

Section-F

Government Accounting In India

Government Accounting in India 8

This Module Includes

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Government Accounting in India

SLOB Mapped against the Module

To expose students to the financial reporting of NBFCs, to government accounting, and to XBRL.

Module Learning Objectives

- ⦿ To introduce to the students the system of financial accounting in the government in contrast with commercial accounting
- ⦿ To provide reasonable knowledge about the machinery of government audit
- ⦿ To give exposure to the government accounting and reporting standards

General Principles and Comparison with Commercial Accounting

8.1

Accounting is the process of recording, classifying and summarizing the financial transactions and communicating the results of its operations and also the financial position to its stake-holders.

Government accounting refers to the system of financial accounting that is applicable to government, its departments, offices and institutions. The accounting system that is put to use in government offices or institutions for the purpose of recording and reporting the financial transactions is referred to as government accounting. It is also referred to as Public Finance Accounting.

According to **Oshisami and Dean**, “Governmental Accounting is the process of recording, analyzing, classifying, summarizing, communicating, and interpreting information about government in aggregate and in detail, reflecting all transactions involving the receipts, transfer, and disposition of government funds and property.” -

By the given definition, it is clear that the government account is the systematic and scientific process of recording, presenting, analyzing, summarizing, classifying and communicating the financial transaction of the government offices. It is concerned with keeping a record of government revenue and their proper utilization in different development and administration work. It presents the receipt and payment position of the public fund. It reveals how public funds have been generated and utilized for the welfare of the general public.

It is the systematic process of collecting, recording, classifying, summarizing and interpreting the financial transactions relating to the revenues and expenditures of government institutions/ offices. Thus, simply stated, government accounting is concerned with systematic and scientific recording of government revenues and expenditures.

Therefore, government accounting may be defined as an accounting system used in government institution for the purpose of recording, classifying, summarizing and communicating the financial information regarding the collection and utilization of public funds and properties. It is concerned with keeping records of government revenues and their expenditure in different development and administrative works.

Features of Government Accounting

Government Accounting is a unique application area which has certain characteristics of its own. Some of the main features of Government Accounting are discussed as under:

- 1. Specific system of accounting:** It is a specific accounting system which is followed by government in its departments, offices and institutions.
- 2. Reporting of utilisation of public funds:** The government and its institutions are public institution whose main objective is to provide services to the society and also to maintain law and order in the country. So, the accounting system used by such institutions has to reveal how public funds and properties have been used for that purpose. It is to be noted that government accounting is not done for revealing any profit and loss.

- 3. Government Regulations:** Government accounting is maintained according to government rules and regulations. The financial policies, rules and regulations as determined from time to time provide the system of government accounting.
- 4. Double Entry System:** Government accounting is based on the principles and assumptions of double entry system of book keeping system. Accordingly, every financial transaction entered into by a government/ government office/ institution are recorded showing their double effects. It implies that for each government financial transaction one aspect of the transaction is debited and the other aspect is credited.
- 5. Budget Heads:** All the expenses of government offices are classified into different budget heads and expenditures are made only on approved budget heads.
- 6. Budgetary Regulation:** Government expenditures are governed by budgetary regulations. In other words, no government office can make expenditure more than the amount allocated in the budget. Thus, in effect, government accounting gets regulated by the budget.
- 7. Mode of Transaction:** All government transactions are supposed to be performed through banks.
- 8. Fund-based Accounting:** A peculiar characteristic of governmental accounting is the employment of separate funds. The government is engaged in an ever-growing number of operations and activities which are quite unrelated to each other. The particular sources of revenue or income often are dedicated to use for a particular phase of the government's operations. The accounts must segregate these specially dedicated resources and isolate them from all other transactions in a separate "fund."
- 9. Auditing:** The audit the books of accounts maintained by government departments, offices or institutions are to be audited by a recognised department of the government so as to ensure proper governance and also to prevent misuse and misappropriation of public funds.

Objectives of Government Accounting

The objectives of government accounting are the financial administration of the activities of the government to promote maximisation of welfare in the form of various services. The specific objectives can be stated as under:

1. To record financial transactions of revenues and expenditure relating to the government organizations.
2. To provide reliable financial data and information about the operation of public fund.
3. To record the expenditures as per the appropriate Act, Rules, and legal provisions as set by the government.
4. To avoid the excess expenditures beyond the limit of the budget approved by the government.
5. To help in the preparation of various financial statements and reports.
6. To facilitate the auditing by the concerned government department.
7. To prevent misappropriation of government properties by maintaining the systematic records of cash and store items.
8. To facilitate for estimating the annual budget by providing historical financial data of government and expenditures.

The general principles of government accounting are highlighted hereunder:

- 1. Classification of expenditures:** The Government Expenditures are classified under Sectors, major heads, minor heads, sub-heads and detailed heads of account. The method of budgeting and accounting under the service heads is not designed to bring out the relation in which Government stands to its material assets in use, or its liabilities due to be discharged at more or less distant dates.

2. **Based on budget:** government accounting is based on the annual budget of the government. In its budget for a year, Government is interested to forecast with the greatest possible accuracy what is expected to be received or paid during the year, and whether the former together with the balance of the past year is sufficient to cover the later.

Similarly, in the compiled accounts for that year, it is concerned to see to what extent the forecast has been justified by the facts, and whether it has a surplus or deficit balance as a result of the year's transactions. On the basis of the budget and the accounts, Government determines:

- (a) whether it will be justified in curtailing or expanding its activities; and
 - (b) whether it can and should increase or decrease taxation accordingly.
3. **End products of government accounting:** In the field of Government accounting, the end products are the monthly accounts and the annual accounts. The monthly accounts serve the needs of the day-to-day administration, while the annual accounts present a fair and correct view of the financial stewardship of the Government during the year.
 4. **Period of Accounts:** The annual accounts of the central, state and union territory government shall record transactions, which take place during financial year running from 1st April to 31st March.
 5. **Cash basis of accounting:** With the exception of such book adjustments as may be authorized by these rules on the advice of the Comptroller and Auditor General of India (C&AG), the transactions in government accounts shall represent the actual cash receipt and disbursement during a financial year.
 6. **Form of Accounts:** The accounts of Government are kept in three parts namely, Consolidated Fund, Contingency Fund and Public Account.

Comparison Between Government Accounting and Commercial Accounting

Although the basic principles of financial accounting that are applicable in regular commercial activities apply to the government accounts, there are certain features of governmental accounting which make it quite different from that of regular commercial accounting. The differences between commercial and government accounting have been presented hereunder:

1. **Meaning:** The accounting system applied in the government departments, offices and institutions is referred to as government accounting. While, the system of accounting applied by non-government organizations (whether profit-oriented or non-profit oriented) is known as commercial accounting.
2. **Objective:** Government accounting is maintained by the government offices for recording and reporting the utilisation and position of public funds. Commercial accounting is maintained by business organizations to know the profit or loss for an accounting period and disclose the financial position of the entity.
3. **Scope:** The government accounting happens to be more elaborate than that followed in commercial accounts.
4. **Budget:** Government accounting is directly influenced by the government budgeting system, while commercial accounting does not follow the government budgeting system.
5. **Basis:** Government accounting is prepared on cash basis. On the other hand, commercial accounting may be done on cash basis or accrual basis, or sometimes even on hybrid basis.
6. **Level of Accounting:** Government accounting has the system of central level and operating level accounting. Commercial accounting has no provision of central level and operating level accounting.

7. **Rules and Provisions:** Government accounting is strictly maintained by following the financial rules and provisions as set by the concerned government. Commercial accounting is maintained by following the applicable rules and the 'Generally Accepted Accounting Principles' (GAAP).
8. **Information:** Government accounting provides information to the government about the receipts, deposit, transfer and utilisation of public funds. Commercial accounting provides information to the various stakeholders about the operating result and financial position of the business.
9. **Auditing:** The audit the books of accounts maintained by government departments, offices or institutions are to be audited by a recognised department of the government (namely, the Auditor General Office); while the books of accounts maintained under commercial accounting is audited by any professional auditor.

Role of Comptroller and Auditor General of India

8.2

The Comptroller and Auditor General (C&AG) of India is an authority, established by the Constitution under Constitution of India/Part V Chapter V/Sub-part 7B/Article 148, who audits all receipts and expenditure of the Government of India and the state governments, including those of bodies and authorities substantially financed by the government. The CAG is also the external auditor of Government-owned corporations and conducts supplementary audit of government companies, i.e., any non-banking/ non-insurance company in which Union Government has an equity share of at least 51 per cent or subsidiary companies of existing government companies. Comptroller and Auditor General (C&AG) is the guardian or care-taker of the national purse. He is appointed by the President of India for a tenure of 6 years.

The constitution has instituted the British system of responsible government in India. The substance of responsibility is that the executive i.e. the Prime Minister and the Cabinet remains answerable for all their activities to the popularly elected chamber of the legislature. The responsibility becomes empty unless financial activities of the government are subject to parliamentary scrutiny. For this it is imperative that there should be an independent authority to examine and scrutinize the financial transactions of the government. Since he is the impartial head of the audit and accounts system of India, it is essential that he should be independent of executive control.

With this object in view, the Government of India Act of 1935, made the Auditor General of India irremovable except “in like manner and on like grounds as a judge of the Federal Court.” The office of the Comptroller and Auditor General is an adaptation of the office of the Auditor General under the Act of 1935. Articles 148 to 151 of the Indian constitution create and regulate the office of Comptroller and Auditor General of India. The office of the Comptroller and Auditor General is considered as “pivotal” to the control of entire financial system of the country. Dr. B. R. Ambedkar felt that the Comptroller and Auditor General of India shall be the most important officer under the constitution of India.

Role, Function and Duties of the Comptroller and Auditor General (C&AG)

The role, function and duties of the Comptroller and Auditor General (CAG) are elaborated by the Comptroller and Auditor General’s (Duties, Powers and Conditions of Service) Act, 1971 (56 of 1971). An amendment of this act in 1976 has relieved him from preparing the accounts of the government. As per Sec. 10 of the said Act, the role/duties of the C&AG has been discussed as under:

- 1. Comptroller and Auditor General to compile accounts of Union and States:** The role of the C&AG includes:
 - ⦿ **Compilation of accounts:** Compiling the accounts of the Union and of each State from the initial and subsidiary accounts rendered to the audit and accounts offices under his control by treasuries, offices or departments responsible for the keeping of such accounts; and
 - ⦿ **Keeping accounts:** Keeping such accounts in relation to any of the matters specified in the above clause as may be necessary.

However, the President may, after consultation with the Comptroller and Auditor General, by order, relieve him from the responsibility for compiling:

- (i) the said accounts of the Union (either at once or gradually by the issue of several orders); or
- (ii) the accounts of any particular services or departments of the Union;
- (iii) relieve him from the responsibility for keeping the accounts of any particular class or character.

Moreover, the Governor of a State with the previous approval of the President and after consultation with Comptroller and Auditor General, by order, relieve him from the responsibility for compiling:

- (i) the said accounts of the State (either at once or gradually by the issue of several orders); or
- (ii) the accounts of any particular services or departments of the State.

- 2. Comptroller and Auditor General to prepare and submit accounts to the President Governors of States and Administrators of Union territories having Legislative Assemblies:** The Comptroller and Auditor-General shall from the accounts compiled by him or by the Government or any other person responsible in that behalf prepare in each year accounts (including, in the case of accounts compiled by him, appropriation accounts) showing under the respective heads the annual receipts and disbursements for the purpose of the Union, of each State and of each Union territory having a Legislative Assembly, and shall submit those accounts to the President or the Governor of a State or Administrator of the Union territory having a Legislative Assembly, as the case may be on or before such dates as he may, with the concurrence of the Government concerned, determine.

However, the President may, after consultation with the Comptroller and Auditor-General, by order, relieve him from the responsibility for the preparation and submission of the accounts relating to annual receipts and disbursements for the purpose of the Union or of a Union territory having a Legislative Assembly. Further the Governor of a State may, with the previous approval of the President and after consultation with the Comptroller and Auditor-General, by order, relieve him from the responsibility for the preparation and submission of the accounts relating to annual receipts and disbursements for the purpose of the State.

- 3. Comptroller and Auditor General to give information and render assistance to the Union and States:** The Comptroller and Auditor-General shall, in so far as the accounts, for the compilation or keeping of which he is responsible, enable him so to do, give to the Union government, to the State Governments or to the Governments of Union Territories having Legislative Assemblies, as the case may be, such information as they may, from time to time, require, and render such assistance in the preparation of their annual financial statements as they may reasonably ask for.
- 4. General provisions relating to audit:** It shall be the duty of the Comptroller and Auditor-General:
- ⦿ to audit all expenditure from the Consolidated Fund of India and of each State and of each Union territory having a Legislative Assembly and to ascertain whether the moneys shown in the accounts as having been disbursed were legally available for and applicable to the service or purpose to which they have been applied or charged and whether the expenditure conforms to the authority which governs it;
 - ⦿ to audit all transactions of the Union and of the States relating to Contingency Funds and Public Accounts;
 - ⦿ to audit all trading, manufacturing, profit and loss accounts and balance-sheets and other subsidiary accounts kept in any department of the Union or of a State; and in each case to report on the expenditure, transactions or accounts so audited by him.
- 5. Audit of receipts and expenditure of bodies or authorities substantially financed from Union or State Revenues:** Where anybody or authority is substantially financed by grants or loans from the Consolidated Fund of India or of any State or of any Union territory having a Legislative Assembly, the Comptroller and

Auditor-General shall, subject to the provisions of any law for the time being in, force applicable to the body or authority, as the case may be, audit all receipts and expenditure of that body or authority and to report on the receipts and expenditure audited by him.

However, Comptroller and Auditor-General may with the previous approval of the President or the Governor of a State or the Administrator of a Union territory having a Legislative Assembly, as the case may be, audit all receipts and expenditure of anybody or authority where the grants or loans to such body or authority from the Consolidated Fund of India or of any State or of any Union territory having a Legislative Assembly, as the case may be in a financial year is not less than rupees one crore.

- 6. Functions of Comptroller and Auditor General in the case of grants or loans given to other authorities or bodies:** Where any grant or loan is given for any specific purpose from the Consolidated Fund of India or of any State or of any Union territory having a Legislative Assembly to any authority or body, not being a foreign State or international organisation, the Comptroller and Auditor-General shall scrutinise the procedures by which the sanctioning authority satisfies itself as to the fulfillment of the conditions subject to which such grants or loans were given. For this purpose the C&AG shall have right of access, after giving reasonable previous notice, to the books and accounts of that authority or body.

However, the President, the Governor of a State or the Administrator of a Union territory having a Legislative Assembly, as the case may be, may, where he is of opinion that it is necessary so to do in the public interest, by order, relieve the Comptroller and Auditor-General, after consultation with him, from making any such scrutiny in respect of anybody or authority receiving such grant or loan.

Except where he is authorised so to do by the President, the Governor of a State or the Administrator of Union territory having a Legislative Assembly, as the case may be, the Comptroller and Auditor-General shall not have, while exercising the powers conferred on him by sub-section (1), right of access to the books and accounts of any corporation to which any such grant or loan as is referred to in subsection (1) is given if the law by or under which such corporation has been established provides for the audit of the accounts of such corporation by an agency other than the Comptroller and Auditor-General:

Moreover, such authorisation shall be made except after consultation with the Comptroller and Auditor-General and except after giving the concerned corporation a reasonable opportunity of making representations with regard to the proposal to give to the Comptroller and Auditor-General right of access to its books and accounts.

- 7. Audit of receipts of Union or of States:** It shall be the duty of the Comptroller and Auditor-General to audit all receipts which are payable into the Consolidated Fund of India and of each State and of each Union territory having a Legislative Assembly and to satisfy himself that the rules and procedures in that behalf are designed to secure an effective check on the assessment, collection and proper allocation of revenue and are being duly observed and to make for this purpose such examination of the accounts as he thinks fit and report thereon.
- 8. Audit of accounts of stores and stock:** The Comptroller and Auditor-General shall have authority to audit and report on the accounts of stores and stock kept in any office or department of the Union or of a State.
- 9. Powers of Comptroller and Auditor General in connection with audit of accounts:** The Comptroller and Auditor General shall in connection with the performance of his duties under this Act, have authority:
- ⊙ place as he may appoint for his inspection;
 - ⊙ to put such questions or make such observations as he may consider necessary, to the person in charge of the office and to call for such information as he may require for the preparation of any account or report which it is his duty to prepare.

The person in charge of any office or department, the accounts of which have to be inspected and audited by

the Comptroller and Auditor-General, shall afford all facilities for such inspection and comply with requests for information in as complete a form as possible and with all reasonable expedition.\

- 10. Audit of Government companies and corporations:** The duties and powers of the Comptroller and Auditor- General in relation to the audit of the accounts of Government companies shall be performed and exercised by him in accordance with the provisions of the Companies Act, 1956 (1 of 1956).

The duties and powers of the Comptroller and Auditor-General in relation to the audit of the accounts of corporations (not being companies) established by or under law made by Parliament shall be performed and exercised by him in accordance with the provisions of the respective legislations.

The Governor of a State or the Administrator of a Union territory having a Legislative Assembly may, where he is of opinion that it is necessary in the public interest so to do, request the Comptroller and Auditor-General to audit the accounts of a corporation established by law made by the Legislature of the State or of the Union territory, as the case may be, and where such request has been made, the Comptroller and Auditor- General shall audit the accounts of such corporation and shall have, for the purposes of such audit, right of access to the books and accounts of such corporation. However, no such request shall be made except after consultation with the Comptroller, and Auditor-General and except after giving reasonable opportunity to the corporation to make representations with regard to the proposal for such audit.

- 1. Laying of reports in relation to accounts of Government companies and corporations:** The reports of the Comptroller and Auditor-General, in relation to audit of accounts of a Government company or a corporation referred to in section 19, shall be submitted to the Government or Governments concerned. The Central Government shall cause every report received by it under sub-section (1) to be laid, as soon as may be after it is received, before each House of Parliament. The State Government shall cause every report received by it under sub-section (1) to be laid, as soon as may be after it is received, before the Legislature of the State.
- 2. Audit of accounts of certain authorities or bodies:** Where the audit of the accounts of anybody or authority has not been entrusted to the Comptroller and Auditor-General by or under any law made by Parliament, he shall, if requested so to do by the President, or the Governor of a State or the Administrator of a Union territory having a Legislative Assembly, as the case may be, undertake the audit of the accounts of such body or authority on such terms and conditions as may be agreed upon between him and the concerned Government and shall have, for the purposes of such audit, right of access to the books and accounts of that body or authority. However, no such request shall be made except after consultation with the Comptroller and Auditor-General.

Role of Public Accounts Committee, Review of Accounts

8.3

The Public Accounts Committee (P.A.C.) is a committee of selected members of Parliament, constituted by the Parliament of India.

In the Indian parliamentary form of governance, the legislature has the power to ensure “that the appropriated money is spent economically, judiciously and for the purpose for which it was sanctioned”. Even though the Comptroller and Auditor General of India (C&AG) is to audit the accounts of the government and to ensure the propriety of the money spent, yet its report is further examined by the special committee of the parliament, is known as Public Account Committee.

The Committee entrusted with the responsibility of examining the accounts of the Government. The Government expenditures are thoroughly examined and ensured that the Parliamentary limits are not breached. It examines the report of Accounts of the union government submitted by the Comptroller and Auditor General of India (C&AG), to the President for the purpose of auditing of the revenue and the expenditure of the Government of India. The Public Accounts Committee in India thus ensures Parliamentary control over government expenditure.

The Public Accounts Committee was first set up in India in 1921 under the Montague Chelmsford Reforms. The basic function of the committee had been to ensure that the expenditure had been incurred for the intended purposes as authorised by the authority concerned. Presently, it is formed every year with a strength of not more than 22 members, out of which 15 members are from Lok Sabha (the lower house of the Parliament), and 7 members are from Rajya Sabha (the upper house of the Parliament). The term of office of the members is one year.

Constitution of Public Accounts Committee (P.A.C)

The Committee consists of not more than 22 members comprising 15 members elected by Lok Sabha every year from amongst its members according to the principle of proportional representation by means of single transferable vote, and not more than 7 members of Raj ya Sabha elected by that House in like manner are associated with the Committee. Thus, the present P.A.C is a joint committee of the two Houses.

The Chairman is appointed by the Speaker of Lok Sabha from amongst its members of Lok Sabha. Since 1967, the chairman of the committee is selected from the opposition. Earlier, it was headed by a member of the ruling party.

However, it is to be noted that, a Minister is not eligible to be elected as a member of the Committee. If a member after his election to the Committee is appointed a Minister, he ceases to be a member of the Committee from the date of such appointment.

Role of Public Accounts Committee (P.A.C)

- 1. Role regarding examination of the C&AG report:** The chief function of P.A.C. is to examine the audit report of Comptroller and Auditor General (C&AG) after it is laid in the Parliament. C&AG assists the Committee during the course of investigation.

2. **Role regarding unauthorized expenditures or excess expenditures:** In examining the report of the Comptroller and Auditor General of India (C&AG), the committee has to satisfy itself that:
 - ⊙ the expenditures made by the government, were authorized by the Parliament; and
 - ⊙ the expenditures under any head has not crossed the limits of parliamentary authorization.

It is to be noted that, every expenditure made by the government must be sanctioned by the Parliament. Thus, it is the role of the committee to bring to the notice of the Parliament instances of unauthorized expenditures or expenditures beyond sanctioned limits.
3. **Role regarding spending of money by ministries:** The committee not only ensures that ministries spend money in accordance with parliamentary grants, it also brings to the notice of the Parliament instances of extravagance, loss, in fructuous expenditure and lack of financial integrity in public services. However, the committee cannot question the policies of the government. It only concerns itself with the execution of policy on its financial aspects.
4. **Scrutinizing the audit reports of public corporations:** A new dimension has been added to the function of the P.A.C. by entrusting it with the responsibility of scrutinizing the audit report of public corporations.
5. **Scrutinising the working process of ministries and public corporations:** In examining the accounts and audits of the ministries and public corporations, the Committee gets the opportunity to scrutinize the process of their working. It points out the weakness and shortcomings of the administration of ministries and public corporations. Criticisms of the P.A.C. draw national attention. This keeps the ministries and public corporations sensitive to the criticisms of the P.A.C. Thus, it is wrong to suppose that the P.A.C. is only an instrument of financial control, it is as well an instrument of administrative control.

Review of Accounts

The accounts of Government Companies set up under the provisions of the Companies Act (including Government Insurance Companies and deemed Government Companies) are audited by the Comptroller and Auditor General of India (C&AG) under the provisions of Section 143 of the Companies Act, 2013. Under these provisions, the C&AG:

- (i) shall appoint statutory auditor of a Government company,
- (ii) may conduct supplementary or test audit of accounts of a Government Company, and
- (iii) may comment upon the report of the statutory auditor. In addition he issues directions to the statutory auditors regarding the manner in which the accounts of a Government Company are to be audited.

The accounts certified by the Statutory Auditors (Chartered Accountants) appointed by the Central Government on the advice of the CAG under the Companies Act, 2013 are subjected to supplementary or test audit by officers of the CAG and CAG gives his comments or supplements the report of the Statutory Auditors. The Companies Act, 2013 empowers the CAG to issue directions to the Statutory Auditors on the manner in which the Company's accounts shall be audited.

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- (i) shall appoint statutory auditor of a Government company,
- (ii) may conduct supplementary or test audit of accounts of a Government Company, and

- (iii) may comment upon the report of the statutory auditor. In addition he issues directions to the statutory auditors regarding the manner in which the accounts of a Government Company are to be audited.

The accounts certified by the Statutory Auditors (Chartered Accountants) appointed by the Central Government on the advice of the CAG under the Companies Act, 2013 are subjected to supplementary or test audit by officers of the CAG and CAG gives his comments or supplements the report of the Statutory Auditors. The Companies Act, 2013 empowers the CAG to issue directions to the Statutory Auditors on the manner in which the Company's accounts shall be audited.

Government Accounting Standards issued by Government Accounting Standards Advisory Board (GASAB)

8.4

Government Accounting Standard Advisory Board (GASAB)

The accounting systems, the world over, are being revisited with an emphasis on transition from rule to principle based standards and migration from cash to accrual based system of accounting. The GASAB, as a nodal advisory body in India, is taking similar action to formulate and improve standards of government accounting and financial reporting and enhance accountability mechanisms.

The Government Accounting Standards Advisory Board (GASAB) was constituted by the Comptroller and Auditor General of India (C&AG) with the support of Government of India through a notification dated August 12, 2002. This Board was constituted to establish and improve the standards of governmental accounting and financial reporting, and enhance the accountability mechanisms. The decision to set-up GASAB was taken in the backdrop of the new priorities emerging in the Public Finance Management and to keep pace with International trends. The new priorities focus on good governance, fiscal prudence, efficiency & transparency in public spending.

Structure of GASAB

The Board has high level representation from the important accounting heads in Government, Ministry of Finance, Department of Post, Finance Secretaries of states, RBI and heads of premier accounting & research organizations. The board consists of the following members:

1. Deputy Comptroller and Auditor General (Government Accounts) as Chairperson
2. Financial Commissioner, Railways
3. Member (Finance) Telecom Commission, Department of Telecom
4. Secretary, Department of Post
5. Controller General of Defence Accounts
6. Controller General of Accounts
7. Additional / Joint Secretary (Budget), Ministry of Finance, Government of India
8. Deputy Governor, Reserve Bank of India, or his nominee 9-12. Principal Secretary (Finance) of four States, by rotation
13. Director General, National Council of Applied Economic Research(NCAER), New Delhi
14. President, Institute of Chartered Accountants of India (ICAI), or his nominee
15. President, Institute of Cost and Works Accountants of India, or his nominee
16. Principal Director in GASAB, as Member secretary.

Responsibilities of GASAB

GASAB, inter alia, has the following responsibilities:

1. To formulate and improve standard of Government accounting and financial reporting in order to enhance accountability mechanisms.
2. To formulate and propose standards that improve the usefulness of financial reports based on the needs of the users.
3. To keep the standards current and reflect change in the Governmental environment.
4. To provide guidance on implementation of standards.
5. To consider significant areas of accounting and financial reporting that can be improved through the standard setting process.
6. To improve the common understanding of the nature and purpose of information contained in the financial reports.

Government Accounting Standards issued by Government Accounting Standards Advisory Board (GASAB)

The mission of the Government Accounting Standards Advisory Board (GASAB) is to formulate and recommend Indian Government Accounting Standards (IGASs) for cash system of accounting and Indian Government Financial Reporting Standards (IGFRS) for accrual system of accounting, with a view to improving standards of Governmental accounting and financial reporting which will enhance the quality of decision-making and public accountability.

GASAB has been developing two types of Accounting Standards, namely Indian Government Accounting Standards (IGAS) and Indian Government Financial Reporting Standards (IGFRS) for the Government. These standards have been developed to address the issues related with the existing cash system of accounting and its migration to the accrual system of accounting in future.

The standards being developed to make existing cash system of accounting more transparent are called Indian Government Accounting Standards (IGAS). The Indian Government Accounting Standards (IGAS), formulated by the Government Accounting Standards Advisory Board (GASAB) and notified by the Ministry of Finance, Government of India are:

- ⊙ Guarantees given by Governments: Disclosure Requirements (IGAS 1);
- ⊙ Accounting and Classification of Grants-in-aid (IGAS 2)
- ⊙ Loans and Advances made by Governments (IGAS 3)

The Indian Government Accounting Standards (IGAS), approved by the Government Accounting Standards Advisory Board (GASAB) and under consideration of Government of India, are:

- ⊙ Foreign Currency Transactions and Loss/Gain by Exchange Rate Variations (IGAS 7);
- ⊙ Government Investments in Equity (IGAS 9);
- ⊙ Public Debt and Other Liabilities of Governments: Disclosure Requirement (IGAS 10).

IGAS – 1 Guarantees Given by Governments: Disclosure Requirements

Introduction: The Union Government and the State Governments give Guarantees for repayment of borrowings within such limits, if any, as may be fixed upon the security of the Consolidated Fund of India or of the State, as the case may be, in terms of articles 292 and 293 of the Constitution.

Guarantees are also given by the Union Government

- ⊙ for payment of interest on borrowings, repayment of share capital;
- ⊙ payment of minimum annual dividend; and
- ⊙ payment against agreements for supplies of materials and equipments on credit basis on behalf of the State Governments, Union territories, local bodies, railways, Government companies or corporations, joint stock companies, financial institutions, port trusts, electricity boards and co-operative institutions.

Guarantees are also given by the Union Government to the Reserve Bank of India, other banks and financial institutions:

- ⊙ for repayment of principal and payment of interest;
- ⊙ cash credit facility;
- ⊙ financing seasonal agricultural operations; and
- ⊙ for providing working capital in respect of companies, corporations, co-operative societies and co-operative banks.

Further, guarantees are also given in pursuance of agreements entered into by the Union Government with international financial institutions, foreign lending agencies, foreign Governments, contractors and consultants towards repayment of principal, payment of interest and payment of commitment charges on loans.

The Union Government also gives performance guarantees for fulfillment of contracts or projects awarded to Indian companies in foreign countries as well as foreign companies in foreign countries besides counter-guarantees to banks in consideration of the banks having issued letters of credit to foreign suppliers for supplies or services rendered by them on credit basis in favour of companies or corporations.

Furthermore, guarantees are given by the Union Government to railways, and electricity boards for due and punctual payment of dues and freight charges by the companies and corporations.

Similarly, guarantees are also given by the State Governments and Union Territory Governments (with legislature).

As the statutory corporations, Government companies, co-operative institutions, financial institutions, autonomous bodies and authorities are distinct legal entities, they are responsible for their debts. Their financial obligations may be guaranteed by a Government and thus the Government has a commitment to see that these are fulfilled.

When these entities borrow directly from the market, it reduces a Government's budgetary support to them and the magnitude of a Government's borrowings. However, it adds to the level of Guarantees given by the Governments. In consideration of the Guarantees given by the Governments, the beneficiary entities are required to pay guarantee commission or fee to the Governments. The Guarantees have an important economic influence and result in transactions or other economic flows when the relevant event or conditions actually occur. Thus, Guarantees normally constitute contingent liability of the Governments.

Objective: The objective of this Standard is to set out disclosure norms in respect of Guarantees given by the Union, the State Governments and Union Territory Governments (with legislature) in their respective Financial Statements to ensure uniform and complete disclosure of such Guarantees.

Scope: The scope of this standard is stated as under:

- ⊙ This Standard applies to preparation of the Statement of Guarantees for inclusion and presentation in the Financial Statements of the Governments. Financial Statements should not be described as complying with this Standard unless these comply with all its requirements.

- ⊙ The Authority in the Government which prepares the Statement of Guarantees for inclusion and presentation in the Financial Statements shall apply this Standard. The Accounting Authority is responsible for inclusion and presentation of the Statement of Guarantees in the Financial Statements as provided by the Authority in the Government.

Important Definitions:

- ⊙ **Accounting Authority** : It means the Authority which prepares the Financial Statements of the Government
- ⊙ **Authority in the Government** : It means the tracking (monitoring) unit or Authority for Guarantees and in its absence, the Ministry or the Department of Finance, as the case may be.
- ⊙ **Automatic Debit Mechanism** : It means the arrangement whereby the Government's cash balance is affected on a specified date or on the occurrence of specified events to meet certain obligations arising out of Guarantees given by it.
- ⊙ **Financial Statements** : It means the Annual Finance Accounts of the Governments.
- ⊙ **Guarantee** : It means an accessory contract, by which the promisor undertakes to be answerable to the promisee for the debt, default or miscarriage of another person, whose
- ⊙ **Structured Payment Arrangement** : It means the arrangement whereby the Government agrees to transfer funds to the designated account in case the beneficiary entity fails to ensure availability of adequate funds for servicing the debts, as per stipulations.

Disclosure:

The Financial Statements of the Union Government, the State Governments and the Union Territory Governments (with legislature) shall disclose the following:

- ⊙ maximum amount for which Guarantees have been given during the year, additions and deletions (other than invoked during the year) as well as Guarantees outstanding at the beginning and end of the year;
- ⊙ amount of Guarantees invoked and discharged or not discharged during the year;
- ⊙ details of Guarantee commission or fee and its realisation; and
- ⊙ other material details.

The Financial Statements of the Union Government, the State Governments and the Governments of Union Territories (with legislature) shall disclose in the notes the following details concerning class or sector of Guarantees:

- ⊙ limit, if any, fixed within which the Government may give Guarantee;
- ⊙ whether Guarantee Redemption or Reserve Fund exists and its details including disclosure of balance available in the Fund at the beginning of the year, any payments made and balance at the end of the year;
- ⊙ details of subsisting external foreign currency guarantees in terms of Indian rupees on the date of Financial Statements;
- ⊙ details concerning Automatic Debit Mechanism and Structured Payment Arrangement, if any;
- ⊙ whether the budget documents of the Government contain details of Guarantees;
- ⊙ details of the tracking unit or designated authority for Guarantees in the Government; and
- ⊙ other material details.

Effective date:

This Indian Government Accounting Standard becomes effective for Financial Statements covering periods

beginning on or after 1.4.2010 for class-wise disclosures in the Financial Statements of the Union Government and sector-wise disclosures in the Financial Statements of the State Governments and Union Territory Governments (with legislature).

IGAS — 2 Accounting and Classification of Grants-In-Aid

Introduction: Grants-in-aid are payments in the nature of assistance, donations or contributions made by one government to another government, body, institution or individual. Grants-in-aid are given for specified purpose of supporting an institution including construction of assets.

The general principle of grants-in-aid is that it can be given to a person or a public body or an institution having a legal status of its own. Such grants-in-aid could be given in cash or in kind used by the recipient agencies towards meeting their operating as well as capital expenditure requirement.

Grants-in-aid are given by the Union Government to State Governments and by the State Governments to the Local Bodies discharging functions of local government under the Constitution. This is based on the system of governance in India, which follows three-tier pattern:

- ⦿ with the Union Government at the apex,
- ⦿ the States in the middle, and
- ⦿ the Local Bodies (LBs) consisting of the Panchayati Raj Institutions (PRIs) and the Urban Local Bodies (ULBs) at the grass root level.

Accounts of these three levels of Government are separate and consequently the assets and liabilities of each level of government are recorded separately. Grants-in-aid released by the Union Government to the State Governments are paid out of the Consolidated Fund of India as per Articles 275 and 282 of the Constitution. The Union Government releases grants-in-aid to the State/ Union Territory Government under Central Plan Schemes and Centrally Sponsored Schemes. Sometimes, the Union Government disburses funds to the State Governments in the nature of Pass-through Grants that are to be passed on to the Local Bodies. Funds are also released directly by the Union Government to District Rural Development Agencies (DRDAs) and other specialized agencies including Special Purpose Vehicles (SPVs) for carrying out rural development, rural employment, rural housing, other welfare schemes and other capital works schemes like construction of roads, etc.

The 73rd and 74th Constitutional Amendment Acts envisage a key role for the Panchayati Raj Institutions (PRIs) and the Urban Local Bodies (ULBs) in respect of various functions such as education, health, rural housing, drinking water, etc.

The State Governments are required to devolve funds, functions and functionaries upon them for discharging these functions. The extent of devolution of financial resources to these bodies is to be determined by the State Finance Commissions. Such funds received by the Local Bodies from the State Governments as grants-in-aid are used for meeting their operating as well as capital expenditure requirements. The ownership of capital assets created by Local Bodies out of grants-in-aid received from the States Government lies with the Local Bodies themselves.

Apart from Grants-in-aid given to the State Governments, the Union Government gives substantial funds as Grants-in-aid to other agencies, bodies and institutions. Similarly, the State Governments also disburse Grants-in-aid to agencies, bodies and institutions such as universities, hospitals, cooperative institutions and others. The grants so released are utilized by these agencies, bodies and institutions for creation of capital assets as well as for meeting day-to-day operating expenses.

Objective:

The objectives of this Standard are:

- ⊙ to prescribe the principles for accounting and classification of Grants-in-aid in the Financial Statements of Government both as a grantor as well as a grantee.
- ⊙ to prescribe practical solutions to remove any difficulties experienced in adherence to the appropriate principles of accounting and classification of Grants-in-aid by way of appropriate disclosures in the Financial Statements of Government.

Scope:

This Standard applies to the Union Government and the State Governments in accounting and classification of Grants-in-aid received or given by them. The Financial Statements should not be described as complying with this Standard unless they comply with all the requirements contained therein. This Standard encompasses cases of Pass-Through Grants such as Grants-in-aid given by the Union Government to State Governments and by the State Governments to the Local Bodies discharging functions of local government under the Constitution.

Important Definitions:

- ⊙ **Accounting Authority:** It is the authority which prepares the Financial Statements of the Government
- ⊙ **Financial statements:** It means the Annual Finance Accounts of the Governments.
- ⊙ **Grants-in-aid:** The Grants-in-aid are payments, transfers of funds, in cash or in kind, in the nature of donations or contributions by one government (grantor) to another government, body, institution or individual (grantee).
- ⊙ **Government:** It means all departments and ministries of a Government taken together, whether of the Union Government or State Government or Union Territory Government with Legislature.
- ⊙ **Local Bodies:** It includes Panchayati Raj Institutions and Urban Local Bodies under the provisions of Article 243 and Schedule 12 of the Constitution.
- ⊙ **Pass-Through Grants:** It means grants-in-aid given by the Union Government to the State Governments for transfer to an ultimate grantee

Recognition:

- ⊙ Grants-in-aid in cash shall be recognised in the books of the grantor at the time cash disbursements take place. Grants-in-aid in cash shall be recognised in the books of the grantee at the time cash receipts take place.
- ⊙ Grants-in-aid in kind shall be recognized in the books of the grantor at the time of their receipt by the grantee. Moreover, it shall be recognized in the books of the grantee at the time of their receipt by the grantee.

Disclosure:

- ⊙ In order to ascertain the extent of Grants-in-aid disbursed by the grantor to the grantee for the purpose of creation of capital assets, the Financial Statements of the grantor shall disclose the details of total funds released as Grants-in-aid and funds allocated for creation of capital assets by the grantee during the financial year, in the form of an Appendix to the Financial.
- ⊙ This will enhance transparency and lead to improved disclosure of information in the Financial Statements of the grantor. Such disclosures shall also enable the users of Financial Statements to assess the quantum of future capital formation activity to be undertaken by different grantees supported by funds from the Government.

Effective Date: This Indian Government Accounting Standard becomes effective for the Financial Statements covering periods beginning from 1.4.2011.

IGAS — 3 Loans and Advances Made by Government

Introduction: The Government of India has been empowered under proviso (2) of Article 293 of the Constitution of India to make loans to the States, subject to such conditions as may be laid down by or under any law made by Parliament, any sums required for the purpose of making such loans being chargeable to the Consolidated Fund of India.

The Union Government has been providing financial assistance to the State Governments, a substantial portion of which is in the form of loans. These loans are advanced to the States both in the form of plan and non-plan assistance intended for both developmental and non-developmental purposes. Loans are also provided by the Union Government to Foreign Governments, Government companies and Corporations, Non-Government institutions and Local bodies. The Union Government also disburses recoverable advances to Government servants.

The State Governments disburse loans to Government Companies, Corporations, Local Bodies, Autonomous Bodies, Cooperative Institutions, Statutory Corporations, quasi-public bodies and other non-Government/private institutions. The State Governments also disburse recoverable advances to Government servants.

Objective: The objectives of the Standard are:

- to lay down the norms for Recognition, Measurement, Valuation and Reporting in respect of Loans and Advances made by the Union and the State Governments in their respective Financial Statements to ensure complete, accurate, realistic and uniform accounting practices, and
- to ensure adequate disclosure on Loans and Advances made by the Governments consistent with best international practices.

Scope: This Standard applies to Loans and Advances given by the Government for incorporation and presentation in the Financial Statements of the Government. Financial Statements shall not be described as complying with this Standard unless they comply with all the requirements contained therein. This standard shall apply only to government accounts being maintained on a cash basis.

Important Definitions:

- Accounting Authority:** It is the authority which prepares the Financial Statements of the Governments.
- Accounting Period:** It means the period covered by the Financial Statements.
- Advances:** These are loans made to Government servants.
- Carrying amount:** It means the net amount which the debtor owes the creditor at any point of time and it reflects the historical cost of the loan and subsequent cash flows resulting in either decrease due to repayments or write-offs or increase due to additional disbursements.
- Cash Basis of Accounting:** It means the accounting transactions of an entity represent the actual cash receipts and disbursements during a financial year as distinguished from the amount due to or by the entity during the same period
- Charged and Voted Loans and Advances:** All loans to State Governments and a part of the same to Union Territory Governments made by the Union Government are 'charged' loans whereas all other loans and advances are 'voted' loans and advances.
- Consolidated Fund of India :** It is the fund referred to in clause (1) article 266 of the Constitution of India.
- Financial Statements :** It means the Annual Finance Accounts of the respective Governments.

- ⊙ **Government** : It means the Union Government or any State Government or Government of any Union territory with Legislature.
- ⊙ **Historical Cost** : It is the original book value of loans and advances.
- ⊙ **Loanee Entity** : It is an entity in whose favor a loan or an advance is sanctioned by the Government.
- ⊙ **Loanee Group** : It consists of a group of loanee entities of similar nature and characteristics.
- ⊙ **Loans** : These are the assistance by the Governments by providing money, goods or services directly or indirectly to the beneficiary entities which entails a contractual right to receive back equivalent moneys along with interest thereon, if any, as per terms and conditions of the loan agreements.
- ⊙ **Major Heads of Account** : It represents the functions of Government as per the 'List of Major and Minor Heads of Account of Union and States.
- ⊙ **Minor Heads of Account** : It represents various programmes or schemes undertaken by departments of Government to achieve the objectives of the function represented by the major head as per the 'List of Major and Minor Heads of Account of Union and States.
- ⊙ **Sub-Major Heads of Account** : It represents the sub-functions of Government. It is under the Major Heads and as per the 'List of Major and Minor Heads of Account of Union and States.
- ⊙ **Plan Loans** : These are the loans sanctioned by the Government for plan purposes;
- ⊙ **Sector** : It consists of a grouping of specific functions or services as per the 'List of Major and Minor Heads of Account of Union and States.
- ⊙ **Write-off** : These are when a competent authority remits or writes off any loan owing to its irrecoverability or otherwise, whereby irrecoverable portion of loan is transferred from the debt head of account to an expenditure head as loss to the Government.

Recognition:

- ⊙ A loan shall be recognized by the disbursing entity as an asset from the date the money is actually disbursed and not from the date of sanction and if a loan is disbursed in installments then each installment shall be treated as a separate loan for the purpose of repayment of principal and payment of interest, except where the competent authority specifically allows consolidation of the installments into a single loan at the end of the concerned financial year.
- ⊙ The loans converted into equity shall be treated as conversion and shall lead to a reduction in the outstanding loan amount
- ⊙ The debt assumption due to invocation of guarantees shall be treated as disbursement of loan, unless otherwise so specified.

Measurement and Valuation:

- ⊙ Historical Cost measurement shall be the basis for accounting and reporting on loans and advances made by Governments.
- ⊙ As of the last date of accounting period of Financial Statements, the carrying amount of loans shall undergo revision an account of additional disbursement and repayments or write-offs during the accounting period.

Disclosure:

- ⊙ The Financial Statements of the Union and State Governments shall disclose the Carrying Amount of loans and advances at the beginning and end of the accounting period showing additional disbursements and repayments or write-offs.

- ⊙ An additional column in the relevant Financial Statements shall also reflect the amount of interest in arrears and this amount shall not be added to the closing balance of the loan which shall be in nature of an additional disclosure.
- ⊙ The Financial Statements of the Union Government shall disclose the following details under 'Loans and Advances made by the Union Government' in the Annual Finance Accounts of the Union Government:
 - the summary of Loans and Advances showing Loanee group-wise details;
 - the summary of Loans and Advances showing Sector-wise details;
 - The summary of repayments in arrears from Governments and other loanee entities.
- ⊙ The Financial Statements of the Union Government shall disclose the following details under 'Detailed Statement of Loans and Advances made by the Union Government in the Annual Finance Accounts of the Union Government -
 - the detailed statement of Loans and Advances showing the Major Head;
 - the detailed Statement of repayments in arrears from State or Union territory Governments;
 - the detailed Statement of repayments in arrears from other Loanee entities.
- ⊙ The Financial Statements of the Union Government shall disclose the following details under 'Additional Disclosures' in the Annual Finance Accounts of the Union Government:
- ⊙ The fresh Loans and Advances made during the year.
- ⊙ the Financial Statements of the State Governments shall disclose the following details under 'Statement of Loans and Advances made by the State Governments' in the Annual Finance Accounts of the State Government
 - the summary of Loans and Advances showing Loanee group-wise details;
 - the summary of Loans and Advances showing Sector-wise details;
 - the summary of repayments in arrears from Loanee entities.
- ⊙ The Financial Statements of the State Governments shall disclose the following details under 'Detailed Statement of Loans and Advances made by the State Government in the Annual Finance Accounts of the State Government:
 - the detailed statement of Loans and Advances showing the Major Head and Minor Head-wise details;
 - the detailed Statement of repayments in arrears from Loanee entities.
- ⊙ The Financial Statements of the State Governments shall disclose the details relating to fresh Loans and Advances made during the year under 'Additional Disclosures' in the Annual Finance Accounts of the State Government.

Effective Date: This Indian Government Accounting Standard becomes effective for the Financial Statements covering periods beginning from 1.4.2011.

IGAS — 7 Foreign Currency Transactions and Loans or Gain by Exchange Rate Variation

Introduction: Government Accounting Rules, 1990 require that the accounts of the Government shall be maintained in Indian currency i.e., Indian rupees. Indian rupee is the reporting currency for the financial statements of the Government.

All transactions of the Union and State Governments taking place in other countries are passed periodically by the Indian Embassies/ Missions to India and brought to account finally in the Indian books after they have been converted into rupees.

All transactions taking place with foreign Governments or foreign entities or international agencies in foreign currency are also to be recorded in the reporting currency applying exchange rate on the date of transaction.

The missions and embassies of India abroad incur expenditure on their operations including the pay and other entitlements of the officials employed there. They also make payments on behalf of other Ministries and Departments relating to defense, commerce, education as well as public sector undertakings and State Governments. These involve foreign currency transactions and loss or gain due to difference between exchange rate applicable and exchange rate internally adopted by Government like official rate of exchange or salary rate of exchange. Government may use various rates of exchange internally determined for foreign currency transactions that might give rise to loss or gain for accounting purpose.

Under Article 292 of the Constitution of India, the executive power of the Union extends to borrowing upon the security of the Consolidated Fund of India within such limits, if any, as may from time to time be fixed by the Parliament by law and to the giving of guarantees within such limits, if any, as may be so fixed. The Union Government may have bilateral and multi-lateral transactions involving foreign currency. This may involve borrowing or lending involving repayment of principal and payment of interest denominated in foreign currency and loss or gain by exchange rate variation.

In case of foreign currency loans to various projects, particularly by the World Bank, there are different procedures for disbursement. These are (i) Reimbursement through Special Account, (ii) Reimbursement outside Special Account, and (iii) Direct payment/ Commitment procedure. The Direct payment/ Commitment procedure involves direct payment of foreign currency to contractor/ supplier/ consultants from the loan/ credit funds the World Bank, as opted by the project implementing agency. The rupee equivalent of the foreign currency paid directly from the loan/credit is recoverable from the project implementing agency. However, under externally aided projects the Union Government releases 'additional central assistance towards disbursements under this procedure. But the rupee amount of the foreign currency paid directly from the loan/credit is recoverable from the project implementing agency.

Government may float or may enter into agreement with designated bank(s), for example, the State Bank of India to float schemes involving foreign currency denominated bonds/ deposits, such as 'The NRI Bonds', 'India Millennium Deposits' and 'Resurgent India Bonds' for subscription by the Non-Resident Indians, Overseas Corporate Bodies or Banks acting in fiduciary capacity on their behalf. The proceeds may not flow into the Consolidated Fund and are either kept in the Public Account as in the case of the NRI Bonds or acquired by the Reserve Bank of India. Rupee securities issued to the international financial institutions such as the Asian Development Bank, International Bank of Reconstruction and Development (World Bank), International Development Association, International Fund for Agricultural Development, African Development Bank are accounted for under 'internal debt' of the Central Government that may require repayment on encashment of rupee securities in convertible currencies giving rise to exchange difference.

Foreign currency transactions for acquisition of Special Drawing Rights (SDRs) at the IMF are accounted for under Special Deposit and Accounts-SDR at the IMF-Exchange Rate.

Objective: The objective of this standard is to provide accounting and disclosure requirements of foreign currency transactions and financial effects of exchange rate variations in terms of loss or gain in the financial statements. It also deals with the requirements of disclosure of foreign currency external debts and the rate applied for disclosure. The principal issues in accounting and reporting for foreign currency transactions are to decide which exchange rate to apply and how to recognise in the financial statements the financial effects of exchange rate variations in terms of loss or gain.

Scope: The Accounting Authority which prepares and presents the financial statements of the Government under the cash basis of accounting, as defined in the Government Accounting Rule 21 of GAR 1990 and Government Financial Rule 68 of GFR 2005 should apply this Standard:

- (a) in accounting and disclosure for transactions in foreign currencies;
- (b) in accounting and disclosure for financial effects of exchange variations in terms of loss or gain by exchange rate variation, and
- (c) in disclosure of foreign currency external debts and the rate(s) applied for disclosure.

Financial statements should not be described as complying with this Standard unless they comply with all its requirements.

This Standard shall apply to foreign currency transactions of the Union Government as well as that of the State Governments.

This Standard deals with presentation of expenditure and revenue in terms of loss or gain by exchange rate variations arising from foreign currency transactions. It also deals with disclosure of foreign currency external debt.

This Standard does not deal with disclosure requirements of external guarantees. The requirements of disclosure of details of subsisting external guarantees in terms of Indian rupees on the date of financial statements have been dealt with in IGAS1 “Guarantees given by Governments: Disclosure Requirements”.

The Reserve Bank of India is the custodian of foreign currency and foreign exchange reserves and this Standard does not deal with foreign currency reserves.

Important Decision :

- ⊙ **Accounting Authority :** It is the authority which prepares the financial statements of the Government.
- ⊙ **Capital Account :** It means a division of Government accounts wherein receipts and expenditure of capital nature are accounted for.
- ⊙ **Closing Rate :** It is the exchange rate on the last working day of the period for which the financial statement is prepared.
- ⊙ **Consolidated Fund of India or Consolidated Fund of State :** It means the Consolidated Fund referred to in Article 266 (I) of the Constitution of India.
- ⊙ **Cross Currency Swap Agreement :** It is a financial agreement between two parties to exchange a stream of principal and interest payments in one currency for a stream of principal and interest payments in another currency.
- ⊙ **Direct Payment Procedure :** It involves direct payment of foreign currency to contractor / supplier / consultants, from the loan / credit funds of the World Bank, as opted by the project implementing agency.
- ⊙ **Exchange Rate :** It is the ratio for exchange of two currencies.
- ⊙ **Exchange Rate Variation :** It means change in the ratio for exchange of two currencies;
- ⊙ **Exchange Difference :** It is the difference resulting from reporting the same number of units of a foreign currency in the reporting currency at different exchange rates.
- ⊙ **External Guarantee :** It means a guarantee against liability denominated in foreign currency.
- ⊙ **Financial Statements :** It means the Annual Finance Accounts of the Governments.
- ⊙ **Foreign Currency :** It means a currency other than the reporting currency of the Government.

- ⊙ **Forward Rate** : It means the specified exchange rate for exchange specified by the terms of agreement for exchange of two currencies at a specified future date.
- ⊙ **Government** : It means the Central (Union) Government or a State Government, or a Union Territory Government;
- ⊙ **Government Accounts** : It mean the form and divisions of accounts and accounting records in which all transactions of Government are accounted for.
- ⊙ **Guarantee** : It is an accessory contract, by which the promisor undertakes to be answerable to the promisee for the debenture default or miscarriage of another person, whose primary liability to the promisee must exist or be contemplated.
- ⊙ **Indian Currency** : It means currency which is expressed or drawn in Indian rupees.
- ⊙ **Official Rate of Exchange** : It means official accounting rate of exchange between Indian rupees and foreign currencies determined and issued by the Ministry of External Affairs, Government of India periodically.
- ⊙ **Public Account**: It means the Public Account of India referred to in Article 266(2) of the Constitution of India;
- ⊙ **Public Sector Undertaking**: It means government companies incorporated under the Companies Act, 1956 and Statutory Corporations set up under the specific Acts of Parliament and State Legislatures, as the context may imply.
- ⊙ **Reporting Currency**: It means Indian Rupees.
- ⊙ **Revenue Account**: It means a division of Government accounts wherein receipts and expenditure of revenue nature are accounted for.
- ⊙ **Salary Rate of Exchange**: It means the rate of exchange between the reporting currency and foreign currency fixed by Ministry of External Affairs, Government of India for disbursement of salary of the officials posted at Mission abroad.
- ⊙ Special Drawing Right means the international reserve asset created by the International Monetary Fund

Foreign Currency Transactions : A Foreign currency transaction of Government is a transaction which is denominated in or requires settlement in a foreign currency. This may include:

- ⊙ transactions arising due to operations of the missions and embassies abroad and receipts and payments made by them including those on behalf of other Ministries and Departments relating to defence, commerce, education as well as public sector undertakings and State Governments;
- ⊙ bilateral and multi-lateral foreign currency transactions involving borrowing or lending including debt servicing;
- ⊙ purchasing/ selling goods or services where purchase/ sale price is denominated in foreign currency;
 - transactions arising from the schemes involving foreign currency such as 'The NRI Bonds', the flow of which goes to Government account;
- ⊙ transactions for acquisition of Special Drawing Rights at the International Monetary Fund and quota contributions to IMF and the transactions under Financial Transaction Plan;
- ⊙ rupees securities issued to the international financial institutions which are accounted for under the head internal debt of the Central Government but requiring repayment on encashment of rupee securities in convertible currencies.

A foreign currency transaction of Government shall be reported in the reporting currency by applying to the foreign currency amount, exchange rate between the reporting currency and the foreign currency at the date of receipts and payments.

The exchange rate at the date of receipts and payments is the rate as determined by the Government of India for the purpose viz., salary rate, official rate, etc. or else the rate as indicated by the Reserve Bank of India in its buying and selling rate as may be appropriate, issued every day.

Treatment of Loss or Gain by Exchange Rate Variation : This standard set out the following accounting treatment required by this Standard with respect to loss or gain by exchange rate variations and exchange difference on different types of foreign currency transactions.

- ⦿ All losses or gains by exchange rate variation in respect of Government transactions in foreign currencies shall be recognised as revenue loss or gain.
- ⦿ Government may have losses or gains by exchange rate variations on its operating activities like operation of its missions abroad as mentioned in paragraph 2 above or due to contractual commitments to bear the financial effect of exchange rate variations as part of its fiscal and economic policy.
- ⦿ Loss or gain arising out of transactions for acquisition of Special Drawing Rights at the International Monetary Fund shall be reported in the financial statements.
- ⦿ Exchange difference may arise out of Government's financing activities like borrowing of loans denominated in foreign currencies and issuing of rupees securities. External borrowings of the Government are recorded at the historical rate of exchange i.e., rate of exchange prevailing at the date of transaction. As most of the loans have long repayment period(s), their repayment extends over several years. Meanwhile, exchange rate(s) may undergo significant changes. If the exchange rate is higher at the time of repayment, repayment of loans in Indian rupees exceed the rupee amount of loan drawn.

In case repayment of loans, at the end of loan period the balance, if any, remaining in external debt head may be cleared adjusting the same under appropriate revenue or expense head for exchange rate fluctuations or to miscellaneous Government Account head.

Disclosure:

The financial statements shall disclose rates of exchange adopted internally by the Government for different types of foreign currency transactions including forward contract rate, if any, along with their basis as part of Statement of Accounting Policies.

The financial statements shall disclose the following details of foreign loans in the format given in paragraph 30:

- (a) loans outstanding on historical cost basis at the beginning and end of the year;
- (b) loans outstanding on closing rate basis at the beginning and end of the year;
- (c) loans outstanding in foreign currency units at the beginning and end of the year;
- (d) additions during the year in foreign currency terms and in Indian Rupee along with the rate of exchange adopted;
- (e) discharge during the year showing separately the amounts in foreign currency units, on historical basis and
- (f) current rate of exchange basis;
- (g) loss or gain on repayment of loans due to variation of exchange rate;
- (h) amount outstanding at the end of the year in foreign currency units, on historical basis and on closing rate basis;

- (i) interest paid on external debt; and
- (j) closing rate of exchange applied.

Financial statements shall disclose in the notes the following:

- (a) category-wise gross figure of loss and gain by exchange rate variation for the financial year;
- (b) loss and gain by exchange rate variation separately for Capital Head transactions and Revenue Head transactions;
- (c) amount of loan and exchange difference in respect of fully repaid loans; and
- (d) amount of loss or gain, if any, on cross-currency swap agreements.

Effective Date: This Indian Government Accounting Standard shall be effective for financial statements for the periods commencing from the 1st April subsequent to the date of notification of the standard by Government.

IGAS — 9 Government Investments in Equity

Introduction:

The Union Government, State Governments, and Governments of Union Territories with Legislatures (hereinafter called Government), make investments in entities like Government companies, Statutory Corporations, other Joint Stock Companies and Cooperative Banks/ Societies etc. In addition, the Union Government also invests in international bodies and authorities like the International Monetary Fund, Asian Development Fund, and International Finance Corporation.

Government's investments in equity include direct investment in share capital, conversion of outstanding loans (principal and interest) against the entity into equity, and conversion of dividends declared by the entity, but not received, into equity. This standard covers all such investment in equity, and does not cover investment in the loan capital of the entity.

Objective:

The objective of the Standard is to lay down the norms for recognition, measurement, and reporting of investments of the Government in the Financial Statements so that the financial statements provide a true and fair view of investments of the Government, consistent with best international practices.

Scope:

This Standard applies to investments made in different investee entities by the Government for incorporation, and presentation in the Financial Statements. This standard will apply only to Government accounts being maintained on cash basis.

It applies to investment in equity of the investee entities and not in debt, like debentures, bonds, and such other instruments which are normally accounted for by the investee entities as long term and short term debt. The Financial Statements shall not be considered as giving a true and fair view of investments unless they comply with this Standard.

Important Definitions:

- ⊙ **Accounting Authority :** It is the authority that prepares the financial statements of the Government.
- ⊙ **Accounting Period :** It means the financial year covered by the financial statements, which is normally from 01 April to 31 March.
- ⊙ **Bonus Shares :** These are the shares issued free of cost to the shareholders by an investee entity by capitalising its reserves and / or the security premiums as per the requirement of the relevant law.

- ⊙ **Cash Basis of Accounting** : It is one wherein the accounting transactions of the Government represent the actual cash receipts and disbursements during a financial year as distinguished from the amount due to or from the investee entity during the same period.
- ⊙ **Disinvestment/ divestment / retirement of-Government Equity** : It means the sale or transfer of equity shares by the Government.
- ⊙ **Equity Share** : It is a share, which is not a preference share.
- ⊙ **Financial Statements** : It means the Annual Finance Account of the respective Government.
- ⊙ **Government**: It means the Union Government or any State Government or Government of any Union Territory with Legislature.
- ⊙ **Government Investment in Equity** : It includes investment in equity shares obtained by the Government on payment of cash or in exchange of any other asset; exercise of a right granted by the investee; issuance of bonus shares by the investee entity; reinvestment of dividends; or conversion of loans into equity.
- ⊙ **Historical Cost** : It is the cost of acquisition of equity shares.
- ⊙ **Investee Entity** : It is an entity in which an investment is made by the Government.
- ⊙ **Investee Group** : It consists of a group of investee entities of similar nature and characteristics that can be collectively and distinctively addressed such as Statutory Corporations, Joint Stock Companies, International Bodies, State Cooperative Banks/other banks, Cooperative Societies, Employees Consumer Cooperative Societies, etc.
- ⊙ **Preference Shares** : It mean those shares which have the following two characteristics:
 - (a) that with respect to dividends, carry a preferential right to be paid a fixed amount or an amount calculated at a fixed rate;
 - (b) that with respect to capital, they carry, over the equity share holder, on winding up or repayments of capital, a preferential right to be repaid the amount of the capital paid up or deemed to have been paid up.
- ⊙ **Right Shares** : These are the allotment of shares on the issue of fresh capital by an investee entity to which a shareholder, by virtue of his holding, is entitled to, certain shares on payment in the investee enterprise in proportion to the number of shares already held by him.

Recognition :

An investment in equity shall be recognised by the Government as an asset from the date on which the investment details are entered in the books of the entity.

Loans converted into equity and dividends declared but not distributed by the investee entity, converted into equity shall be treated as equity investments from the date on which such conversion takes place, i.e. from the date on which details of conversion are entered in the books of the investee entity.

Measurement :

- ⊙ The method of initial measurement of investments in the financial statements of the Government is the historical cost of the investment. Where investment in equity is acquired on payment of cash including on exercise of rights granted by the investee, the historical cost is the amount of cash disbursed. Historical cost of Bonus shares is nil as there is no payment of cash. In case the Government acquires equity shares in consideration of any other asset, e.g., land, the historical cost of such investment shall be the face value of the equity shares. Where the equity shares are acquired on reinvestment of dividends, the historical cost of

such shares is the amount of dividends against which the shares are allotted. Historical cost of equity shares acquired on conversion of loans is the amount of the loan outstanding (principal and interest) against which such shares are allotted.

- Total market value of the investments will be calculated on the basis of the price quoted on the last day of the financial year in the primary market of trading of that particular stock or in case the quoted price is not available on that date, the price on the date at which it was last quoted before the closing of the financial year. This will be applicable to the listed companies whose shares are regularly traded on a recognised stock exchange during the year.
- Investments subsequent to initial measurement shall also be reflected in the financial statements at historical cost.
- The total amount of investments on the last date of an accounting period shall be the investments at the beginning of the period with additions and disinvestment / sale of investments during the period.

Disclosure :

The Financial Statements of the Government shall disclose the amount of investments at the beginning and at the end of the accounting period showing additional investments, disinvestments / divestments or retirement / write down of capital / transfer of share, if any.

They will reflect the additions made during the year by way of investments to the opening balance and disinvestments/ divestments there from, for arriving at the closing balance.

Types of investments are specifically mentioned and acquisitions of investments in terms of exchange of goods/ other assets are also recorded.

The amount of dividend received shall be reflected as revenue of the period.

The Financial Statements of the Government shall disclose the following details under the statement of 'Investments made by the Government':

- (i) Detailed Statement of Investments made investee Entity wise.
- (ii) Detailed Statement of Disinvestments / divestments / retirement of capital / transfer of shares made Investee Entity wise.
- (iii) Summary of Investments: Investee group-wise (such as Statutory Corporations, Joint Stock Companies, Cooperative Banks, etc).
- (iv) Additional disclosures of investee entities which have not submitted accounts and / or have suffered a loss during the preceding three consecutive years.

The detailed statement of investments, Investee entity wise in the Financial Statements which the entity belongs, the Ministry or Department under which the investee is functioning, whether the enterprise is in operation or not etc. Details of disinvestment / divestments / retirement of capital / transfer of share during the year are reported in the Statement of disinvestment / retirement of capital, investee entity wise. While indicating the type and number of units, the units acquired, and those allotted as bonus shares, shall be depicted separately along with year of allotment. The statements shall also disclose the total paid up capital of the entity. This would help indicate the extent of government control and whether the investment has increased or decreased.

Moreover, where the units of investments are traded in the market, the amount of investment in terms of market value may also be disclosed. The price quoted on the last day of the financial year in the primary market of trading of that particular stock or in case the quoted price is not available on that date, the price on the date at which it was last quoted before the closing of the financial year may be taken into account.

The amount of dividend received and credited to Government revenue shall also be reported entity wise. In case the dividend received pertains to previous accounting periods, the year to which the amounts actually pertain are disclosed by way of a foot note.

Additional disclosures shall include the investments and disinvestments / divestments / retirement of capital / transfer of shares made during the reporting period. In addition, disclosures shall be made by way of a note to accounts in respect of investments in entities which have made a net loss i.e., loss after interest and taxes in the previous accounting period along with remarks where further investments have been made during the reporting period. Where the accounts of the investee entities are in arrears for more than three consecutive years, the fact should be disclosed, along with remarks in cases where the Government has invested in the entity during the reporting period.

Effective date :

This Indian Government Accounting Standard becomes effective for the financial statements covering periods beginning from the 01 April of the year following the notification of the Standard by the Government.

IGAS — 10 Public Debt and Other Liabilities of Governments: Disclosure Requirements

Introduction:

In terms of Article 292 of the Constitution, the executive power of the Union extends to borrowing upon the security of the Consolidated Fund of India within such limits, if any, as may from time to time be fixed by Parliament by Law. Article 293(1) of the Constitution provides a similar provision in respect of State Governments. Section 48A(1) of the Government of Union Territory Act 1963 and Section 47A(1) of Government of NCT of Delhi Act 1991, also provides for borrowing upon the security of the Consolidated Fund of the Union Territory concerned or Consolidated Fund of the Capital within such limits, if any, as may be fixed by Parliament by law and the stipulations indicated therein.

Objective:

The objective of the IGAS is to lay down the principles for identification, measurement and disclosure of public debt and other obligation of Union and the State Governments including Union Territories with legislatures in their respective financial statements.

It ensures consistency with international practices for accounting of public debt in order to ensure transparency and disclosure in the financial statements of Government for the benefit of various stake holders.

Scope:

- ⦿ The proposed IGAS shall apply to the financial statements prepared by the Union and State Governments and Union Territories with legislature.
- ⦿ The IGAS shall also cover “other obligations” as defined in paragraph 4 of this standard relating to definitions. The IGAS shall not include in its ambit, guarantees and other contingent liabilities and non-binding assurances.

Important Definitions:

- ⦿ **Accounting Authority:** It means the authority who prepares the Financial Statements of the Governments.
- ⦿ **Accounting Period:** It means the period covered by the Financial Statements.
- ⦿ **Cash Basis of Accounting:** It is that wherein accounting transactions of the Union Government, State Government and Government of Union Territory with legislature represent the actual cash receipts and

disbursement during a financial year as distinguished from the amounts due to or by the relevant Government, subject to the exceptions as may be authorized under the Government Accounting Rules 1990 or by any general or special orders issued by the Central Government on the advice of the Comptroller & Auditor General of India.

- ⊙ **Consolidated Fund of India :** It is the fund referred to in Article 266(1) of the Constitution of India.
- ⊙ **Consolidated Fund of a State :** It is the fund referred to in Article 266(1) of the Constitution of India.
- ⊙ **Consolidated Fund of Union Territories with Legislature :** It is the fund referred to in Section 47(1) of the Union Territories Act, 1963 and Section 46(1) of the Government of National Capital Territory of Delhi Act, 1991.
- ⊙ **Public Account of India :** It is the fund referred to in Article 266(2) of the Constitution of India.
- ⊙ **Public Account of a State :** It is the fund referred to in Article 266(2) of the Constitution of India.
- ⊙ **Public Account of Union Territory :** It is the Public Account referred to in Section 47A (1) and Section 46A (1) of the Government of Union Territories Act, 1963 and the Government of National Capital Territory of Delhi Act, 1991 respectively.
- ⊙ **Financial Statements :** It means the Annual Finance Accounts of the Union Government, State Governments and Union Territories with legislature. It would also include appropriate statements, schedules and notes to the above statements.
- ⊙ **Government :** It means the Union Government or any State Government or Government of any Union Territory with Legislature.
- ⊙ **Face Value:** It is the contract value of the Public Debt or other obligations.
- ⊙ **Public Debt:** It includes internal and external debts of the Central Government, State Governments and Government of the Union Territory with legislature, as applicable.
- ⊙ **Other Obligations:** It refers to the net outcome of the receipt and payment transactions arising in the public account. It does not include transactions categorized as Remittances, Suspense and Miscellaneous and Cash Balance.

Measurement & Valuation:

The Public Debt and Other Obligations incurred by Governments shall be accounted and reported on the basis of Face Value. For the purpose of reporting external debt, changes in the Balance at the end of the Accounting Period arising from variations in the rate of exchange shall also be reported.

Disclosure:

The financial statements of the Union Government, State Governments and the Union Territories with legislature shall disclose the following details concerning Public Debt and other obligations:

- (a) the opening balance, additions and discharges during the year, closing balance and net change in rupee terms with respect to internal debt;
- (b) the opening balance, additions and discharges during the year, closing balance and net change in rupee terms with respect to external debt, wherever applicable;
- (c) the opening balance, receipts and disbursements during the year, closing balance and net change in rupee terms with respect to other obligations.

The Financial Statements of the Union Government and the State governments shall disclose the following

details regarding servicing of debt and related parameters for the current year, preceding year and net change in rupee terms with respect to:

- (a) Interest paid by the governments on public debt, small saving, provident funds, and reserve funds and on other obligations.
- (b) Interest received on loans to State and Union Territory Governments, departmental Commercial Undertakings, PSUs and other Undertaking including Railways, Post & Telegraph.
- (c) Interest received on other Loans, from investments of cash balances and other items.

External debt of the Central Government shall be classified according to source indicating the currency of transaction. Measurement of face value shall be in respect of both the currency of agreement and Indian rupees. It should also disclose the outstanding in terms of exchange rate prevailing at the end of the accounting period.

Effective date:

This Indian Government Accounting Standard becomes effective for the Financial Statements covering periods beginning on 1st April of the year after the notification of the Standard by the Government.

Government Accounting and Reporting

8.5

Controller General of Accounts (CGA) is the apex accounting body in the Government of India. It is the principal Accounts Adviser to the Government of India and is responsible for establishing and maintaining a technically sound management accounting system. The accounts of the Civil Ministries are compiled and maintained by the Pay and Accounts Offices, the basic accounting units.

The Pay and Accounts Offices maintain line item wise accounts of all the transactions involving Consolidated Fund of India, Contingency Fund of India and Public Account of India. Various subsidiary accounts such as Loan accounts, Fund accounts etc. are also maintained by these units.

The accounts compiled by the Pay and Accounts Offices are consolidated on a monthly basis in the Principal Accounts Offices at the Ministry's headquarters. The consolidated accounts of the Ministry are rendered to the Controller General of Accounts. The accounts received from various Ministries are consolidated in the office of the Controller General of Accounts to generate the accounts of the Government of India as a whole.

These monthly accounts are reviewed and a critical analysis of expenditure, revenue collection, borrowings and deficit is prepared for Finance Minister.

Role of CGA: Consolidating monthly accounts of the Government of India and reporting on the fiscal deficit is the primary responsibility of the CGA. The monthly accounts are compiled in the CGA office and a monthly review indicating flow of expenditure, revenue collection, internal and external borrowing and fiscal deficit is prepared for Minister of Finance. A summary of the monthly accounts is also placed on the web. He prepares a critical analysis of expenditures, revenues, borrowings and the deficit for the Finance Minister every month. He also prepares annual Appropriation Accounts and Union Finance Accounts for presentation to the parliament.

Ministries, Departments approach the Controller General of Accounts for advice on accounting procedures for new schemes, programmes or activities undertaken by them. The advice rendered by the CGA generally covers aspects related to maintenance of accounts, collection of receipts and its crediting into Government account, release of payment and its accounting, creation and operation of funds within Government accounts, banking arrangements for making payments and collecting receipts etc. The advice of the Controller General of Accounts is binding on the Ministries/Departments.

Government Accounting & Information Technology: In a continuous effort towards improving the efficiency and the quality of the services rendered by the Department, Information Technology has been introduced at almost all levels of operations.

At the three levels, namely the Controller General of Accounts, Principal Accounts Offices and the field Pay and Accounts Offices software packages, namely GAINS (Government Accounting Information System), CONTACT (Controller's Accounts) and IMPROVE (Integrated Multimodule Processor for Voucher Entries), are being used to consolidate Government of India Accounts.

The monthly accounts are now published on the Web on the last day of the month following the month of account

(i.e. the accounts for Oct 2017 will be available on the last day of November 2017). Efforts are continuing to automate a number of other processes at various levels.

The Systems Group, in the office of the Controller General of Accounts, assists the Controller General of Accounts in the policy formulation and use of Information technology in the accounting offices of the Government. The software support to the organisation is provided by the National Informatics Centre under the Ministry of Planning.

Features of Government Accounting in India

One of the most distinctive features of the Government accounts in India is the minute detail with which the financial transactions are recorded in the account books. All transactions are classified on a six tier functional classification with Major Heads representing a broad function of the Government at the top and an object head representing the activity at the bottom. The intermediate levels represent sub-functions, programmes, schemes and sub-schemes. The functional classification is applicable to receipts as well as payments.

Since the Country follows a Plan based model of economy, the expenditure of Government is divided into Plan and Non-Plan. As the name suggests, the Plan expenditure is directly related to expenditure on schemes and programmes envisaged in the plans. The Non-Plan expenditure is the expenditure incurred on establishment and maintenance activities.

Further distinction is made between the expenditure, which under the provisions of the Constitution, is subject to the vote of the legislature and the rest which is charged upon the Consolidated Fund of India.

Since the budget is on an annual basis, the accounts have to conform to it. The accounts are maintained on cash basis. Only the actual receipts realised and the payments made during the year are recorded.

Article of the Constitution provides for creation of a Consolidated Fund of India, Contingency Fund and Public Account.

Accounts of the Government

The Constitution of India provides for the manner in which the accounts of the Government have to be kept. The accounts of Government are kept in three parts namely, Consolidated Fund, Contingency Fund and Public Account. They are discussed as under:

1. Consolidated Funds of India

The Consolidated Funds is constituted under Article 266 (1) of the Constitution of India. All revenues received by the Government by way of taxes like Income Tax, Central Excise, Customs and other receipts flowing to the Government in connection with the conduct of Government business i.e. Non-Tax Revenues are credited into the Consolidated Fund. Similarly, all loans raised by the Government by issue of Public notifications, treasury bills (internal debt) and loans obtained from foreign governments and international institutions (external debt) are credited into this fund. All expenditure of the government is incurred from this fund and no amount can be withdrawn from the Fund without authorization from the Parliament. This is the largest of all the three funds.

2. Public Accounts of India

The Public Accounts of India is constituted under Article 266 (2) of the Constitution. The transactions to be recorded in it relate to debt other than those included in the Consolidated Fund of India. The transactions under Debt, Deposits and Advances in this part are those in respect of which Government incurs a liability to repay the money received or has a claim to recover the amounts paid. The transactions relating to 'Remittance' and 'Suspense' shall embrace all adjusting heads. The initial debits or credits to these heads will be cleared eventually by corresponding receipts or payments. The receipts under Public Account do

not constitute normal receipts of Government. Parliamentary authorization for payments from the Public Account is therefore not required.

3. Contingency Funds of India

The Contingency Fund of India Fund set by the Government of India under Article 267 of the Constitution of India. It records the transactions connected with Contingency. It is held on behalf of President by the Secretary to the Government of India, Ministry of Finance, Department of Economic Affairs. The corpus of this fund is ₹ 500 crores. Advances from the fund are made for the purposes of meeting unforeseen expenditure which are resumed to the Fund to the full extent as soon as Parliament authorizes additional expenditure. Thus, this fund acts more or less like an imprest account of Government of India.

Indian Government Financial Reporting Standards (IGFRS).

The standards being developed for accrual system of accounting in the Government are called the Indian Government Financial Reporting Standards (IGFRS).

Accrual based Accounting Standards, i.e., Indian Government Financial Reporting Standards (IGFRS), approved by the Government Accounting Standards Advisory Board (GASAB) under consideration of Government of India:

- ⦿ **IGFRS 1:** Presentation of Financial Statements
- ⦿ **IGFRS 2:** Property, Plant & Equipment
- ⦿ **IGFRS 3:** Revenue from Government Exchange Transactions
- ⦿ **IGFRS 4:** Inventories
- ⦿ **IGFRS 5:** Contingent Liabilities (other than guarantees) and Contingent Assets: Disclosure Requirements. 1 Formulation of some other IGFRSs/IGASs is under progress

IGFRS 1: Presentation of Financial Statements

IGFRS 1 has prescribed the manner of presentation of financial statements by Government entities that follow accrual basis of accounting. It sets out over all requirement for the presentation of financial statements, guidance for their structure and minimum requirements for the content of financial statements presented under the accrual basis of accounting.

IGFRS 2: Property, Plant and Equipment

This standard has prescribed the accounting treatment for property, plant and equipment (PPE) so that users of financial statements can obtain information regarding an entity's investment in its property, plant and equipment and any changes in such investment. The principal issues in accounting for property, plant and equipment are the timing of recognition of the assets, the determination of their carrying amounts and the depreciation charges and impairment losses to be recognised in relation to them. In addition, this standard aims at categorising assets according to their nature and also aims to provide for depreciation of assets, taking into account their usage over the life of the assets. The Accounting Standard is essentially an adaptation to Indian requirements of International Public Sector

Accounting Standard (EPSAS 17) issued by IFAC on Property, Plant and Equipment. It also envisaged to provide guidance to pilot studies and the eventual development of a common reporting framework under accrual basis for the Union and the States. The IGFRS are subject to revision by GASAB based on experiences with pilot studies.

IGFRS 3: Revenue from Government Exchange Transaction

This Standard lays down the principles to be followed for recognition and measurement of revenue from exchange

transactions by government entities under accrual basis of accounting, wherein transactions and other events are recognised when they occur (and not only when cash or its equivalent is received or paid). It is envisaged to provide guidance to the pilot studies and eventual development of a common reporting framework under accrual basis for Union and the States. The IGFRS could be revised by GASAB based on pilot studies.

IGFRS 4: Inventories

This standard has prescribed the accounting treatment for inventories. A primary issue in accounting for inventories is the amount of cost to be recognized as an asset and carried forward until the related revenues are recognized. This Standard provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories. This Standard aims at using accrual principles of accounting for inventories – both at the stage of charging as expense and depicting the closing stock in the financial statements at the end of the reporting period.

The Accounting Standard has derived inputs from Indian Accounting Standards (Ind AS 2), IPSAS 12 and IAS 2 (International Accounting Standards). The Standard is envisaged to provide guidance to the pilot studies and eventual development of a common reporting framework under accrual basis for the Union and the States. The IGFRS 4 could be revised by GASAB based on pilot studies.

IGFRS 5: Contingent Liabilities (other than guarantees) and Contingent Assets: Disclosure Requirements

This standard has laid down the principles for disclosure requirements of Contingent Liabilities (other than guarantees) and Contingent Assets for both the Union and the State Governments including Union Territories with Legislatures, in their respective Financial Statements in order to ensure uniform and appropriate disclosure of such liabilities and assets. It also ensures consistency with international best practices leading to transparency and improved quality of disclosure in the financial reports of Governments for the benefit of various stakeholders. An important objective of the IGFRS is to ensure that Governments portray the risks associated with contingent liabilities and contingent assets in a transparent manner. The purpose of this standard is to provide for disclosure requirements of contingent liabilities (other than guarantees) and contingent assets of Governments in the financial

Statements. Disclosure of contingent liability is relevant from the point of view of knowing what risk of future liability the government carries. Disclosure of contingent assets is relevant in knowing what possible assets may accrue to government.

Exercise

A. Theoretical Questions:

⊙ Multiple Choice Questions

1. The Financial Statements of the Union Government shall disclose the following details under 'Loans and Advances made by the Union Government' in the Annual Finance Accounts of the Union Government
 - a. the summary of Loans and Advances showing loanee group-wise details
 - b. the summary of Loans and Advances showing Sector-wise details
 - c. the summary of repayments in arrears from Governments and other loanee entities
 - d. All of the above
2. Consolidated Fund of India is the fund referred to in _____ of the Constitution of India
 - a. Article 266(1)
 - b. Article 266(2)
 - c. Article 266(3)
 - d. Article 266(4)
3. The financial statements of the Union Government, State Governments and the Union Territories with legislature shall disclose the following details concerning Public Debt and other obligations
 - a. the opening balance, additions and discharges during the year, closing balance and net change in rupee terms with respect to internal debt
 - b. the opening balance, additions and discharges during the year, closing balance and net change in rupee terms with respect to external debt, wherever applicable
 - c. the opening balance, receipts and disbursements during the year, closing balance and net change in rupee terms with respect of other obligations
 - d. All of the above
4. As per The Constitution of India, the Accounts of the Government are kept in
 - a. Consolidated Funds of India

- b. Public Accounts of India
 - c. Contingency Funds of India
 - d. All of the above
5. The standards being developed for accrual system of accounting in the Government are called the _____
- a. Indian Government Accounting Standards
 - b. Indian Government Reporting Standards
 - c. Indian Government Financial Reporting Standards
 - d. Indian Government Accounting and Reporting Standards
6. Which of the following is not a general principal of Government Accounting?
- a. Reporting of Utilisation of Public Funds
 - b. Expenditures are classified under Sectors, major heads, minor heads, sub-heads and detailed heads of Accounts
 - c. Budget Based
 - d. Single Entry System
7. IGAS 2 is related to _____.
- a. Accounting and Classification of Grants-in-aid
 - b. Guarantees given by Governments: Disclosure Requirements
 - c. Government Investments in Equity
 - d. None of the above
8. Which of the following is/ are responsibility/responsibilities of GASAB?
- a. Formulating and proposing standards that improve the usefulness of financial reports
 - b. Keeping the standards up to date and reflect change in the Governmental environment.

- c. Improving standard of Government accounting and financial reporting
- d. All of the above
9. GASAB stands for _____.
- a. Government Accounting Standards Advisory Board
- b. Government Accounting Standards Applicability Board
- c. Government Auditing Standards Advisory Board
- d. Government Accounting for States Advisory Board
10. Which of the following is not a feature of Government Accounting?
- a. Non-fund based Accounting
- b. Double Entry System
- c. Adherence to Government Regulations
- d. Transacting through Banks

Answer:

1.	2.	3.	4.	5.	6.	7.	8.	9.	10.
d.	a.	d.	d.	c.	d.	a.	d.	a.	a.

⊙ **Fill in the Blanks**

- Government Accounting Standards is issued by _____.
- _____ means the arrangement whereby the Government agrees to transfer funds to the designated account in case the beneficiary entity fails to ensure availability of adequate funds for servicing the debts, as per stipulations.
- _____ means the arrangement whereby the Government's cash balance is affected on a specified date or on the occurrence of specified events to meet certain obligations arising out of Guarantees given by it.
- _____ are payments, transfers of funds, in cash or in kind, in the nature of donations or contributions by one government (grantor) to another government, body, institution or individual (grantee).
- _____ is a financial agreement between two parties to exchange a stream of principal and interest payments in one currency for a stream of principal and interest payments in another currency.

Answer:

1.	Government Accounting Standards Advisory Board (GASAB)	2.	Structured Payment Arrangement
3.	Automatic Debit Mechanism	4.	Grants-in-aid
5.	Cross Currency Swap Agreement		

⊙ Short Essay Type Questions

1. State the differences between commercial accounting and government accounting.
2. Enumerate the roles of Public Accounts Committee (P.A.C).
3. What is the structure of GASAB?
4. Write a short note on:
 - a. Consolidated Funds of India
 - b. Public Accounts of India
 - c. Contingency Funds of India
5. State and explain in brief, the accrual based Accounting Standards, i.e., Indian Government Financial Reporting Standards (IGFRS), approved by the Government Accounting Standards Advisory Board (GASAB) under consideration of Government of India.

⊙ Essay Type Questions

1. List the features of Government Accounting.
2. Enumerate the objectives of Government Accounting.
3. Highlight the general principals of Government Accounting.
4. Discuss the Role of Comptroller and Auditor General of India.
5. 'Comptroller and Auditor General to prepare and submit accounts to the President, Governors of States and Administrators of Union Territories having Legislative Assemblies' - discuss.