (KMF No 71). The procedure for reconciliation has been described in "Chapter 22 - Reconciliation Procedures".

Confirmation of permanent advances and miscellaneous advances

21.24 At the end of the year, the Accounts Department shall obtain confirmations from persons to whom permanent advances and miscellaneous advances, if any, have been given, and tally them with the amounts shown in the books of account.

Confirmation from Government/ Government agencies

21.25 In respect of loans at the end of each accounting year, the Accounts Department shall prepare and forward a balance confirmation statement to the Government or any government owned agencies, from which the ULB has borrowed funds, showing the loans outstanding, and interest payable. The confirmations received shall be checked with the balances of loan accounts and interest accrued accounts in the General Ledger, and discrepancies, if any, shall be reconciled.

Accrual of interest accrued, but not due on borrowings

21.26 Interest charges on loans received, which are not due shall be accrued, in accordance with the procedures outlined in Chapter 16 Borrowings (Loans received).

Accrual of interest on investments

21.27 Interest accrued but not due on investments made shall be accounted in accordance with the procedures outlined in “Chapter 18 Investments”.

Provision for year-end expenses

21.28 Each department shall prepare a “Statement of Bills Pending Approval” in KMF No 60, on or before 7th May, listing bills pertaining to the year that has just ended, pending approval, as on 30th April. The procedures for making period-end provision entries have been outlined in “Chapter 5 General Procedures”.

Provision for unrealised receivables

21.29 A provision shall be made for the demands raised during the accounting period but remaining outstanding. The procedure for provisioning, the amount to be provided and the accounting entries have been outlined in the respective chapters on income accounting.

Accounting of Depreciation

21.30 Depreciation on Fixed assets shall be calculated at the year-end by the Engineering Department in accordance with the procedures outlined in Chapter 19 Fixed Assets, and checked by the Accounts Department.

Preparation of annual financial statements

21.31 The Accounts Department shall prepare the trial balance, as well as the Annual Financial Statements (Receipts and Payments Accounts, Income & Expenditure Account, and Balance sheet), as explained in “Chapter 23 Financial Statements”.

Closing of ledger accounts

21.32 After the annual financial statements are prepared, the Accounts Department shall pass entries for transfer of the balances in income and expense accounts in the General Ledger, to the

Income & Expenditure Account. Let us assume that the various income and expense accounts are showing the following balances as on 31-3-2006 :

Income accounts:

Property Tax	: Rs 100,00,000
Development Charges	: Rs 10,00,000
Other Charges	: Rs 85,00,000

Expense accounts:

Pay	: Rs 95,00,000
Rent	: Rs 15,00,000
Printing & Stationery	: Rs 50,000
Repairs & Maintenance (Roads, pavements & footpaths)	: Rs 100,00,000
Repairs & Maintenance (Other civic amenities)	: Rs 25,00,000
Consumption of general stores	: Rs 30,000
General Expenses	: Rs 1,25,000
Depreciation-Roads& pavements	: Rs 4,30,000

a. For transfer of income ledger balances to the income side of Income and Expenditure Account :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
1111	Property Tax Income	Dr.	1,00,00,000		Journal Voucher
1438	Development charges-Others	Dr.	10,00,000		
1488	Other Charges-Others.	Dr.	85,00,000		
3121	To Income & Expenditure Account	Cr.		1,95,00,000	

b. For transfer of expenditure ledger balances to expenditure side of Income and Expenditure Account :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
3121	Income & Expenditure Account	Dr.	2,41,35,000		Journal Voucher
2111	To Pay	Cr.		95,00,000	
2211	To Rent	Cr.		15,00,000	

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
2222	To Printing, Stationery, Photocopy Charges	Cr.		50,000	Journal Voucher
2348	To Repairs & Maintenance - Other Civic Amenities	Cr.		25,00,000	
2351	To Repairs & Maintenance - Roads, Pavements, and Footpaths	Cr.		1,00,00,000	
2334	To Consumption of Lighting Stores	Cr.		30,000	
2288	Other General Expenses- Others	Cr.		1,25,000	
2731	Depreciation on Roads, Pavements and Footpaths	Cr.		4,30,000	

c. For transfer of balance in Income & Expenditure Account to Fund Balance :

21.33 The balance in the Income & Expenditure Account may be transferred to Fund Balance by a journal entry. The Fund balance is debited, and Income & Expenditure is credited if there is a deficit. On the other hand, if there is a surplus, the Income & Expenditure is debited, and Fund Balance is credited if there is a deficit. In the above example, expenses are more than the income, and thus there is a deficit, which will be transferred to the fund balance with the following entry :

Illustrative figures (Amount in Rs.)

Account Code	Accounting Entry	Dr./ Cr.	Debit Amount	Credit Amount	Voucher to be Prepared
3111	Fund Balance	Dr.	46,35,000		Journal Voucher
3121	To Income & Expenditure Account	Cr.		46,35,000	

Carrying forward balances in asset and liability accounts

21.34 After the above closing entries are passed, the balances in all the revenue accounts in the General Ledger (income and expense accounts) will be nil. The balances in the ledger accounts for assets and liabilities shall be carried forward as the opening balances in the General Ledger of the next accounting year. The balances in the Subsidiary Ledgers also shall be carried forward to the subsequent year's Sub-ledgers.

CHAPTER
22

**RECONCILIATION
PROCEDURES**

Reconciliation Procedures

22.1 The ULB is maintaining various Registers in prescribed formats, in addition to its books of account. It also gets third party confirmations and statements of account in respect of dues to, or from, the ULB. For ensuring the correctness of the assets and liabilities as shown in the books of account, the ULB has to carry out reconciliation of the balances in these assets and liabilities with the registers, confirmations, statements, etc. The reconciliation procedures shall be carried out jointly by the Accounts Department and the other concerned departments.

22.2 Reconciliation shall be carried out in respect of the following items:

Sl. No	Particulars	Period
1	Bank Reconciliation	Monthly
2	Reconciliation of Suppliers' Sub-ledger with Control Account (Account Code 3811)	Monthly
3	Reconciliation of Contractors' Sub-ledger with Control Account (Account Code 3812)	Monthly
4	Reconciliation of all Statutory Recovery Accounts such as Income Tax deducted at source, Works contract tax, royalty, CBF, various recoveries from employees salaries, etc., with respective remittances	Monthly
5	Reconciliation of the inter-fund transfer accounts in the General Ledger of General Fund, Water Supply and Sewerage Fund, and the Enterprise fund	Monthly

Sl. No	Particulars	Period
6	Reconciliation of all CWIP accounts in the General Ledger with the Register of Public Works (KMF No 41) and the Summary Statement of Capital Work-in-Progress (KMF No 42)	Quarterly
7	Reconciliation of all "Receivables" accounts in the General Ledger with the respective DCB Registers (KMF No 24, 25, 26 and 26A), and the Suspense Register (KMF No 28), also	Yearly
8	Reconciliation of all Stores accounts in the General Ledger with the Register of Stores (KMF No 53) and Yearly Statement of Closing Stock (KMF No 57)	Yearly
9	Reconciliation of ticket Books issued, and not issued with Register of Stock Ticket books (KMF No 32), and Register of ticket books issued to collection staff (KMF No 33)	Yearly
10	Reconciliation of various Grant Accounts with the Grant Register (KMF No 35)	Yearly
11	Reconciliation of various fixed asset accounts in the General Ledger with the relevant Fixed Assets Registers (KMF No 44, 44a, 45 and 46).	Yearly
12	Reconciliation of all advance accounts in the General Ledger with the Register of Advances (KMF No 61) and Register of Interest on Loans and Advances (KMF No62)	Yearly
13	Reconciliation of the Permanent Advance Account with the Permanent Advance Register (KMF No 63), and with confirmations of balances.	Yearly
14	Reconciliation of all investments with Register of Investments (KMF No 66)	Yearly
15	Reconciliation of balances in various EMD/Security Deposits, or any other deposits in the General Ledger with the Register of Deposits (KMF No 67)	Yearly

Sl. No	Particulars	Period
16	Reconciliation of all bank guarantees held by the Accounts Department with the Register of Bank Guarantees (KMF No 69), and the original bank guarantees held in safe custody by the Accountant	Yearly
17	Reconciliation of all securities held by the Accounts Department with the Register of Securities (KMF No 70), and the securities held in safe custody by the Accountant	Yearly
18	Reconciliation of borrowings by the ULB with the Register of Loans, with confirmations of balances from the borrowers (KMF No 71)	Yearly

Bank Reconciliation

22.3 Bank Reconciliation is a procedure which aims at reconciling the bank balance as shown in the Bank Book (KMF No 3), with the balance as per the pass book / bank statement received from the bank. The Bank Reconciliation shall be carried out on a monthly basis for each of the bank accounts maintained by the ULB.

22.4 The bank balances as per the Bank Book and the Bank Statement may not match for the reasons listed below :

Reconciliation factors	Effect on bank balance as per Bank Book	Effect on bank balance as per Bank statement
Cheques issued but not presented for payment	Bank balance reduces by that amount	No effect
Cheques deposited but not cleared	Bank balance increases by that amount	No effect
Debit of charges by bank for any services rendered by it	No effect	Bank balance reduces to the extent of charges levied
Direct deposit of amount in the bank account by tax payers and others	No effect	Bank balance increases to the extent of deposit
Interest allowed and credited by the Bank	No effect	Bank balance increases to the extent of interest credited

Reconciliation factors	Effect on bank balance as per Bank Book	Effect on bank balance as per Bank statement
Transfers by the bank in respect of standing instructions given to the bank	No effect	Bank balance reduces to the extent of the payment made
Fixed Deposit or any other sum directly credited by bank to the account	No effect	Bank balance increases to the extent of money credited
Any other reason which may result in difference between the bank balance as per the Bank Book and Bank Statement.		

22.5 The procedure to be followed for reconciling the bank balance as per the Bank Book with the balance as per the Bank Statement shall be as follows :

Checking of credit entries in the Bank Statement with Bank Book:

22.6 Daily totals of cheques deposited by the ULB in the bank are accounted in the 'Receipts' (Debit side) side of the Bank book, based on acknowledged pay-in slips. However, these cheques will be shown on the credit side of the bank statement, as and when realised. The daily total of cheques deposited in the bank shall be checked from the pay-in slips to the entries on the 'Receipts' side of the bank book to see that the total cheques deposited are correctly accounted. The credit entries in the Bank Statement for cheques realised, shall be checked with the pay-in slips for deposit of cheques, and the entries appearing in both shall be ticked off.

22.7 There may be credits in the bank statements other than cash and cheques deposited. These may be on account of interest credited by the Bank, direct credits or transfers in the bank, etc., in respect of grants, etc., which normally happens in treasury accounts. All such entries shall be checked with corresponding entries in the Bank Book.

Checking of debit entries in the Bank Statement with Bank book:

22.8 The debit entries in the Bank statement shall be compared with the credit entries in the Bank Book, and the entries appearing in both shall be ticked off.

Listing of entries not ticked off:

22.9 The entries not ticked in the Receipts and Payments side of Bank book, and the entries not ticked in the debit and credit side of bank statement shall be separately listed. The entries not ticked may represent the following :

Chapter 22 - Reconciliation Procedures

- The entries not ticked on the 'Receipts' side of the Bank book may be due to cheques deposited by the ULB, but not yet realised.
- The entries not ticked in the 'Payments' side of the Bank Book represent the cheques issued by the ULB, but not debited by the Bank. This may be due to cheques issued, but not yet presented by the Payee, or cheques drawn but not yet issued to the Payee.
- The unticked entries on the 'Credit' or 'Receipts' side of the Bank Statement may be due to credit of interest by the bank on the bank balance, or any credits or transfers received directly. This normally happens in treasury accounts where SFC Grants, etc., are credited by the Government in the account of the ULB. It may also be due to transfers from collection bank accounts to the main bank account of the ULB on the basis of standing instructions issued to the Bank.
- The unticked entries in the 'Debits' or 'Payments' side of Bank Statement may be due to amounts debited by bank on account of bank charges, or any standing instructions given by the ULB, etc.

22.10 Both debit and credit items that are not ticked in the Bank Book shall be traced for appearance in the subsequent period's Bank Statement, subsequent to the date of reconciliation. All the cheques issued but not presented for payment within six months from their date of issue will become stale and shall be reversed. Other unticked entries shall also be checked to find out the correctness of entries.

Bank Reconciliation Statement (BRS)

22.11 The items not ticked both in the Bank Statement and the Bank Book shall be extracted for reconciliation in the following format classified according to their nature:

Bank Reconciliation Statement for _____ Bank as on _____

Particulars	Amount (Rs.)	Amount (Rs.)
Bank Balance as per Bank Book		
Add: Cheques issued but not presented into bank cheque-wise list to be appended)		
Add: Credit given by Bank either for interest or for any other account but not accounted for in the Bank Book		
Sub-total		
Less: Cheques Deposited but not cleared/credited by the Bank		
Less: Service Charges/Bank Charges or any other charge levied by the Bank but not accounted for in the Bank Book		
Bank Balance as per Bank Statement		

22.12 Details of the difference shall be given under each of the broad heads depicted above, with a serial listings of all the cheques deposited with the bank or issued for payment. Any other factor impacting the bank balance as per the Bank Book and Bank Statement shall also be appropriately stated.

22.13 The amounts directly debited or credited by the bank on account of bank charges, interest, transfers, etc., represent amounts which have to be accounted by the ULB, and they shall be subsequently accounted, after obtaining advices from the bank. Any unduly high bank charges shall also be identified and clarifications sought from the bank.

Reconciliation of Receivable

22.14 The receivables shall be reconciled at the end of every year. The procedure for reconciling the outstanding balance of receivables and collections shall be the same for all kinds of receivables.

22.15 For instance, for reconciling water charges Receivables, the Water Supply/Revenue Department shall prepare the following Statement from the Special DCB Register (KMF No 25), and forward the details to the Accounts Department.

Reconciliation Statement of Receivables and Collection

Details for ___ Department as on ___

Sl. No	Particulars	Amount (Rs.)	Amount (Rs.)
A	Demand outstanding at the beginning of the Year		
i.	Demand pertaining to Current Year		
ii.	Demand pertaining to previous accounting years (This detail should be given year-wise.)		
B	<u>Add:</u> Demand raised/Change in demand during the current Year		
i.	Demand pertaining to Current Year		
ii.	Demand pertaining to previous accounting years (This detail should be given year-wise.)		
C	Total (A+/-) B)		
D	Collections during the Current Year		

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Sl. No	Particulars	Amount (Rs.)	Amount (Rs.)
i.	Collections pertaining to Current Year		
ii.	Collections pertaining to previous accounting years (This detail should be given year-wise.)		
F	Demand outstanding at the end of the Year (C-D)		
i.	Demand outstanding in respect of the current year		
ii.	Demand outstanding in respect of previous accounting years (This detail shall be given year-wise.)		

22.16 The Accounts Department shall reconcile the figures given in the Statement with the respective receivable accounts in the General Ledger. The reasons for differences, if any, shall be identified and rectification entries passed in the department which has recorded the entry incorrectly.

22.17 The reconciliation of Receivable Accounts shall be carried for all types of receivable accounts, with the respective DCB Registers.

Reconciliation of Suspense Register

22.18 The reconciliation of receivable accounts requires simultaneous reconciliation of the relevant Suspense Register (KMF No 28), since the entries in the Register represent collections without adequate details. The concerned department and the Accounts Department shall ensure that all pending entries in the Suspense Register, as well as the Receivable Suspense Accounts are cleared, and the Register and the balance in the Suspense Accounts show nil balances.

Contractors/Suppliers Payable

22.19 From the Sub-Ledger for Suppliers/Contractors, the list of balances outstanding (Sub-Ledger Schedules) shall be prepared, and the totals shall be tallied with the respective control accounts (Creditors-Suppliers' Payable Account Code 3811, and Creditors-Contractors' Payable - Account code 3812). If the totals do not tally, the entries, postings and totals shall be checked to reconcile the differences. Confirmation letters may be obtained from the Creditors wherever possible, and checked.

22.20 The concerned departments maintain a Departmental Register of Bills Received (KMF No 21) in which all bills submitted for payment are recorded. The concerned departments shall prepare lists of outstanding bills at the year-end, and forward the same to the Accounts

Department. The Accounts Department shall check the Sub-Ledger Schedules, and ledger balances to ensure that the balances are correct. Differences, if any shall be sorted out jointly by the Accounts Department and the concerned departments.

Other Reconciliation Procedures

Borrowings, Deposits, Recoveries, etc.,

22.21 Reconciliation shall be carried out on a yearly basis between balances in the liability accounts such as Borrowings, EMD, Security Deposits, Statutory Recoveries from employees, Contractors, etc., in the Ledger, and the respective Registers. In case of Borrowings, confirmation of balances shall be obtained from the lending institutions, and checked with the ULB's books and the Register of Loans. In case of recoveries, the monthly remittances shall be matched against recoveries, to confirm that the remittances are correctly done.

Fixed Assets related accounts

22.22 The following are the accounts related to fixed assets:

- Fixed Assets
- Accumulated Depreciation
- Capital Work-in-Progress

22.23 The fixed asset registers (KMF No 44, 44A, 45 and 46) show full particulars of the fixed assets, including original cost of the asset and cost of improvement, if any, depreciation, accumulated depreciation, written down value, disposal of asset, etc. The department responsible for maintaining the relevant fixed asset register is required to prepare a work sheet for the purpose of calculation of depreciation. The work sheet shall be an extract of the fixed asset register, and shall have all the details mentioned above. The totals of gross block (the total original cost and cost of improvements for the class of assets), and accumulated depreciation, depreciation, etc., shall be reconciled with the Accounts Department with the balances in the General Ledger.

22.24 Capital Work-in Progress: As per Rule 83(3) of KMABR, 2006, the Engineering Department shall prepare Summary Statements of Status of Capital Work-in-Progress as at the end of every year, separately for work carried out by the ULB, deposit works and delegated loan works, and send them to the Accounts Department for reconciliation. On receipt of the summary statements, the Accounts Department shall reconcile the balances in the respective Capital Work-in-Progress accounts with the details shown in the Statements.

Stock in Hand

22.25 Rule 106(2) prescribes a "Statement of Closing stock (KMF No 57)" to be prepared by the Store-keeper and sent to the Accounts Department at the end of every year. The Statement lists out the items in stock as on 31st March, and also shows the unit cost of each item quantity, and value.

The Statement shall be prepared separately for :

- Conservancy related stores (Account Code 4511)
- Water Supply related Stores (Account Code 4512)
- Medical supplies stores (Account Code 4513)
- Lighting related stores (Account Code 4514)

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- Food grains stores (Account Code 4515)
- Stores Others (Account Code 4518)

The Accounts Department shall verify the total value for each type of stores with the balances in the respective accounts in the ledger. The discrepancies, if any, shall be resolved by verifying the entries in the account with Register of Stores, MRNs, MINs, etc.

Permanent Advance

22.26 At the year-end, the Accounts Department shall obtain a confirmatory certificate from each of the department heads/officers holding Permanent Advance. The total of all such amounts shall be reconciled with the Permanent Advance Register (KMF No 63), as well as, the balance in Permanent Advance account in the Ledger. The reasons for differences, if any, shall be identified and rectification entries passed.

Other Advances and Deposits (assets)

22.27 Advances to employees, loans (For example, loan given to beneficiaries under Ashraya Scheme), etc., shall be verified with the respective Registers (For example, Register of Advances).

22.28 Deposits with external agencies such as KEB deposit, Telephone deposit, Rent Deposit, etc., shall be verified with the respective files at the year-end, to confirm the correctness of the balances.

Inter-fund Transfer Accounts

22.29 The General Ledger of each Fund will have the inter-fund transfer accounts of the remaining Funds. The net balances in these accounts shall always be nil. For example, if the Inter-fund Transfer-Water supply and Sewerage Fund (4862) Account in the General Fund shows a debit balance of Rs 15,00,000, the Inter-fund Transfer-General Fund (4861) Account in Water supply and Sewerage Fund shall show a credit balance of Rs 15,00,000. The inter-fund transfer accounts shall be reconciled on a monthly basis, and discrepancies, if any, shall be resolved by checking the entries in the two accounts.

Reconciliation of balances with the Government, government agencies, etc.,

22.30 Due to large number of transactions with various government, quasi-government and government owned agencies; it becomes imperative to reconcile the balances between the books of account of the ULB and the Government/agencies.

22.31 At the end of each accounting year, the Accounts Department shall prepare and forward to the concerned authority/agency, a Confirmation Statement, within 15 days from the end of the accounting year, stating therein,

- a. the amount receivable from the authority/agency or
- b. the amount payable to the authority/agency

depending on whether the sum is receivable from or payable to the authority/agency.

22.32 Based on the reply received, the ULB shall take steps for reconciliation of the difference, if any.

CHAPTER
23

FINANCIAL STATEMENTS

Financial Statements

23.1 Preparation of Financial Statements is the responsibility of the Accounts Department. KMABR, 2006, prescribes monthly and annual financial statements.

Monthly Financial Statements

23.2 The monthly financial statements consist of the following :

- a. Monthly Receipts and Payments Account
- b. Trial Balance
- c. Consolidated Statement of Demand, Collection and Balance

23.3 Rule 123 of KMABR, 2006, prescribes that the above reports shall be sent to the Controller, Assistant Controller of the Local Audit Circle concerned and the Deputy Commissioner of the District by the 20th of the succeeding month.

Monthly Receipts and Payments Account:

23.4 A Receipts and Payments Account for a period is a statement showing opening cash and bank balances at the beginning of the period, receipts and payments during the period, and closing cash and bank balances as at the end of the period.

23.5 The Monthly Receipts and Payments Account shall be prepared in KMF No 74. The opening cash and bank balances together with the receipts for the month shall be matched against payments for the month and closing cash and bank balances.

23.6 The Receipts and Payments Account shall be prepared from the receipt and payment entries in various accounts in the General Ledger. For this purpose, each account in the General Ledger shall be reviewed, and the total of the receipt entries and the total of payment entries in each account shall be listed out under the relevant account code/head in the column pertaining to the relevant Fund.

23.7 In the case of payments such as payments to contractors/suppliers, services or payment of interest accrued, etc., which are debited to the 'liability' accounts in the books of account, such payments shall be shown in the Receipts and Payments Account under the relevant expenditure (asset or expense) accounts. For example, consider a case where the total of all payments to “Creditors-Contractors Payable (Account Code 3812)” during the month is Rs 1,35,000, the details of which are as follows :

Expenditure Account Code	Account Head	Amount		
		Gross	Recoveries (Show individual recoveries)	Net
2341	Repairs & Maintenance-Parks & Gardens	5,250	--	5,250
2351	Repairs & Maintenance-Roads, Pavements and Footpaths	23,350	1,360	21,990
4132	Roadside Drains	1,06,400	4,340	1,02,060
	Total	1,35,000	5,700	1,29,300

On the Payments side of KMF No 74, Rs 5,250 is shown against account code 2341, Rs 23,350 against account code 2351, and Rs 1,06,400 against account code 4132. The recoveries shall be shown on the “Receipts” side of KMF No 74 against respective account codes.

22.8 The remittance of individual recoveries shall be shown on the Payments side, whenever the remittances are made.

23.9 In case of inter-fund transactions, receipts and payments shall be taken in the column pertaining to the Fund where the receipt or payment has actually taken place. For example, consider a receipt of Rs 2,700 towards Water Charges, and Rs 500 towards new connection charges in the General Fund. This shall be shown on the “Receipts” side of KMF No 74 against account code 4862 (Inter-fund transfer-Water supply and Sewerage Fund) in the “General Fund” column.

In the column for Water Supply and Sewerage Fund, Rs 2,700 shall be shown against account code 1461, and Rs 500 shall be shown against account code 1462 in the “Receipts” side of KMF No 74A. Simultaneously, Rs 3,200 shall be shown against account code 4861 (Inter-fund transfer-General Fund) on the “Payments” side.

23.10 In the case of transfer of funds from the bank account of one Fund to another Fund, the amount shall be shown as receipts and payments in the columns pertaining to the respective Funds.

Chapter 23 - Financial Statements

23.11 Remittance of statutory recoveries shall be shown against respective “recoveries” account codes.

23.12 Contra entries and journal entries shall not be shown in the Monthly Receipts and Payments Account.

23.13 The break-up of opening and closing cash and Bank balances shall be given in a separate sheet for each Fund.

Monthly Trial Balance:

23.14 Rule 124 of KMABR, 2006, prescribes preparation of the Trial Balance at the end of every month. A Trial Balance is a statement listing all closing balances under each account head in the General Ledger, as at a particular date, including cash and bank balances. It has columns for account codes, account heads, debits and credits. The debit and credit balances shall be shown in separate columns. The debit and credit balances shall be totalled separately, and the two totals shall match. The trial balance shall be in KMF No 75.

23.15 The following points shall be borne in mind while preparing the Trial Balance:

- a. Income accounts shall generally have credit balances and expense accounts shall generally have debit balances, though there can be exceptions.
- b. Asset accounts shall generally have debit balances, and liability accounts shall generally have credit balances, though there can be exceptions here also.
- c. The Trial Balance shall be prepared with different columns for each Fund, and also for consolidated figures.
- d. All the ledger accounts shall be closed at the month-end, and the closing balances arrived at.
- e. The debit balances shall be written in the respective Fund columns of the debit side of the Trial Balance, and the credit balances shall be written in the respective Fund columns of the credit side of the Trial Balance.
- f. The listing of Ledger Accounts in the Trial Balance shall be in the same order as shown in the Chart of Accounts.
- g. The Cash Books and Bank Books shall be closed and the balances shall be taken to the Trial Balance.
- h. Both the Debit Column and the Credit Column of the Trial Balance shall be totalled and tallied with each other.

23.16 Since every debit entry has a corresponding credit entry, the sum-total of the debit balances in various account heads shall be equal to the sum-total of the credit balances. While, generally, a tallied Trial Balance will be a first test of accuracy, it is possible that the Trial Balance may tally even

if the following has happened:

- a. Omission of an entry in the original books of entry, viz., Cash Book / Bank Book and Journal Book, in which case neither debit, nor credit will be recorded
- b. Wrong entry in the original books of entry
- c. Posting of an entry in the wrong account head but on the correct side
- d. Compensating errors such as salaries paid recorded as Rs.2,000 instead of actual of Rs.2,500 and Repairs and Maintenance recorded as Rs.1,500 instead of actual of Rs.1,000

23.17 In case the Trial Balance does not tally, some of the steps that should be taken for finding those errors and rectifying them are as follows:

- a. Check for totaling errors in the Trial Balance
- b. Ensure that all cash and bank balances are included in the Trial Balance, and are correct
- c. Ensure that all the balances in the General Ledger are taken correctly in the Trial Balance
- d. Ensure that opening balances are taken correctly in the Cash book/bank books, and the General Ledger
- e. Verify the totals in the Cash and Bank Books, and the General Ledger
- f. Check the journal entries to see that the total debits and credits for each entry tally
- g. Verify the postings to the ledger accounts from the books of original entries, i.e., the Cash Book / Bank Book and Journal, to ensure that no error is made while posting entries in ledgers

Monthly Consolidated DCB Statement

23.18 Each Department responsible for collection of any type of accruable income and maintaining a DCB Register shall prepare a DCB Statement for balances outstanding in such a DCB Register. The DCB Statement shall show year-wise break-up of receivables, and may be prepared in the same format as KMF No 76. The DCB Statement shall be sent to the Accounts Department. The Accounts Department shall verify the Statements received from various departments with the balances in the General Ledger, and consolidate the Statements in KMF No 76.

Submission of monthly financial statements

23.19 Rule 124(3) of KMABR, 2006, prescribes that the monthly financial statements as explained above, shall be prepared by the Accountant, and sent to the Controller, Assistant Controller of the Local Audit Circle concerned and the Deputy Commissioner by the 20th of the succeeding month.

Annual Financial Statements

Year-end Trial Balance

23.20 The process of preparation of the Financial Statements shall be preceded by preparation of a Trial Balance (KMF No 75). The trial balance as at 31st March represents the position as at the end of the year. The purpose of preparing a Trial Balance is to ascertain the closing balances for preparation of the Financial Statements, as well as, to verify the correctness of accounting in the books of prime entry, and their posting to the General Ledger. The Trial Balance shall be prepared with separate columns for different Funds and for consolidated figures for the ULB as a whole.

23.21 From the tallied Trial Balance, the ULB shall prepare the Balance Sheet and Income and Expenditure Account.

Preparation Of Annual Financial Statements

23.22 Financial Statements consist of:

- Receipts and Payments Account (KMF No 74 with Schedules R-01 to R-37)
- Balance Sheet (KMF No 77 with Schedules B-01 to B-17)
- Income and Expenditure Account (KMF No 78 with Schedules I-01 to I-17)
- Notes to Accounts and

23.23 Rule 125(1) of KMABR, 2006, prescribes that the annual financial statements shall be prepared, and presented to the Financial Statements Auditor for audit, within two months from the end of the accounting year (financial year).

23.24 The amounts in the annual financial statements and the schedules forming part of the financial statements shall be stated in Rupees. It may be disclosed in Thousands of Rupees if a ULB decides to do so.

23.25 The financial statements have columns for various Funds, a column for the consolidated figures for the ULB as a whole, and it also has a column for showing the corresponding comparative figures for the previous year.

23.26 While preparing the Balance Sheet and the Income and Expenditure Account, the following points shall be taken note of :

- a. The balances in the assets accounts, which generally have debit balances, shall be shown on the 'Assets' side of the Balance Sheet.
- b. The balances in the liability accounts, which generally have credit balances, shall be shown on the 'Liabilities' side of the Balance Sheet.
- c. The balances in the income accounts, which generally have credit balances, shall be

shown on the Income side of the Income and Expenditure Account.

- d. The balances in the expense accounts, which generally have debit balances, shall be shown on the Expenditure side of the Income and Expenditure Account.
- e. No items in the Trial balance shall be left out without either showing them in the Income and Expenditure Account or the Balance sheet.
- f. For easy comprehension of the financial performance of the ULB, items are grouped together at the level of sub-minor heads in Schedules. The group totals (at minor-head level) are carried to the Balance Sheet and Income & Expenditure Account, from the schedules.
- g. Wherever a reference to Schedules has been made in the Financial Statements, certain items shall be grouped together in the Schedules first. From the Schedules, totals shall be carried to the Financial Statements.

Receipts and Payments Account (Annual)

23.27 The Receipts and Payments Account for the year shall be prepared in KMF No 74. Column 8 and 16 of the form shall be used to show the previous year's corresponding figures.

Income and Expenditure Account

23.28 The Income and Expenditure Account for the year discloses the results of the working of the ULB during the year. It shows incomes for the year under various heads on one side, and expenses for the year on the other side. The difference between the two reflects either the surplus or deficit for the year.

23.29 Since the Financial Statements are prepared under accrual basis, the Income and Expenditure Account shall include all the income earned during the year whether actually received or not and all the expenditure incurred whether actually paid or not.

23.30 The Income and Expenditure Account is prepared in KMF No 78, from the trial balance as at the year end. The trial balance lists out the balances in all the accounts as at the year end, at sub-minor code level. Separate grouping schedules shall be prepared for grouping the incomes and expenses under the respective minor codes. This is necessary, as the Schedules I-01 to I-17 to the Income & Expenditure Account consider the incomes and expenses at minor code level. From the grouping schedules, figures are taken in Schedules I-01 to I-17, and the Schedule totals are carried to the Income and Expenditure Account, to arrive at the net surplus or deficit.

Balance Sheet

23.31 The ULB shall prepare a Balance Sheet as at the last day of the accounting year. The Balance Sheet is a statement, which reflects the financial position of the ULB as on a particular date, by showing the assets, liabilities and reserves of the ULB as at that date.

Chapter 23 - Financial Statements

23.32 The balance sheet is prepared in KMF No 77, with Schedules B - 01 to B-17. As in the case of Income and Expenditure Account, the balance sheet is also prepared from the trial balance as at the year end. The balances in all asset and liability accounts in the trial balance, shown at sub-minor code level, are grouped in separate grouping schedules under the respective minor codes, from where the totals are carried to balance sheet schedules. The totals of the schedules are carried to the balance sheet. The surplus or deficit from the Income and Expenditure Account is also carried to the balance sheet, and added to, or deducted from, the fund balance, as the case may be. The total assets and total liabilities shall always be equal.

Significant Accounting Policies

23.33 The significant accounting policies based on which the financial statements are prepared require disclosure. The significant accounting policies include policies on the accrual of incomes and expenses, the basis of provision of depreciation, provision for doubtful receivables, inventory valuation, fund accounting, policy on accounting of specific grants and earmarked funds, etc.

Notes to Accounts

23.34 The objective of the financial statements is to give a true and fair view of the financial position of the ULB, as well as its financial performance during the year. In order to ensure this, explanations on the figures shown in the financial statements will have to be provided wherever necessary and any material fact which has a bearing on the financial statements has to be disclosed. For this purpose, notes on all such items shall be prepared, and attached to the financial statements. Such notes are known as “notes forming part of the accounts”. Items that require disclosure in the notes to accounts include contingent liabilities, if any, events occurring after the balance sheet which have an impact on the financial statements, extraordinary items, if any, legal disputes, the final disposal of which will have an effect on the financial statements, etc.

Closing Entries

23.35 Once the financial statements are prepared, and the final balances in the Ledger are arrived at, closing entries shall be passed by transferring the balances in all revenue accounts (income accounts and expense accounts) to Income & Expenditure Account by journal entries. The net balances in the Income & Expenditure Account represent the surplus or deficit of the ULB for the year. A credit balance indicates a surplus, whereas a debit balance indicates a deficit. The credit or debit balance shall be finally transferred to Fund Balance. The procedure for passing the closing entries, and carrying forward the balances in the asset and liability accounts to the books of account of the next year, is explained in Chapter 21 - Period End Procedures.

CHAPTER
24

AUDIT REPORT

Audit Report

24.1 The following are the different types of audits a ULB may have :

- a. Statutory Audit
- b. Financial Statements Audit and
- c. Other Audits

Definitions

24.2 KMABR,2006, has defined the following terms related to audits:

- a) “Auditor”: A person appointed for the purpose of carrying out an audit of the accounts of the Municipality and includes the Statutory Auditor and the Financial Statements Auditor [Rule 2(4)].
- b) “Financial Statements Auditor”: An auditor, appointed for carrying out an audit of the financial statements of a Municipality [Rule 2(17)].
- c) “Statutory Auditor”: Auditor appointed by the State Government under Section 290 of the Act.

Statutory Audit

24.3 Statutory Audit refers to an audit carried out under the statute, i.e. the Karnataka Municipalities Act, 1964. Section 290 (1) of the Karnataka Municipalities Act, 1964, requires that the accounts of the ULB shall be audited, at least once in a year by an auditor appointed by the Government and also by such other agency, if any, as may be in the Karnataka Municipalities (Accounting and Budgeting) Rules 2006.

24.4 This audit is normally conducted by the State Accounts Department, Government of Karnataka. The powers and duties of such an auditor, and the reporting requirements are prescribed in the relevant Statute and Rules, such as the Karnataka Municipalities (Powers and duties of Auditors) Rules, 1965.

24.5 The statutory audit is primarily focused on verifying the propriety of transactions of the ULB and the manner in which its affairs are conducted. Irregularities if any, including non-compliance with relevant statues, etc., shall be reported by such an auditor. Section 294 of the Municipalities Act, 1964, provides that the auditor shall include, in his report, a statement of :

- i. Every payment which appears to him to be contrary to law
- ii. The amount of any deficiency or loss which appears to have been caused by the gross negligence or misconduct of any person
- iii. The amount of any sum which ought to have been but is not brought into account by any person and
- iv. Any material impropriety or irregularity which he may observe in the accounts other than those mentioned in clauses (i), (ii), and (iii) above

24.6 The Karnataka Municipalities (Powers and duties of Auditors) Rules, 1965, further prescribes the reporting requirements by such an auditor. According to Rule 24, the main points which the auditor has to cover in his report are:

- Whether grants or borrowings are utilised for the purpose of the schemes / projects for which they were received / obtained.
- List of loans availed and whether necessary provisions have been made for repayment of principal and payment of interest.
- Whether all advances and investments are fully secured.
- Result of the verification of stock, and whether any losses have occurred, and whether the system of stores accounts requires to be improved, etc.,

Financial Statements Audit

24.7 The ULB shall prepare Annual Financial Statements consisting of the Balance Sheet, Income & Expenditure Statement and Receipts & Payment Account, along with Statement of significant accounting policies, and Notes to Accounts, as discussed in Chapter 23.

24.8 The audit of these financial statements shall be carried out primarily to establish that they represent a 'true and fair' view of the affairs of the ULB during the period. Such an audit is called a 'Financial Statements Audit'.

24.9 Rule 129 requires that the Financial Statements of a ULB shall be audited by a chartered accountant holding certificate(s) of practice under the Chartered Accountants Act, 1949. The 'Financial Statements Auditor' shall be appointed by the Director of Municipal Administration in consultation with the Controller, State Accounts Department, from an audit panel jointly maintained by the Director of Municipal Administration and the Controller maintained for the purpose. The appointment is subjected to regular rotation.

Report of the Financial Statements Auditor

24.10 The Financial Statements Auditor shall, upon completion of an audit of the accounts, issue a report on the financial statements of the ULB. The audit report along with the annexure shall be submitted by the Auditor to the Municipal Council with copies to the Deputy Commissioner of the District, the Director of Municipal Administration and the Assistant Controller of the Local Audit Circle.

24.11 The Report of the Financial Statements Auditor shall state:

- a. whether he has obtained all the information and explanations which to the best of his knowledge and belief were necessary for the purposes of his audit.
- b. whether, in his opinion, proper books of account as required by the Act, Rules and the Accounting Manual have been kept by the ULB, so far as it appears from his examination of those books.
- c. whether the ULB's Balance Sheet, Income and Expenditure Account, Receipts and Payments Account and Cash Flow statement dealt with by the report are in agreement with the books of account.
- d. whether the Financial Statements give a true and fair view:
 - i. In case of the Balance Sheet, of the State of Affairs of the ULB as on the last day of the financial year and
 - ii. In case of Income and Expenditure Account, of the surplus /deficit of the ULB for the year ended on that date.

24.12 Where any of the matters referred to above are answered adversely or with a qualification, the auditor's report shall state the reason for the same and with further explanation and the financial impact of such a qualification.

Additional Matters to be Reported

24.13 Rule 130(4) of KMABR, 2006, requires the Financial Statements Auditor to report on additional matters listed in Schedule IX thereto. The additional matters to be reported are:

- a. Whether all sums due to and received by the Municipality have been brought to account and have been appropriately classified.
- b. Whether all grants sanctioned or received by the Municipality during the year, have been accounted properly, and where any deduction is made out of such grants towards any dues of the Municipality, whether such deductions have been properly accounted.
- c. Whether any Earmarked Funds have been created as per the provision of any statute and, if so, whether such Earmarked Funds have been utilised for the purposes for which they were created.

- d. In respect of contracts that are in existence during the year, whether there are any deviations from the sanctioned plans and the estimates without the sanction of the competent authority.
- e. Whether the Municipality is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets; whether these fixed assets have been physically verified at reasonable intervals; whether any material discrepancies were noticed on such verification and if so, whether the same has been properly dealt with in the books of account.
- f. Whether in case of leasehold property given by the Municipality, whether lease rentals are collected regularly by the Municipality and that the lease agreements are renewed after their expiry.
- g. Whether physical verification has been conducted by the Municipality at reasonable intervals in respect of stores.
- h. Whether the procedures of physical verification of stores followed by the Municipality are reasonable and adequate, if not, state the inadequacies in such procedures.
- i. Whether any material discrepancies have been noticed on physical verification of stores as compared to stores records, and if so, whether the same have been properly dealt with in the books of account;
- j. Whether proper procedures are in place to identify any unserviceable or damaged stores and, if so, whether loss on account of such unserviceable or damaged stores has been properly accounted.
- k. Whether the valuation of stores is in accordance with the accounting policy prescribed and whether the basis of valuation of stores is same as in the preceding year. If there is any deviation in the basis of valuation, state the effect of such deviation, if material.
- l. Whether the parties to whom loans or advances have been given by the Municipality are repaying the principal amounts as stipulated and are also regular in payment of the interest and if not, whether reasonable steps have been taken by the Municipality for recovery of the principal and interest.
- m. Whether advances given to municipal employees and interest thereon are being regularly recovered.
- n. Whether there exists an adequate internal control procedure for the purchase of stores, including components, plant and machinery, equipment and other assets.
- o. Whether the Municipality is regular in depositing statutory dues including tax deducted at source, works contract tax, cess payable to the Government, etc., and if not, the nature and cause of such delays and the amount not deposited.
- p. Whether the Municipality is regular in remittance of pension and leave encashment

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contributions or any other amounts which the Municipality is liable to remit towards the retirement dues of its employees, including employees on deputation.

- q. Whether any personal expenses have been charged to the Municipality's accounts; if so, the details thereof.
- r. Whether the Bank Reconciliation statements have been properly prepared for all the bank accounts of the Municipality.
- s. Whether the year-end and reconciliation procedures prescribed have been carried out.

24.14 According to the requirements of Rule 125 of KMABR, 2006, the financial statements audit shall be completed within four months from the end of the financial year, i.e. by July 31st, and circulated along with the Annual Performance Report as detailed in Chapter 25 Annual Performance Report.

CHAPTER
25

ANNUAL PERFORMANCE
REPORT

Annual Performance Report

25.1 The Commissioner/Chief Officer of the ULBs shall prepare an Annual Performance Report (APR) at the end of the financial year. The APR shall consist of:

- i. A City Management Report (CMR)
- ii. Financial Auditor's Report on the Financial Statements
- iii. Audited Financial Statements and
- iv. Cost and Performance Indicators
- v. Budget Variance Statement

City Management Report

25.2 This Report shall be prepared by the Municipal Commissioner or Chief Officer, and shall be presented to the Council along with the financial statements. It provides a discussion and analysis of the financial performance and position of the ULB during the financial year. In respect of any adverse performance, the report shall explain the reason therefor, and the steps taken to improve performance in that area.

25.3 The report shall also discuss the future plans of the ULB and the projects currently in progress. It shall also respond to any comments and qualifications mentioned in the Financial Statement Auditor's report, stating the facts of the matter and the steps taken in respect of those qualifications.

25.4 The objective of the CMR is to report the ULB's activities in a simple narrative manner so that the members of the Council and the citizens, tax payers and the others concerned can appreciate the ULB's performance and an environment of transparency, accountability and dialogue is created, all of which is aimed at improving urban governance.

25.5 The CMR shall contain the following information:

- The ULB's performance and results of operations to assist users in assessing whether

the financial position has improved or deteriorated as a result of the year's activities.

- Summary of financial statements comparing the current year with the past financial year and including an analysis of the cause for significant changes in financial performance / position.
- Analysis of significant variance between budget and actual amounts for the various activities.
- Description of capital assets created and long term loans taken during the financial year.
- Performance and improvement in systems and controls.
- Compliance with laws and regulations and actions taken or being planned to tackle potential problems.
- Significant events, conditions, trends and contingencies that may affect future operations.

25.6 The CMR shall give the government officials, the council, and tax payers / citizens alike an objective and easily readable analysis of the ULB's financial activities, position and future plans. The CMR shall be reliable, complete, and fair, and provide all material information. It shall be written in plain language, with candour and without exaggeration, embodying the qualities of understandability, relevance, comparability and consistency over the reporting periods.

25.7 A suggested format for the City Management Report is given as an Annexure A to this chapter.

Auditor's Report on the Financial Statements

25.8 The report of the Financial Statements Auditor carried out as prescribed in Chapter 24 shall be included as part of the APR.

25.9 Where the Financial Statement Auditor has made a qualification or adverse comment, the Municipal Commissioner / Chief Officer shall provide his response through the 'Responses to Audit Qualifications' section of the CMR.

Audited Financial Statements

25.10 The financial statements prepared in accordance with Chapter 23 and subject to the financial statements audit under Chapter 24, shall be included in the APR.

25.11 The audited Financial Statements shall comprise of :

- Balance Sheet

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- Income & Expenditure Account
- Receipts and Payments Account
- Significant accounting policies adopted by the ULB in presentation of the financial statements
- Notes to Accounts which shall disclose Contingent Liabilities, and such other information as may be useful in understanding the financial statements clearly

Cost and Performance Indicators

25.12 This section shall provide other important financial and non-financial information about the ULB to provide a better understanding of the ULB's performance. It shall include:

- Basic information about the city or town
- Infrastructure status
- Cost of major services
- Financial performance ratios

25.13 A format for the above disclosure in the APR is given in Annexure B to this Chapter.

25.14 ULBs shall provide further performance supplementary information in this section of the report, in order to provide relevant information to the Council, tax payers / citizens and other users of the APR. This may include:

- Details of Scheme/Project funds received and utilised during the year
- Project-wise details of capital works being undertaken by the ULB and their progress, etc.,

Budget variance statement

25.15 Budget Variance Statement or Budget Variance Report (BVR) is a statement in which the actuals for the year are compared with the budget, and variances are arrived at. For the procedure of preparing a Budget Variance Statement and the format in which it shall be prepared, refer Chapter 26 Budget & Budget Control.

Timeline

25.16 The timeline for preparation of financial statements, for completion of audit, publishing the annual performance report, etc., are prescribed by KMABR, 2006. The prescribed timeline is as follows :

a.	Submission of financial statements by the ULB to the financial statements auditor for audit	Not later than two months from the end of the financial year	31st May
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b.	Completion of financial statements audit	Not later than four months from the end of the financial year	31st July
c.	Publishing the Annual Performance Report	Not later than six months from the end of the financial year	30th September

Publishing The Annual Report

25.17 The objective of the APR is to provide easy access to financial information for the various users of accounts. Hence, Rule 128 of KMABR, 2006, has prescribed the following steps for publicising the annual performance report :

- Publish the Annual Performance Report.
- Publish a detailed version of the Annual Performance Report on the website of the Municipality, if the website has been hosted.
- Send an abridged version of the Income and Expenditure Account, Balance Sheet and Budget Variance Statement to the District Information and Publicity Officer for being published in two news papers having the highest circulation in the district.
- Publish a notice in 2 news papers, advising of the publication of the Annual Performance Report and that copies of the report are available at the office of the Municipality.
- Where the ULB does not have its own website, the State Government shall facilitate to have the APR hosted centrally for the ULB.

ANNEX A: Format of City Management Report

City Management Report of _____ (Name of the ULB)

This report is an overview of the performance of _____ (Name of ULB) during the financial year ____ (Financial Year under report). This report forms part of the Annual Performance Report of the ULB.

Financial Highlights

- The ULB's assets have increased / decreased by ___ lakhs, primarily due to _____. Of this, a significant investment has been made in ___ (Function, for example Roads). This is expected to lead to _____
- The ULB's liabilities have increased / decreased by ___ lakhs, primarily due to _____. Of this, significant liability has been incurred in ___ (Function, for example Roads), due to _____. The summarized Balance Sheet as on ____ (date) and three previous years is given below:

Summarised Balance Sheet of _____ <Name of ULB>*Rs. lakhs*

Particulars	Current Year	Previous Year	Previous Year -1	Previous Year -2
ASSETS				
1. Fixed Assets (Net)	xxxx.xx	xxxx.xx	xxxx.xx	xxxx.xx
2. Investments	xxxx.xx	xxxx.xx	xxxx.xx	xxxx.xx
3. Net Current Assets (Current Assets - Current Liabilities)	xxxx.xx	xxxx.xx	xxxx.xx	xxxx.xx
4. Other Assets	xxxx.xx	xxxx.xx	xxxx.xx	xxxx.xx
5. TOTAL (1+2+3+4)	xxxx.xx	xxxx.xx	xxxx.xx	xxxx.xx

Particulars	Current Year	Previous Year	Previous Year -1	Previous Year -2
LIABILITIES				
6. Fund Balance	xxxx.xx	xxxx.xx	xxxx.xx	xxxx.xx
7. Earmarked Funds and Reserves	xxxx.xx	xxxx.xx	xxxx.xx	xxxx.xx
8. Contributions & Grants for Specific Purposes	xxxx.xx	xxxx.xx	xxxx.xx	xxxx.xx
9. Loans and Borrowing	xxxx.xx	xxxx.xx	xxxx.xx	xxxx.xx
10. TOTAL (6+7+8+9)	xxxx.xx	xxxx.xx	xxxx.xx	xxxx.xx

- During the year, the ULB has made revenue expense of ___ lakhs and capital expense of ___ lakhs. This is ___ (in Rs. lakhs & percentage change) more / less than expenditure incurred during the previous year.
- Own Source revenue of the ULBs was Rs. ___ lakhs, an increase / decrease of ___ percent over the previous year. Own source revenue made up ___ percent of revenue receipts during the year, compared to ___ percent in the previous year.
- As per the Income & Expenditure Account, the ULB had a surplus / deficit on revenue account amounting to Rs. ___ lakhs. The performance trend over the last 3 years is as follows:

Summarised Income & Expenditure Account of <Name of ULB>*Rs. lakhs*

Particulars	Current Year	Previous Year	Previous Year -1	Previous Year -2
INCOME				
1. Tax Income (% of Own revenues)	xxxx.xx (xx.x%)	xxxx.xx (xx.x%)	xxxx.xx (xx.x%)	xxxx.xx (xx.x%)
2. Non-Tax Income (% of Own revenues)	xxxx.xx (xx.x%)	xxxx.xx (xx.x%)	xxxx.xx (xx.x%)	xxxx.xx (xx.x%)
3. Own Source Income (1+2) (% of Total Income)	xxxx.xx (xx.x%)	xxxx.xx (xx.x%)	xxxx.xx (xx.x%)	xxxx.xx (xx.x%)
4. Assigned Revenues from the State	xxxx.xx	xxxx.xx	xxxx.xx	xxxx.xx
5. State Transfers / Grants	xxxx.xx	xxxx.xx	xxxx.xx	xxxx.xx
6. Total Income (3+4+5)	xxxx.xx	xxxx.xx	xxxx.xx	xxxx.xx
EXPENDITURE				
7. Salaries & Establishment	xxxx.xx	xxxx.xx	xxxx.xx	xxxx.xx
8. Operations & Maintenance	xxxx.xx	xxxx.xx	xxxx.xx	xxxx.xx
9. Depreciation	xxxx.xx	xxxx.xx	xxxx.xx	xxxx.xx
10. Others	xxxx.xx	xxxx.xx	xxxx.xx	xxxx.xx
11. Total Revenue Expenditure (7+8+9+10)	xxxx.xx	xxxx.xx	xxxx.xx	xxxx.xx
Revenue Surplus / (Deficit) (6-11)	xxxx.xx	xxxx.xx	xxxx.xx	xxxx.xx

Fund Wise Performance

The ULB maintains its accounts segregated into the following funds:

1. Water Supply & Sewerage Fund, covering the activities of water supply and sewerage services in the city.

2. Enterprise Fund, covering shopping complexes and other exclusively revenue- generating assets of the ULB and
3. General Fund, covering the other activities which do not fall within the above two funds

A summary of the Fund-wise performance is given below:

Summarised Fund statements of _____ <Name of ULB>

Particulars	General Fund	Water Supply & Sewerage Fund	Enterprise Fund	Total
1. Own revenue receipts				
2. Government Grants				
3. Total revenue Receipts(1+2)				
4. Revenue Expenditure (before depreciation and prior period items)				
5. Gross Surplus / (Deficit) (3-4)				
6. Depreciation				
7. Surplus / (Deficit) before prior period expense (5-6)				
8. Prior Period Expense (Net)				
9. Surplus / (Deficit) for the year (7-8)				
10. Gross Assets (Total of Balance Sheet)				
11. Fund Balance (Gross Assets - outside liabilities)				

< A narrative statement may be given to elucidate the performance of these funds. Illustrations such as charts and graphs may be used in order to present it visually. >

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Financial Trend

<In this section, bring out the financial trend over the last 3-5 years highlighting the changes in major revenue items (i.e. forming 10% or more of fund income) and major expenditure items (i.e. constituting 10% or more of fund expense). The trend in receivables and payables on these accounts should also be explained. Illustrations such as charts and graphs may be used in order to present it visually. >

Significant Activities During the Year

<Here, some of the significant achievements during the year should be highlighted. They could be in the areas of governance, service delivery, access or quality of services. Illustrations such as charts and graphs may be used to present the activities in a visual manner. >

Budget Variations

<This section should bring out the reasons for variation between the budget and actual incomes and expenditure for the year under review. > This shall be in the form of a statement.

Response to Audit Qualifications

<In this section, the ULB shall respond to any comments and qualifications mentioned in the Financial Statement Auditor's report, stating the facts of the matter and the steps taken in respect of those qualifications. >

Future Plans

<The significant future plans of the ULB including changes / improvements in services as well as governance should be mentioned in this section. >

Further Information to the Public

This report is designed to provide our citizens, taxpayers and creditors with a general overview of the city's finances and to show the city's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact _____ *<Name and Designation>*, at _____ *<Contact details including Phone / Fax and email, if available>*.

Municipal Commissioner / Chief Officer

Date:

Place:

ANNEX B: Format of Cost and Performance Indicators

A report card on the status of important civic services and certain cost and performance indicators of ___ <name of City> for the year _____ is given below:

Sl. No	Particulars	Current Year	Previous Year
Basic City Statistics			
1.	Area of City (sq. km)		
2.	Population <mention census year> Estimated No. of Households		
3.	SC / ST Population <mention year> BPL Population (SJSRY survey) <mention year> Slum Population <mention year>		
4.	Literacy rate % (Men, Women) <mention year>		
5.	No. of properties in the city (as per property tax records) Residential Commercial Industrial Vacant Land TOTAL		
ULB Details			
6.	Year of establishment of ULB		
7.	No. of Wards		
8.	Council Members Men Women TOTAL SC / ST Council Members (out of total)		
9.	No. of employees of the ULB		

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Sl. No	Particulars	Current Year	Previous Year
Services Status			
10.	Water Supply (LPCD) <u>Normal Season</u> Surface Water Underground Water <u>Scarcity Season</u> Surface Water Underground Water	<u>Target</u>	<u>Actual</u>
11.	Water Supply Connections (as per ULB records) Residential Commercial Industrial		
12.	Length of Roads (km) Metalled Asphalt Concrete Others		
13.	Streetlights (No.) High-mast Sodium Vapour Mercury Vapour Tube lights Others		
14.	Solid Waste Management (MT per day) Generated Collected Disposed in Landfills		
15.	Sewerage / Drainage (km) Surface drains (Road side drains) Underground Sewerage / Drainage Others		

Sl. No	Particulars	Current Year	Previous Year
16.	Sewerage Connections (as per ULB records) Residential Commercial Industrial Others		
17.	Other facilities (No.) Municipal Hospitals and Number of Beds Municipal Dispensaries Ambulances Municipal Schools Students in municipal schools Municipal Markets Area of Municipal Markets (Sq metres) Electrical crematoria Public burial ground Public burning ground		
Cost of Services			
18.	Supply of Water (per litre) <Expense under Water Supply Function / water supplied during the year>		
19.	Maintenance of Roads (per km) <Expenses under Road function / road length>		
20.	Maintenance of streetlights (per unit) <Expenses under streetlight function / no. of units>		
21.	Solid Waste Management (per MT) <Expenses under SWM function / Generation of solid waste>		
22.	Sewerage / Drainage maintenance (per km) <Expenses under Sewerage / Drainage function / Length of drains/ sewers>		

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Sl. No	Particulars	Current Year	Previous Year
Recovery of Costs			
23.	Recovery of water cost (per litre) <Revenue under Water Supply Function / water supplied during the year>		
24.	Recovery of Solid Waste Management (per MT) <Revenue under SWM function / Generation of solid waste >		
Financial Indicators			
	Performance		
25.	Surplus / (Deficit) to Total Income Ratio... (%) <Surplus or Deficit / Total Income >%		
26.	Income per Employee... (Rs.) <Total Income / No. of Employees>		
27.	Expense per Employee... (Rs.) <Total Expenditure / No. of Employees>		
28.	Income per Citizen... (Rs.) <Total Income / Population >		
29.	Expense per Citizen... (Rs.) <Total Expense / Population >		
	Efficiency Ratios		
30.	Current Year Property Tax Collection Ratio... (%) <1- (Property Tax Receivable for Current year / Property Tax collection)>%		
31.	Arrears Property Tax Collection Ratio ... (%) <(Opening Balance of Arrear Property tax Receivable - Closing Balance of Arrear Property Tax Receivable) / Opening Balance of Arrear Property Tax Receivable)>%		

Sl. No	Particulars	Current Year	Previous Year
32.	Maintenance of Assets ratio ... (%) <Operations & Maintenance expense / Fixed Assets>%		
33.	Loans to Reserves Ratio ... (times) <Total Loans / (Fund Balance + Reserves & Surplus)>		
34.	Debt Service Coverage Ratio... (times) <(Surplus + Depreciation + Interest expense + Interest capitalised) / Debt instalments to be serviced (paid) + Interest to be paid in the next year)>		
	Asset Ratio		
35.	Fixed Assets to Total Assets Ratio... (%) <Net Fixed Assets / Total Assets>%		

CHAPTER
26

**BUDGET &
BUDGETARY CONTROLS**

Budget & Budgetary Controls

26.1 Budgeting is an essential element of the financial planning, control and evaluation processes of ULBs. The budget shall reflect the policies and programmes of the ULB, and enable them to measure and promote accountability in respect of service delivery.

26.2 KMABR, 2006, defines “Budget or Budget Estimate” as 'the annual statement of estimated receipts and payments of the ULB for a year, prepared by the Municipal Commissioner or Chief Officer, as the case may be, and approved by the Council, before the appointed day of the year, as per the Act'.

26.3 Every ULB in Karnataka shall adopt an Annual Budget in accordance with the legislative requirements of the Act. The Budget shall be based on detailed calculations and shall focus on the expected receipts and payments for the next year.

Relevant Provisions In Karnataka Municipalities Act, 1964 (section 287 And 288)

Preparation of budget (Section 287)

26.4 The following are the main requirements of Section 287, with respect to preparation of the budget:

- a. The Commissioner /Chief Officer is required to prepare and submit the budget to the Municipal Council, on or before the 15th day January each year.
- b. The budget passed by the Municipal Council shall be sent to the Government, Director of Municipal Administration, the Controller and the Assistant Controller of Local Audit Circle and the Deputy Commissioner of the district.
- c. Under Section 287 (3) of the Act, the budget shall have adequate provisions for :

- Obligatory services of the ULB
 - Discharge of loan and interest liabilities, if any
 - Payment of all sums payable to the Government, under Loan Works, if any (Section 366)
 - Recovery towards Karnataka Municipal Administrative Service (u/s 367) of the Karnataka Municipalities Act, 1964
 - Contributions for the maintenance of water supply, dispensaries, schools and other institutions or services managed by the Government, on behalf of the Municipal Council and any other local authority
 - Allow for closing balance at the end of the said year to meet establishment charges for a period of 3 months
- d. If the budget fails to make adequate provisions for the matters specified above, the DC/DMA/Government may modify any part of the budget to include the above, as also to secure compliance with any of the provisions of this Act.
- e. In the case of City Municipal Councils', the standing committee may, within the sanctioned budget, sanction re-appropriations not exceeding Rs 500 from one sub-head to another or from one minor head to another minor head under the same major head. A statement of such re-appropriations shall be submitted to the Municipal Council at every quarterly general meeting.

Karnataka Municipal Accounting & Budgeting Rules, 2006

26.5 The detailed procedure to be followed for preparation of the budget is prescribed in Rules 131 to 133 of KMABR, 2006. The procedure is explained in the following paragraphs.

- The budget shall be prepared by the Commissioner or Chief Officer and presented before the Council at its general meeting to be held before 15th of January every year.
- The Budget shall be prepared on cash basis only. A consolidated budget for the ULB as a whole shall be prepared, and a separate budget for each Fund is not required.
- The Budget shall be prepared using budget codes, which shall be derived by combining appropriate function code and appropriate account code.

Additional Budget and re-appropriation of budget

- For incurring additional expenditure not provided for, in the sanctioned budget, the Municipal Commissioner or Chief Officer shall seek Additional Budget and Re-appropriation from the Municipal Council. Such a proposal for Additional Budget or Re-appropriation of Budget shall be submitted in KMF No 86, for approval by the Municipal Council. The Municipal Council shall not give the sanction for additional budget unless

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there are sufficient savings shown under other budget heads or unless additional revenue measures are shown to cover the additional budget sought.

- The revised budget including the proposal for additional budget shall be placed before the Municipal Council by the end of November of the current financial year. Such a revised estimate shall also be included in the budget estimate to be placed before the council as per sub rule (1) of Rule 132.
- Any sanction order or work order shall be issued only after ensuring that sufficient budget provision is available.

Forms of Budget

26.6 Rule 132 of KMABR, 2006, provides that a budget summary statement shall be prepared in KMF No 79, and shall be accompanied by the following detailed statements:

Revenue Account:

- Estimate of Revenue Receipts (KMF No 80)
- Estimate of Revenue Payments (KMF No 81)

Capital Account:

- Estimate of Capital Receipts (KMF No 82)
- Estimate of Capital Payments (KMF No 83)

Extraordinary Account:

- Estimate of Extraordinary Receipts (KMF No 84)
- Estimate of Extraordinary Payments (KMF No 85)

26.7 This breakup of budgeting into seven separate statements is to facilitate better planning, and a more accurate estimation by the ULBs. The forms as mentioned above are to record the various transactions under appropriate groupings.

26.8 In the budget formats, estimates for future periods are shown against actuals for the past period. They have the following columns :

- Actuals for the previous year
- Budget estimate for the current year
- Actuals upto December of the current year
- Revised budget estimate for the current year
- Budget estimate for the next year

Budget Summary Statement (KMF No 79)

26.9 The Budget Summary Statement shows the total opening cash and bank balances, the totals of receipts and payments under revenue account, capital account, and extraordinary account, net surplus/deficit, and total closing cash and bank balances.

Estimate of Revenue Receipts (KMF NO 80)

26.10 Revenue receipts include all receipts of the ULB which are received in the normal course of operations or activities of the ULB, and are revenue in nature. Receipts from tax and non-tax sources including fees, charges, revenue grants, stamp duty and compensations from government, sale and hire charges, etc., are considered as 'Revenue Receipts'. These receipts correspond to income account heads (account codes starting with '1') in the chart of accounts, and make up the regular income of the ULBs. The budget estimation shall be made by 'account head', grouped under the appropriate 'function (subject) head'. There are 8 major budget heads under 'Revenue Receipts'. They are:

- Tax revenue (Major code 11)
- Assigned revenues and compensation (Major code 12)
- Rental income from Municipal Properties (Major code 13)
- Fees & User Charges and Other charges (Major code 14)
- Sale & hire charges (Major code 15)
- Grants & Contributions (Major code 16)
- Interest/Dividend Earned (Major code 17)
- Other Income (Major code 19)

26.11 Incomes such as deposits forfeited/lapsed, excess provisions written back, profit/loss on sale of fixed deposits/investments, etc., which do not result in cash inflow, shall not be shown in the Estimate of Revenue Receipts (KMF No 80).

Estimate of Revenue Payments (KMF No 81)

26.12 Revenue payments correspond to payments in respect of revenue expenditure of the ULB. These payments correspond to expense account heads (account codes starting with '2') in the chart of accounts. There are six major budget heads under 'Revenue Payments'. They are:

- Human Resource (Establishment) Expenses (Major code 21)
- General (Administrative) Expenses (Major code 22)
- Operation & Maintenance Expenses (Major code 23)
- Interest & Finance Charges (Major code 24)
- Programme Expenses (Major Code 25)

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- Prior-Period Items (Major Code 28)

26.13 Expenses such as consumption of stores, provisions, write-offs, depreciation, etc., which shall not result in cash outflow, shall not be shown in the Estimate of Revenue Payments (KMF No 81).

Estimate Capital Receipts (KMF NO 82)

26.14 Capital receipts are receipts of the ULB which are of a long term or non-revenue nature. They comprise of the following items:

- Secured and unsecured loans (which are normally repayable over a long term) (Major codes 35 and 36)
- Sale of fixed assets (Major Code 41)
- Deferred Income, in respect of assets created out of grants (3491)

Estimate of Capital Payments (KMF NO 83)

26.15 'Capital payments' are payments resulting in creation of fixed assets, including payments on Capital Works in Progress. They are the payments in respect of expenditure accounted under 'Fixed Assets' (Major Code 41), and 'Capital Work-in-Progress' (Major code 43). Payments made against capital work under progress, shall be shown using appropriate fixed asset account codes instead of account codes for Capital Work-in-Progress.

Estimates of Extraordinary Receipts and Extraordinary Payments (KMF No 84 and KMF No 85)

26.16 'Extraordinary Receipts' and 'Extraordinary Payments' are of the following types:

- Receipts and payments of a temporary nature, which shall be retained by the ULB for a short period, and then repaid or remitted at appropriate dates. Examples of such items are EMDs or Security Deposits received from Contractors/Suppliers, statutory recoveries such as income tax deducted at source, works contract tax, recoveries from employees' salaries, Cess collections, etc.,
- Transfers to earmarked funds such as SC/ST Development (18%) Fund, Sinking Funds, etc., which are not receipts, or payments, but denote earmarking of funds out of the ULB's revenues or Municipal Funds.
- Other items such as receipt of specific grants, sale of investments, repayment of borrowings, etc., which cannot be classified under the Revenue Account, or the Capital Account.
- Any receipt or payment under the Trust & Agency Fund shall be shown under Extraordinary Account.

26.17 The individual items that appear as Extraordinary Receipts, and Extraordinary Payments are :

Extraordinary Receipts		Extraordinary Payments		Remarks
Item	Major Code	Item	Major Code	
Transfers received in Earmarked Funds (Credits)	32	Transfers to Earmarked Funds (Debits)	29	These are taken from journal entries, as exception to the rule that only receipts and payments are considered in the budget. They are shown in order to budget for allocation from Municipal Fund to Earmarked Funds (Refer Paragraph 26.19 for details).
Grants & Contributions received for specific purposes (Credits)	34	Grants & Contributions utilised for specific purposes (Debits)	34	<p>Receipts are taken from receipt vouchers for grants received.</p> <p>Payments - They are taken from debits to major code 34 in the journal vouchers for transfers to “Income”, and “Deferred Income” in respect of revenue and capital expenditure out of grants.</p> <p>Corresponding credits in the journal vouchers shall be shown as Revenue Receipts (in respect of transfers to “income”) and Capital Receipts (in respect of transfers to “deferred income”). This point is explained in detail in Paragraphs 26.23 to 26.27.</p>
Deposits Received (Credits)	37	Refund of Deposits (Debits)	37	<p>Receipts shall be taken from receipt vouchers in respect of deposits received.</p> <p>Payments shall be taken from payment vouchers for refunds.</p>

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Extraordinary Receipts		Extraordinary Payments		Remarks
Item	Major Code	Item	Major Code	
Recoveries by ULB (Recoveries from employees, Contractors, Suppliers, Cess, etc.,	38	Remittance of Recoveries and cesses	38	cont. Recoveries - Contractors/ suppliers' payments, payment of salaries, etc., are considered at gross amounts in Revenue/ Capital Payments. The deductions from these payments are shown in Extraordinary Receipts. This point is explained in detail in paragraph 26.28.
				Remittances of the recoveries are taken from payment vouchers.
Sale Proceeds of Investments (Credits)	44	Investments (Debits)	44	Payments shall be taken from payment vouchers for purchase of investments. Receipts shall be taken from receipt vouchers in respect of sale of investments.
Recoveries of Loans & Advances (Credits)	48	Loans & Advances (Debits)	48	Payments shall be taken from payment vouchers for issue of loans and advances. Recoveries shall be taken from receipt vouchers for recoveries. In the case of recovery of advances paid to employees, gross salary paid is taken from vouchers, in Revenue payments. Recoveries are taken in Extraordinary Receipts.
Repayment of Secured and Unsecured Loans	35 & 36	--	--	Taken from payment vouchers.

Special Treatment in the Case of a few Transactions

26.18 Since a cash basis budgeting system is prescribed for ULBs, only receipts and payments, i.e., transactions resulting in either cash inflow or cash outflow will have to be considered for the purpose of budget. However, there are a few exceptions to this principle. These exceptions are in respect of certain allocations and transfers which do not involve any cash flow, but have to be shown in the budget, for completeness and for enabling proper function-wise allocation. The following are the items :

a) Transfers to Earmarked Funds

26.19 In the case of Earmarked Funds, the amounts to be set aside or allocated from the Municipal Fund or revenues do not involve any receipt, or payment. Such transfers are done by passing journal entries. It is necessary to show such allocation or earmarking of funds in the budget, since such allocation, and subsequent expenditure form important activities of the ULB. The transfer to Earmarked Funds shall be shown as Extraordinary Receipts (using the major code 32), as well as Extraordinary Payments (using major code 29), thus, removing any impact on the cash and bank balances.

26.20 The actual transfer of funds from the main bank account of the ULB to the Earmarked Fund Bank account does not amount to payment, but only an internal transfer of money from one bank to another, accounted through contra vouchers. Such internal transfers of funds shall not be shown in the budget.

26.21 Revenue Expenditure out of Earmarked Funds is shown in the Estimated Revenue Payments under respective functions. Since revenue expenses out of Earmarked Funds are debited to the Earmarked Fund Account, such expenses are shown in the budget using the account code for the Earmarked Fund.

26.22 Capital expenditure out of the Earmarked Fund is accounted in the books of account in the same manner as other fixed assets. Even in the budget, such a capital expenditure is shown as capital payments under the appropriate functions.

b) Specific Grant

26.23 Though a specific grant is granted for a specific purpose, with terms and conditions about its utilisation, the ULB may not be in a position to know how much of it would be used for revenue/capital purpose, and for what the function/functions it would be used. Therefore, a specific grant is shown as an Extraordinary Receipt.

26.24 On utilisation, the amount equivalent to utilisation for revenue purposes are transferred to "Income" by passing a journal entry debiting the Specific Grant account, and crediting the

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“Transfer from Specific Grants (Liability) in respect of Revenue Expenditure incurred (Account Code 1658)”. A similar treatment is carried out in the budget also - to the extent, when a specific grant is transferred to income, it is shown as a revenue receipt, under appropriate function.

26.25 The amount equivalent to capital expenditure is transferred to the “Deferred Income” in the books of account. In the budget, such an amount is considered as capital receipt.

26.26 The total amounts transferred to “Income” and “Deferred Income” is shown under Extraordinary Payments.

26.27 Actual revenue and capital expenditure out of specific grant are shown under appropriate functions in “Estimates of Revenue Payments”, and “Estimates of Capital Payments”, respectively.

c) Recoveries and remittances of TDS, work contract tax, advance to contractors etc

26.28 In case of salary paid to employees, only net salary is paid to employees. The recoveries are remitted to appropriate authorities on due dates. Similarly, in the case of contractors' bills, payments to contractors are made after recovery of statutory deductions, advance, if any, etc. The statutory deductions are remitted on due dates. While taking these items of expenditure in the budget, gross amounts are taken under appropriate functions, simultaneously showing the recoveries as extraordinary receipts. The remittances of recoveries are shown as extraordinary payments.

Other budgetary items

General or untied Grant

26.29 A General or untied Grant is accounted as income immediately on receipt. Expenditure out of the grant received is accounted in the same manner as other expenditure, irrespective of whether it is revenue expenditure, or capital expenditure. A General or untied Grant is treated in the same manner in the budget also. Receipt of such a grant is shown under the major code '16' in 'Estimate of Revenue Receipts', and expenditure is shown in 'Estimates of Revenue Payments', or 'Estimates of Capital Payments', depending on the nature of the expenditure.

Sale of fixed assets

26.30 Accounting treatment for sale of a fixed asset is prescribed in Chapter 19 Fixed Assets. As per the prescribed procedure, the cost of the fixed asset, and accumulated depreciation are transferred to “Fixed Assets under Disposal Account (Account Code 4181)”, and the sale proceeds also are credited to the same account. The net amount, which represents the profit/loss on sale of the fixed asset, is transferred to “Profit/Loss on disposal of Fixed Assets (Account code 1841)”. In the budget, the sale proceeds are shown as capital receipts, by using the account code 4181.

Realisation of Investments

26.31 In case of realisation of investments, the realisation proceeds are accounted by credit to the Investments Account (Major code 44), and the difference between the cost of the investment and the realised amount, being profit/loss on disposal of investments, is transferred to “Profit/Loss on disposal of Investments (Account code 1842)”. In the budget, the sale proceeds are shown as Extraordinary Receipts, by using the major code.

Function-wise Classification

26.32 In the National Municipal Accounting Manual, similar activities, or services carried out by the ULBs are grouped together, and are called “Functions”. Functions are identified by Function Codes. The Function Codes have two digits. The first digit denotes the function group, and the second digit denotes the individual function. For example, all administration related activities are grouped together under the function group “General Administration”. Within this function group, the following functions are prescribed :

1.	General Administration-General	00
2.	General Administration-Municipal Body	01
3.	General Administration-Estate	06
4.	General Administration-Census	09

26.33 Similarly, all activities related to 'health' are grouped together under the function group “Health”. It has the following functions listed under it :

1.	Health General	30
2.	Health Public Health	31
3.	Health Hospital Services	35
4.	Health Burial and Cremations	36
5.	Health Vital Statistics	37

26.34 Schedule III to KMABR, 2006, lists out the “Functions” and the “Function Codes” which ULBs shall use for function-wise classification of their transactions. In KMF Nos 80 to 83, budget items are classified under appropriate functions. Function-wise classification is not prescribed for items to be shown in KMF Nos 84 and 85 (Extraordinary Receipts and Payments), as the items shown in these Statements do not pertain to any specific functions or activities.

Budget Codes

26.35 Rule 132 (3) of KMABR, 2006, prescribes that Budget estimates shall be prepared using

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budget codes, which shall be a combination of the Function code and Account code. However, in the case of extraordinary items, the budget code consists of only account codes, as function codes are not applicable to these items.

26.36 For the purpose of comparing the actuals with estimates, it is necessary to classify the actual transactions also on the basis of budget codes. The Cash book, Bank book and voucher formats are provided with columns for 'Budget code', using which transactions shall be classified on the basis of budget codes.

26.37 Use of account codes for accounting purpose may differ from use of account codes for budget purpose. In the accrual-basis accounting system, a bill may be accounted as soon as it is approved, by debiting the appropriate expenditure account, and crediting the corresponding liability account. At the time of payment, the liability account is debited. For budgeting purposes, the transaction is considered at the time of payment of the bill, but instead of using the liability account code, the expenditure account code shall be used. For example, for payment of a contractors' bill for maintenance of street lights, the account code 3812 (Creditors-Contractors Payable) is entered in the "Account Code" column of the payment voucher. However, in the budget code column, the code 24-2357 (Function "Public Works-Street Lighting", Account Head - "Repairs & Maintenance-Street Lighting, Traffic Signals") shall be used.

26.38 Similarly, an accruable income is accounted as and when it falls due, by debiting appropriate "Receivable" account, and crediting corresponding income account. At the time of actual receipt, the "Receivable" account is credited. For budgeting purposes, the transaction is reckoned when money is actually received, by using the income code which was used for accounting the income. For example, property tax collection is accounted using the account code "4611 (Receivables-Property tax)". The budget code for property tax collections shall be 91-1111 (Function "Revenues Property Taxes, Account Code-Property tax").

26.39 In the case of incomes and expenses accounted on cash basis, the account code used for deriving the budget code shall be the same as the account code used for accounting the transactions. For example, the account code for birth & death certificate fees shall be 1411, and corresponding budget code shall be 37-1411 (Function "Health-Vital Statistics", Account Head "Fees for Birth/Death Certificate"). Similarly, the account code for electricity charges for solid waste management plant shall be 2313, and the budget code shall be 40-2313 (Function - Sanitation and Solid Waste Management General, and account head "Electricity Charges - for SWM Plant").

Aggregation of account codes for budget purpose

26.40 KMABR, 2006, prescribes that transactions shall be accounted using six-digit account codes, by adding detail codes to the account codes prescribed in the Chart of Accounts. However, budgeting is done at an aggregated level. Other than Revenue Payments, in all the other budget estimates, account codes at sub-minor code level are used. However, in the case of Revenue Payments, account codes at minor code level are used. This fact can be seen from the following examples :

Account Head	Budget Code
Property Tax	91-1111
Fees for Birth & Death Certificate	37-1411
Repairs & Maintenance-Roadside Drains	21-235
Secured Loans	3518
Grants & Contributions for specific Purposes from Central Government	3411

Process of Budgeting

26.41 Before the budget process commences, the Commissioner/Chief Officer shall make arrangements for the first round of public consultations with the organisations, and persons mentioned in Rule 133(2), wherein, the annual performance of the previous year, and the approach to the current year's budget shall be discussed as specified in Rule 133(2).

26.42 ULBs shall prepare their budgets on a scientific basis, providing detailed working sheets to support the budget estimation. In case of revenue, these would require an objective review of past dues, current year's taxation levels and targeted level of recoveries through tax collectors, self compliance, etc. The expenditures shall be based on the ULB's policy and supported by quantitative details of expenditure / estimates. If there are any abnormal variations in fluctuating receipts and charges, brief explanations for such variations shall be given, to the satisfaction of the higher authorities.

26.43 Where any amounts are deducted from Grants on account of electricity bills paid by the Government on behalf of the ULB, Loan installments, etc., the Grant shall be shown in the budget at gross amount, and the amounts deducted shall be shown as payments.

26.44 The basis for preparing the budget will be the inputs from various departments/units (BIDS prepared and signed by the departmental officer/unit officer). Budgets preparation shall be based on a bottom up approach. Estimates shall be made from the lowest unit and then consolidated.

26.45 Budget Information Details Sheet (BIDS) shall be used for detailing the calculations to be incorporating into the budget. For certain budget heads, BIDS formats are prescribed. For others, the ULB may use a suitable format for making the budget estimates.

26.46 Budget Information Details Sheet (BIDS) shall be used for detailing the calculations to be incorporating into the budget. The prescribed BIDS are:

- BIDS 1 Estimation Sheet for Property Tax
- BIDS 2 Estimation Sheet for Water Charges

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- BIDS 3 Estimation Sheet for Advertisement
- BIDS 4 Estimation Sheet for License Fees
- BIDS 5 Estimation Sheet for Rental Income
- BIDS 6 Estimation Sheet for Assigned Revenues and General Grants Estimation Sheet
- BIDS 7 Estimation Sheet for Other Incomes
- BIDS 8 Estimation Sheet for Establishment expenses
- BIDS 9 Estimation Sheet for General and administrative expenses
- BIDS 10 Estimation of Operating expenses
- BIDS 11 Estimation Sheet for Interest and Finance charges
- BIDS 12 Estimation Sheet for Programme Expenses, Grants etc.,
- BIDS 13 Estimation Sheet for Capital Receipts
- BIDS 14 Estimation Sheet for Capital Payments
- BIDS 15 Estimation Sheet for Extraordinary Receipts and Payments

26.47 A few illustrative formats of BIDS are given in Annexure to this Chapter. Other BIDS formats may be designed by the ULBs depending on their requirements.

Classified Registers of Receipts and Payments

26.48 In the new system of budgeting prescribed by KMABR, 2006, ULBs have to follow accrual basis accounting, and cash basis budgeting. In addition, budgets are prepared based on budget codes, whereas the books of account are not based on account codes. This necessitates additional information to be captured in vouchers at the time of accounting receipts and payments, and compiling them in separate registers for arriving at budget code-wise classification of transactions. KMABR, 2006 prescribes “Classified Register of Receipts/Payments “ (KMF NO 6) for this purpose.

26.49 Separate Classified Register of Receipts and Classified Register of Payments shall be maintained in KMF No 6, separately for “Revenue”, “Capital”, and “Extraordinary” Accounts. The transactions shall be recorded on a daily basis in the relevant Classified Register, from relevant vouchers. In the case of payments such as contractors/suppliers' payments, salary payments, etc., transactions shall be recorded under the respective budget codes at gross figures on the “Payments” side, and recoveries, if any, shall be recorded in the “Receipts” side. Contra entries for transfers from one bank to another, inter-fund transfers, etc., shall not be recorded.

First Year Adjustments

26.50 In the first year of adoption of the double entry accrual system of accounting, there will be some transitional issues with regard to budgeting, approval and sanctions. The problem arises

primarily due to change in the budget formats and the function-wise classification of budget items which KMABR, 2006, prescribes. This requires recasting of the budget of the previous year (old format) in the new format.

Budgetary Control

26.51 The following control requirements shall be applicable to the budgeting system:

- a. No payments can be made unless backed by a budget
- b. Any payments prior to being paid, shall be identified to its budget head for allocation of money
- c. Any payments prior to being incurred shall be backed by appropriate sanctions in accordance with the procedures laid down by the Act and Rules in this regard
- d. No liability can be taken without the corresponding budget availability

Budgetary Comparisons

26.52 Rule 126 of KMABR, 2006, prescribes that the Annual Performance Report shall consist of a "Budget Variance Statement" which shall give the variance between the sanctioned budget for each budget head and the actual receipts and payments for the year, and explaining the reason for adverse variances beyond 15% of the original budget.

26.53 The Budget Variance Statement shall be in the same format as the Budget formats KMF No 79 to 85, but with different column headings. In this Statement, the actual performance for the year is compared with the respective budget estimate for the same year, for each budget head. A variance is termed as 'Favourable' or 'Adverse', depending on whether it indicates a better or an adverse position of actuals as compared to the budget estimate for each budget item. For example, if the property tax collected during the year is Rs 68,00,000 as against an estimate of Rs 52,00,000, the variance of Rs 16,00,000 is considered to be 'favourable' as it amounts to higher collection of property tax revenue. On the other hand, expenditure on repairs and maintenance of infrastructure assets amounting to Rs 8,00,000 as against an estimate of Rs 6,00,000 amounts to an 'adverse' variance, as it amounts to over-spending. A format of the Budget Variance Statement is given in the table below :

Sl. No	Particulars	Codes	Budget Estimate for the Year	Actuals for the Year	Variance		Explanation in case of Adverse Variance
					Amount Rs	F/A*	

* Note: "F" denotes a favourable variance, whereas "A" denotes an unfavourable variance.

Estimation Sheet for Property Tax

Function: Property Tax (91)

BIDS 1

Ward	No. of Properties	Demand (SAS/CAL) for current year ()	Amount outstanding		Expected growth in property tax		Expected collection in the next year ()		
			Current Year ()	Earlier years	Number of Properties	Amount	Current year	Earlier years	Total
A. Residential Properties									
1									
2									
3									
...									
Total									
B. Commercial Properties									
1									
2									
3									
...									
Total									
C. Vacant Land									
1									
2									
3									
...									
Total									

Note: Similar Statement shall be prepared for Service Charge in lieu of Property Tax

Estimation Sheet for Water Charges

Function: Water Supply (51)

BIDS 2

Ward	No. of Connections	Demand for current year (____)	Amount outstanding		Expected growth (no. and rate)		Expected collection in the next year (____)		
			Current Year (____)	Earlier years	Number of connections	Amount	Current year	Earlier years	Total
A. Residential									
1									
2									
3									
...									
Total									
B. Commercial									
1									
2									
3									
...									
Total									
C. Industrial									
1									
2									
3									
...									
Total									

Estimation Sheet for Advertisement Tax

BIDS 3

Function: Advertisement Tax (91)

Ward	Particulars	Demand for current year ()	Amount outstanding		Expected growth (no. and rate)		Expected collection in the next year ()		
			Current Year ()	Earlier years	Number of units	Amount	Current year	Earlier years	Total
1									
2									
3									
...									

Estimation Sheet for License Fees

BIDS 4

Function: Planning & Regulation - Trade License / Regulations (15)

Ward	No. of licenses	Demand for current year ()	Amount outstanding		Expected growth (no. and rate)		Expected collection in the next year ()		
			Current Year ()	Earlier years	Number of units	Amount	Current year	Earlier years	Total
1									
2									
3									
...									

Estimation Sheet for Rental Income

Function:

Account Code :

BIDS 5

Ward	No. of units	Demand for current year (____)	Amount outstanding		Expected growth		Expected collection		
			Current Year (____)	Earlier years	Rate / No.	Amount	Current year (____)	Earlier years	Total

Different types of rental income shall be separately listed, showing appropriate function.

Estimation Sheet for Assigned Revenues and General Grants

BIDS 6

Account Name/ Account Code	Function Name/ Function Code	Grant/ Revenue Name	Source (Central/ State Government etc.)	Basis of estimation	Expected receipts

Estimation Sheet for Other Incomes (Function wise)

BIDS 7

Account Name/ Account Code	Function Name/ Function Code	Receipt in previous year	Expected increase / decrease (Rs. Or %)	Reason for change	Expected receipt

Different types of income shall be separately listed, showing appropriate Functions. All revenue receipt heads shall be covered in this, which are not included in forms 1 -2 earlier.

Estimation Sheet for Establishment Expense

Budget head: 211G Salaries, Wages and Bonus

BIDS 8

Function Code	Function Name	A/c 211 Pay, Allowances and Benefits		A/c 221 Wages		A/c 231 Contributions		A/c 241 Terminal and Retirement Benefits		A/c 251 Pension		Total
		No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	
00	General Administration											
01	Municipal Body											
02	Administration											
06	Estate											
09	Census											
10	Planning & Regulation-General											
11	City and Town Planning											
15	Trade License / Regulations											
20	Public Works -General											
21	Roads and Pavement											
24	Street Lighting											
26	Traffic Signals											
30	Health - General											

Function Code	Function Name	A/c 211 Pay, Allowances and Benefits		A/c 221 Wages		A/c 231 Contributions		A/c 241 Terminal and Retirement Benefits		A/c 251 Pension		Total
		No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	
31	Public Health											
35	Hospital Services											
36	Burial and Cremations											
37	Vital Statistics											
40	Sanitation and Solid Waste Management - General											
41	Solid Waste Management											
45	Slaughter Houses											
50	Civic Amenities - General											
51	Water Supply											
52	Sewerage											
58	Municipal Markets											
60	Urban Forestry - General											
61	Parks, Gardens											

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Function Code	Function Name	A/c 211 Pay, Allowances and Benefits		A/c 221 Wages		A/c 231 Contributions		A/c 241 Terminal and Retirement Benefits		A/c 251 Pension		Total
		No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	
70	Urban Poverty Alleviation & Social Welfare -General											
76	Slum Improvements											
78	Urban Poverty Alleviation											
79	Others											
80	Other Services - General											
82	Education											
90	Revenues - General											
91	Property Taxes											
93	Advertisement Tax											
98	Other Revenues											
99	Other Taxes											
Total												
Total For Previous Year												
Remarks (Specify the reasons for change in cost from previous year, such as addition of staff, retirement, pension etc.)												

Estimation Sheet for General & Administrative Expenses

BIDS 9

Function Code	Function Name	A/c Name & No.		A/c Name & No.		(Group Total)
		Average expense (past 3 years)	Budget amount	Average expense (past 3 years)	Budget amount	
00	General Administration					
01	Municipal Body					
02	Administration					
06	Estate					
09	Census					
10	Planning & Regulation - General					
11	City and Town Planning					
15	Trade License / Regulations					
20	Public Works - General					
...						
Total						
Previous Year						
Remarks						

Estimation Sheet for Capital Receipts

BIDS 13

Account Code	Function Code	Source of receipt	Purpose and details	Function Code	Amount
Secured Loans					
3518					
3528					
...					
				Total	
Unsecured Loans					
3618					
3628					
...					
				Total	
Sale of Fixed Assets					
4192					
				Total	
Deferred Income in respect of Assets created out of Grants & Contributions					
3491					
				Total	



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