

No.CGDA/GASAB/A/C/2014  
Office of the CGDA,  
Ulan Batar Road, Palam,  
Delhi Cantt.110 010.

Dated:- 12-05-2014

To

The PCsDA/CsDA

**Subject: Government Accounting Standards Advisory Board (GASAB)-  
Accrual Accounting.**

The Comptroller and Auditor General of India established the Government Accounting Standards Advisory Board (GASAB) in August 2002 to formulate accounting standards for implementation by the Union and State Governments.

The mandate given to GASAB is two-fold (i) suggesting an operational framework, and (ii) suggesting a road map for transition from the present cash system to accounting on accrual basis.

Accrual accounting system is a system of accounting which focuses on resources consumed over an accounting period rather than just cash spent. It also records assets and liabilities existing at the end of the reporting period. It will record the cost of consuming a fixed asset through a charge for depreciation and a charge for the cost of capital.

Accrual Accounting System in contrast to Cash based accounting system recognizes financial flows at the time economic value is created, transformed, exchanged or transferred whether or not cash flows have taken place.

29 Board meetings have been held from time to time for implementation of the Accrual Accounting in the Government Departments including Defence.

30<sup>th</sup> Board Meeting of the GASAB has been held on 7<sup>th</sup> May 2014. Agenda papers in this regard have been placed on the CGDA web site for the information of the Pr. Controller's/Controller's Offices.

The details regarding the GASAB, road map of Accrual Accounting and draft Accounting Standards discussed in the various Board meetings of the GASAB are available on the GASAB website [www.gasab.gov.in](http://www.gasab.gov.in)

All Pr. Controller/Controller offices are requested to go through the papers/documents available on the GASAB website and furnish their comments on the various issues involved in consultation with the executive authorities concerned.

*sd*  
Jt.CGDA(A&B)

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*[Signature]*  
ACGDA(A&B)



# सरकारी लेखाकरण मानक सलाहकार बोर्ड

भारत के नियंत्रक महालेखापरीक्षक का कार्यालय  
10, बहादुरशाह जफर मार्ग, पुरानी सीएजी बिल्डिंग,  
नई दिल्ली-110124

**Government Accounting Standards Advisory Board**  
Office of the Comptroller & Auditor General of India  
10, Bahadur Shah Zafar Marg, Old CAG Building, New Delhi - 110124

<http://www.gasab.gov.in>

## Agenda: Thirtieth (30<sup>th</sup>) Board Meeting

Date	May 7, 2014 (Wednesday)	
Venue:	Narahari Rao Hall, Office of the Comptroller & Auditor General of India 10 Bahadur Shah Zafar Marg, Old CAG Building, New Delhi-110124	
Time:	11 AM onwards	
Items	Topics	Page No.
30.1	Confirmation of record notes of the 29 <sup>th</sup> GASAB meeting held on September 25, 2013	2
30.2	Presentation/Status update on Exposure Draft of IGAS-4: General Purpose Financial Statements of Governments.	
30.3	Pilot Studies	
i.	<i>Status Update</i>	
ii.	<i>Exposure Draft for Template for Pilot Studies</i>	
30.4	Feedback on Workshop on Experience Sharing of Transition from Cash to Accrual Accounting and status update on Advisory on Asset Accounting.	
30.5	General Legal issues regarding GASAB and implementation of Accrual Accounting in Government.	
30.6	Review of Roadmap for Transition to Accrual basis of Accounting in Government and Operational Framework for Accrual Accounting.	

**30.1 Agenda item:**

**Confirmation of record notes of the 29<sup>th</sup> GASAB meeting held on September 25, 2013**

## सरकारी लेखाकरण मानक सलाहकार बोर्ड

### Government Accounting Standards Advisory Board (GASAB)

#### Draft record notes of the 29th Board meeting of GASAB held on September 25, 2013 (Wednesday)

29.1 Copy of the agenda of the 29th Board meeting is placed as Annexure-1

29.2 List of attendees

#### Members:

1. Sh. P. Mukherjee, Dy. CAG & Chairman/GASAB
2. Ms. Annie Moraes, Mem. (Fin) Department of Telecommunications
3. Sh. S. C. Mohanty, President, Institute of Cost Accountants of India
4. Sh. V. Ravindran, MS & DG (Government Accounts), O/o C&AG

#### Representatives of Members:

1. Sh. P. V. Vaidialingam, Adviser/Accounts, Ministry of Railway
2. Sh. S. L. Singla, Addl. Controller General of Defence Accounts
3. Sh. Aditya Kishwar, Reserve Bank of India
4. Sh. G. Ramesh Kumar, Secy. Finance, Govt. of Punjab
5. Sh. H. K. Srivastava, Dir. (Budget), Ministry of Finance

#### Other officers:

1. Ms. Preeti Jha, Ex-MS&PD/GASAB
2. Ms. Meenakshi Mishra, Pr. AG (A&E), Mumbai
3. Ms. Namita Sekhon, Pr. AG (A&E), Punjab

#### Technical Advisors:

1. Sh. Sudhir Bhandari, Addl. Controller General of Accounts
2. Sh. R.K. Manocha, ED (Aims), Ministry of Railways
3. Sh. Rajnish K. Jenaw, DDG (Fin), Department of Posts
4. Sh. Saurabh Kumar Tiwari, DDG (FEB), Department of Telecommunications
5. Dr. Avinash Chandra, Tech. Director, Institute of Chartered Accountants of India
6. Dr. S. K. Gupta, Director Technical, Institute of Cost Accountants of India
7. Sh. Rabi Panda, Head Fin. (Acting), NCAER

#### Other participants:

1. Sh. Rajeev Kandpal, Director (Accounts-1)
2. Ms. Parminder Kaur, Asst. Secy., The Institute of Chartered Accountants of India
3. Sh. R. K. Juneja, DAG (A/cs & VLC), Punjab
4. Ms. Shikha Mathur Kumar, Department of Posts
5. Ms. Saroj Punhani, Department of Posts
6. Ms. Maushumi Rudra, IDAS, Jt. CGDA

#### GASAB Secretariat:

1. Sh. P. C. Das, Principal Director, GASAB
2. Smt. Akoijam Rina, Principal Director, GASAB

**29.3.1** Chairman (GASAB) and Deputy Comptroller & Auditor General, Dr. P. Mukherjee welcomed all Members, Invitees, Technical Advisors (TAs) and other participants to the 29th Board meeting of GASAB. He hoped that their experience, erudition, and knowledge would immensely help GASAB to function better. He welcomed Ms. Annie Moraes, Member (Finance), Deptt. of Telecommunications and solicited her cooperation in appointing one IPT&FS officer from the department of Telecommunications to the GASAB Secretariat and hoped that two other officers from Indian Railways Service and Indian Defence Accounts Service will join the GASAB secretariat soon. He welcomed Shri. V. Ravindran, Director General (Govt. Accounts) as the new Member Secretary who replaced Ms. Preeti Jha and Ms. Akoijam Rina, who recently joined as Principal Director in GASAB Secretariat. He also welcomed

Ms. Preeti Jha, former Member Secretary of GASAB who was especially invited to present the paper on "IGFRS-1: Presentation of Financial Statements" developed by her during her posting in GASAB Secretariat.

**29.3.2** Chairman (GASAB) briefly highlighted the few key activities of GASAB since the last Board meeting of the GASAB on December 12, 2012. Since the last Board Meeting, Principal Directors of GASAB have visited many States with the aim to sensitize the State Governments on Accrual based accounting system. The states which were visited during 2013 are Maharashtra, Punjab, Haryana, Delhi, Jharkhand, and Chhattisgarh. A two day seminar-cum-workshop was also organized by GASAB Secretariat on 30-31 January 2013 in Shillong, Meghalaya for sensitizing the officers of the seven North Eastern States along with their respective Accountants General, while another similar seminar was organized on June 7, 2013 in Bhubaneswar, Odisha for sensitizing the officials of State Government as well as the officials of the Office of the Accountant General on accrual accounting. Chairman GASAB further apprised the members that both the Workshops received overwhelming responses from the participants with the result that GASAB have received 'in principle approval' from twenty two States and two UTs with legislature for adoption of accrual based accounting system. He hoped that with the endeavour of GASAB secretariat soon the remaining six states will give their consent for adoption of accrual based accounting system in due course. Mention was also made of the extracts of the speech given by Shri. P. Chidambaram, the Union Finance Minister while addressing the Accountants General (AG) during the XXVI AG Conference held on 8-10 October, 2012 in the office of the CAG, on the need

to strengthen the standards of financial reporting by government. He apprised the Board that two more standards i.e. **IGFRS 3: Revenue from Government Exchange Transactions** and **IGFRS 4: Inventories** were approved by the Board and sent to Ministry of Finance for notification during the year 2012-13. He updated the Board regarding the GASAB website that was re-designed and revamped to make it more user friendly for members, technical advisors and others. The same was inaugurated by the present C&AG of India on June 11, 2013.

**29.3.3** Chairman, GASAB again thanked all the members while also inviting their comments, if any. Thereafter the floor was handed over to Shri. V. Ravindran, Director General (GA) and Member Secretary of GASAB with the request to take forward the Agenda items for discussion.

**29.4.1** Director General (GA) and Member Secretary (GASAB) apprised the Board members regarding the constitution of GASAB, its membership and nomination of Technical Advisors and their functions. He apprised the members that so far four Technical Advisors' Meeting have been conducted. He explained the six stages of standard making process followed in GASAB. He apprised members that an Apex Committee has also been constituted as the nodal agency by Government of India for overseeing the implementation of and coordination of transition to accrual based accounting system in the Union and the State Governments under the chairmanship of Secretary, Ministry of Finance, Department of Expenditure with representatives of eleven other Financial Services vide Department of Expenditure, Ministry of Finance's Office Memorandum dated September 13, 2011. The first meeting of the Apex Committee was held on May 16, 2012.

**29.4.2** Member Secretary took the first agenda item regarding confirmation of record notes of the 28th Board Meeting of GASAB held on December 12, 2002. He informed that confirmation of Record Notes of 28th Board Meeting has already been received from eight members (i) Railway Board (ii) Department of Posts (DoP) (iii) Controller General of Accounts (CGA) (iv) Department of Telecommunications (DoT) (v) Controller General of Defence Accounts (CGDA); and (vi) The Institute of Chartered Accountants of India *apart from the two others i.e. Member Secretary/GASAB and Chairman/GASAB*, and sought confirmation of record notes of 28th Board Meeting from the rest of the members. The Record Notes of the 28th Board Meeting was confirmed by the remaining of the members. He stated that two papers/agenda items were going to be presented by Shri P.C. Das & Ms.

Preeti Jha. Shri. P.C. Das would present IGAS 9: Government Investments in Equity & Ms. Preeti Jha, would place before the Board, IGFRS 1- Presentation of Financial Statements. He then invited Shri P.C.Das to present his paper.

**29.5** Shri. P.C. Das, Pr. Director/GASAB took the next agenda item IGAS 9: Government Investment in Equity. He informed that comments have been received from more than 43 stakeholders especially from the State Governments, different training institutes i.e. National Academy of Audit & Accounts at Shimla, Institute of Government Accounts & Finance at Delhi, Harayana Institute of Personal Administration at Gurgaon, National Institute of Financial Management at Faridabad etc. He mentioned that a revised draft was placed in the folders of the Members. He highlighted the key points of the revised paper stating that Government makes investment in Government companies, Statutory corporations, Joint stock companies, Co-operative banks/Banks and Co-operative societies etc. Besides this, Union Government makes investment in 'International Organisations' like IMF, ADF, IFC etc. The Government Investment herein is basically in equity and includes dividends and loans convertible to equity from the prospective date. This paper IGAS 9 deals with only 'Capital Investments'. Government investment is primarily for some defined socio-economic goals for rapid economic growth, balanced regional development, employment generation and strategic and infrastructural requirements etc. The objective of this paper is to lay down the norms for 'Recognition, Measurement, and Reporting' in respect of investments made by the Union Governments, State Governments and Union Territories with Legislatures so that when these governments issue their Financial Statements there should be sufficient scope to provide disclosures on investments of the governments. These disclosures should be consistent with best 'International Practices'. The standard applies to all governments. It applies to 'Government Accounts' and 'Equity Instruments' only of the investee entities and not to Debt Instruments like Debentures, Bonds, etc. The financial statements should give true and fair view and shall not be construed as complete unless they comply with this standard. He mentioned that the most important part of this paper is the disclosures. They are categorized in three parts, namely (i) Investments made by the Governments (ii) Detailed investment made by the Governments; and (iii) Additional disclosures of the investments. Investments made by the governments would find place in Union Finance Accounts and in State Finance Accounts as well. The details available in statement No.11 of the Union Finance are also available in statement No.14 in the State Finance Accounts except one



i.e. column no. 10 –dividends declared by the investee entities but not paid by them. That is the only difference between the statements of the Union and the States so far as investment in equity is concerned. Summary investments should include Group wise total, Sources of Equity Capital and Acquisition of 'Others' as capital. Another additional point is that besides the financial investment made in the form of government investment in the different entities, there would be disclosure of investment in terms of acquisition of material/services etc. In terms of market value of investment (listed companies with SEBI), it was clarified by Shri. Avinash Chandra that only those investments traded on the stock exchanges are to be disclosed. Regarding those investments which are not listed/traded there is no need to disclose their value. Provisions for disclosing the investee entities that suffered loss but are still receiving fresh investment, have been incorporated in this standard (Table No 3). Other additional disclosures of the investments include: Dividends declared in previous years but paid in the present year which shall be marked by asterisk (\*) (Table No 1).

Shri. S. L. Singla from CGDA office made some points and Shri. P.C. Das, PD/GASAB clarified that two types of standards are developed by GASAB namely Indian Government Accounting Standards (IGASs) which is for cash based accounting system and Indian Government Financial Reporting Standards (IGFRSs) for accrual based accounting system. The present discussion is on IGAS. Therefore the points raised by Shri. Singla would be taken at the time of presentation of IGFRS which is the next agenda paper. Shri. H. K. Srivastava, Director (Budget) pointed out that the paragraph on purpose of the Investment does not seem necessary. Also the purpose defined here reflects the purpose of setting up the Public sector enterprise. Further, the focus of Government investment is not only on generating adequate return on investments but also to improve the performance and productivity of Public Sector. His first point was accepted and the third para of the heading 'Introduction' has been deleted. The second point raised by him was that the Sector-wise details in the financial statement as suggested in the para does not seem reasonable. Besides, the connotation of the Sector is not clear. If it is the same as indicated under the List of Major and Minor Heads of Accounts, then the grouping is too generic like 'General Services, Economic Services etc. which is not very useful. Further, it will not be possible to generate Sector wise information from the accounts as the 15 digit code does not capture the Sectors and even the Sub-sectors. In this regard a detailed discussion took place on October 3, 2013 in the office Chamber of Pr. Director/GASAB (Shri. P.C.Das), and it was also accepted that in the

absence of 'Standardisation of Minor Heads of Accounts and Codification as well, Sector-wise detailed classification is not possible. Hence, the concerned table has also been deleted. The third point raised by him is that General Public as the consumers of the Financial Statements shall not find much value in the Major and Minor head wise details of Investment. The purpose of adding Major and Minor head wise details is not very clear from this standard. Even for the Management, the existing Group wise and entity wise disclosures in the Finance Accounts is sufficient, useful, and can be derived directly from the accounts. However, after detailed discussion, Shri. H. K. Srivastava, Director (Budget), MoF accepted the utility of having Major and Minor Heads of Accounts against each Investee Entities. Shri. S. K. Gupta from Institute of Costs & Works Accountants of India raised two points viz (i) Government investment in equity includes investment in Equity shares, Bonus shares, Right Shares, Buy Back of Shares, loans convertible to equity and dividends; and (ii) Disinvestment in equity. Both his points have been accepted and incorporated in the Revised Standard. Shri. R. K. Manocha from Railways pointed out that the existing disclosures proposed in this paper may be modified in the light of the (a) Buy Back of Shares by public sector unit (PSU) as per provisions of Section 77 (A) of the Companies Act, 1956; (b) Additional disclosure regarding splitting of shares by PSU; (c) Additional disclosure regarding Book Value of shares of non-list PSUs; and (d) Additional disclosure regarding Issue of shares by subsidiary of PSU to Government department. It was decided that all the above mentioned points would be incorporated in this paper. It has been done accordingly. To a query of Shri. H. K. Srivastava, Ms. Preeti Jha clarified that the IGASs do not follow the cash based IPSASs. Shri. Saurabh Tiwary from Department of Telecommunications suggested that at the third line of para no. 20 the word 'previous' should be added before 'accounting period' and it has been incorporated in the same para.

**Finally it was decided that IGAS 9: Government investment in equity will stand approved subject to modifications as suggested by the various members and their representatives.**

**29.6** Ms. Preeti Jha, Ex-Member Secretary and Pr. Director/GASAB led the third agenda item IGFRS 1: Presentation of Financial Statements. She informed that IGFRS is an accrual based statement and basically recommendatory in nature for Pilot Studies and these pilot studies took inspiration from IPSAS because there were many issues where IPSAS does not cover or are consistent with Government of India's rules and regulations. Hence the need for IGFRS to guide the pilot studies was felt. Further she apprised the Board about the Pilot Studies which had already been completed by Andhra Pradesh,

Rajasthan, Madhya Pradesh and Haryana. After the Pilot Studies were completed, they could be revisited again with the real issues because the actual issues would be known in greater detail only after testing at pilot stage. She updated the Board that decision to develop the IGFRS was taken by GASAB at the 21<sup>st</sup> Board meeting on December 13, 2010. She informed that 32 responses have been received from different stakeholders and after reviewing and incorporating the comments, the paper was again taken in the 3<sup>rd</sup> Technical Advisors meeting held on February 13, 2013. After this Technical Advisors meeting the draft paper was again revisited. After getting inputs from different TAs especially from Shri. Avinash Chander the definition portion of the paper was revised. The revised portion of paper highlighting the changes made under the heading Definitions containing three pages have already been placed in the folders provided to the Board members during the meeting. 'Deferred revenue' and 'Financing' terms of the definitions are deleted. She informed that the definition of the term 'Contingent liability' has been adopted/replaced according to the approved *IGFRS 5: Contingent Liabilities (other than guarantees) and Contingent Assets: Disclosure Requirements*". **On this Chairman/GASAB directed Principal Director/GASAB that whenever, in future, any IGFRS would be prepared there would be a standardised definition for each term so that definition of the term would be uniform everywhere in respect of IGFRS.** Ms. Jha informed that initially when this paper was at the exposure draft stage under the first para of heading 'Introduction' it was mentioned this IGFRS were applicable to government entities at Union, States and Union Territories with legislature, but later on it was felt that it must include 'autonomous bodies' and 'departmental undertakings' also. Finally, it was approved by the Board that 'autonomous bodies' and 'departmental undertakings' will also be taken into consideration and the sentence would be "Indian Government Financial Reporting Standards are applicable to government entities at Union, States, Union Territories with legislature, autonomous bodies and departmental undertakings of the Government (hereafter referred to as government entities unless covered by a separate/specific act)". After much deliberation it was decided to keep both two paras of the definition part of point no. 11 'Reporting entity' under the heading 'Other important terms used' as there was no harm in keeping these and the term 'government entity' would be used throughout the standard. On point no. 19 under the heading Components of Financial Statements, it was informed by Ms. Preeti Jha that in the International Standards, IPSASs, etc. the complete set of financial statements comprises only components 'a' to 'f'. In this standard point no. 'g'

i.e. *'Financial Statements, Discussion, and Analysis (FSDA)'* was included later on. Now it was felt that since this would not be an audited component as all other components of this point are, component 'g' was removed/deleted from here and would be kept as it is at point no. 90 of this standard subsequently. For point no. 32, two words in the last line, *'sufficiently material'* was deleted as the same has been repeated. It was informed that on point no. 66 under component 'a' *'transfer receivables'* are not defined. Therefore it was replaced by *'amounts receivables on transfer'*. *'Cash Flow Statement'* details the various grouping from point no. 74 to 77 making the distinction among uses of cash according to financing, investing, and operating activities. IPSAS 2 is on the same topic. One IGAS was also developed by GASAB on *'Cash Flow Statement'* and the same was sent to Ministry of Finance where it was pointed out that in the present cash based system we need not do these functions separately. Hence that IGAS was converted into IGFRS and is presently under consideration in the GASAB Secretariat. Till the approval of the same, guidance may be taken from IPSAS 2. It was decided that on point 90 the section mentioned i.e. 217 (2AA) will be removed and the new act will be added. At Para '92 –b' the word *'on'* was replaced by *'of'* so that the sentence would be *'Summary of....'*. Finally, under the heading *'Effective Date'*, the words *"recommendatory in nature"* was inserted so that point no. 97 would be read as, *"IGFRS 1 is recommendatory in nature and shall be mandatory....."*.

**Subject to the corrections and suggestions made by the members, IGFRS 1: Presentation of financial statements was approved.**

**29.7** Ms. Akoijam Rina, PD/GASAB thanked all the Members, Technical Advisors and other officers for their cooperation and for attending the 29th Board Meeting.

**29.8** The meeting concluded with thanks to the Chair and all the Members, Technical Advisors, Observers, other Participants and all the Accountants General for their valuable guidance and suggestions during the deliberations of agenda items.



सत्यमेव जयते

**ANNEXURE-I**

सरकारी लेखाकरण मानक सलाहकार बोर्ड  
भारत के नियंत्रक – महालेखापरीक्षक का कार्यालय,

10 बहादुरशाह जफर मार्ग, पुरानी सीएजी बिल्डिंग,  
नई दिल्ली-1100124

**Government Accounting Standards Advisory Board**

Office of the Comptroller & Auditor General of India  
10 Bahadur Shah Zafar Marg, Old CAG Building, New Delhi - 110124

<http://www.gasab.gov.in>

**Agenda: Twenty Ninth Board Meeting**

<b>Date</b>	September 25, 2013 (Wednesday)
<b>Venue:</b>	Narahari Rao Hall, Office of the Comptroller & Auditor General of India 10 Bahadur Shah Zafar Marg, Old CAG Building, New Delhi-110124
<b>Time:</b>	11 AM onwards
<b>Items</b>	<b>Topics</b>
<b>29.1</b>	Confirmation of record notes of the 28 <sup>th</sup> GASAB meeting held on December 12, 2012 (MS & DG)
<b>29.2</b>	IGAS 9: Government Investments in Equity (Sh. P.C. Das, PD/TBG-2)
<b>29.3</b>	IGFRS 1: Presentation of Financial Statements (Smt. Preeti Jha, Ex-MS &PD/TBG-1)

**30.2 Agenda item:**

**Presentation/Status update on Exposure Draft of IGAS-4: General Purpose Financial Statements of Governments.**

## **Agenda No. 30.2: Status update on Exposure Draft of IGAS-4: General Purpose Financial Statements of Governments.**

### **I- A Brief Background Note:**

IGAS-4: General Purpose Financial Statements of Governments has been a work-in-progress Accounting Standard, developed initially in the GASAB Secretariat by consolidating two Exposure Drafts on Presentation of Financial Reports and Components of Financial Reports in January 2005. The need to standardize Accounting and Financial proformas/statements may be seen in the light of the fact that the form of Accounts in India is unitary and is prescribed by the President of India on the advice of the Comptroller and Auditor General of India for the Union Government and the States Governments. The accounting of transactions in Government Accounts is primarily on the cash basis but some non-cash transactions, certain assets as well as liabilities are also financial elements recognized in the Financial Reports. Annual Finance Accounts presented to the Legislatures constitute the comprehensive financial reporting about a Government while the Annual Appropriation Accounts are a condensed presentation of Grant-wise compliance information with respect to the Appropriation Acts.

In addition there is a vast body of financial reports in the Union and the States, covering Government Accounts. These may relate to a Government, a particular Department or Ministry of a Government and may be of Annual periodicity or of period less than one year. The requirements of this Standard prescribe the basis of accounting, the financial elements, qualitative characteristics of the Financial Reports prepared under the cash basis of accounting.

In its Fourteenth Meeting held in August 2007, the GASAB Board approved IGAS 4 after following the due Standard Setting Process, which was forwarded to the Ministry of Finance for notification. However, following a revision in the State Finance Accounts, as well as certain recommendations of the Twelfth Finance Commission regarding disclosure statements, a need to revisit IGAS 4 was felt. A group of important stakeholders involving Financial Advisors of select key Ministries like Rural

Development, Health, Women and Child Welfare, HRD, and representatives of few State Governments to review the requirements of General Purpose Financial Reporting was set up. It was decided to revisit IGAS 4 after considering the views of the members and the recommendations of the committee to be constituted for this purpose.

IGAS 4 was withdrawn in 2011 in view of the above development. As mentioned above, a group of Important stakeholders was formed in the 22<sup>nd</sup> GASAB Meeting in April 2011, to review the requirements of General Purpose Financial Reporting. However, the response from the members at the group was not very forthcoming and it was decided to issue IGAS 4 as an Exposure Draft in June 2012.

## **II- Current Status Report:**

While two Preliminary Meetings of the Task Based Group on the Exposure Draft of IGAS 4 have been held earlier in September 2012 and April 2013, these were inconclusive in nature. Recently, however the case has been revived, and the Task Based Group got Revamped and broadened to include inputs from the Government Accounting Wing, the Professional Practice Group Wing, and the Receipt Central Wing, of the CAG Office, besides the representation from the CGA Office. This was done with a view to deliberate and fine tune all issues arising out of the Financial Statements listed in the Exposure Draft. The scope of the TBG was also broadened with a view to rationalized the Financial Statements as per the requirements of the States also.

The Third and Fourth TBG Meetings, held recently in March & April 2014 deliberated the following issues at length:

1. The concept of Entity-wise Accounting for which DG (PPG) gave a concept paper on the subject.
2. The issue of the laying of the Annual Accounts and Audit Report together.



3. **Streamline the quantum, the content and format of the financial statements at para 13.1 and 13.1.4 of the Exposure Draft, to ensure uniformity between the Union Finance Accounts and the State Finance Accounts Statements.**

It was also brought to the notice of the TBG that the Planning Commission has restructured Centrally Sponsored Schemes under the Twelfth Plan, in which CSS/ACA funds will be placed with the Administrative Ministries for transfer to the states through the Consolidated Fund of the state concerned. Since this mode of transfer will affect the Accounting framework correspondingly, the TBG felt that this aspect needs to be looked into in detail, while finalizing IGAS 4 later.

The TBG recommended the further Roadmap for finalization of IGAS 4 as under:

1. The Exposure Draft for IGAS 4 may be taken forward in its present form, with greater detailing so as to reflect a comprehensive format of Accounts. Since Entity-wise Accounting would also require significant structural modifications in the format of Accounts, and could be looked into in the standards being prescribed for Accrual Accounting, it is recommended that in Cash Accounting Standards, we may follow the existing format of Statements and the Exposure Draft may be taken forward in its present form.
2. Clause proposing the laying of the Annual Accounts and the Audit Report together, be inserted in the Exposure Draft.
3. Most Importantly, para 13.1 and 13.1.4 be examined in detail, with a view not only to prune down the number of statements, but also to ensure that the gaps between the States and Union Accounts are plugged. GASAB will re-examine this in close coordination with GA Wing of the CAG office and the CGA office. The implications of the restructuring of Centrally Sponsored Schemes on the Accounting framework will also be examined in detail.

# **ED-4: General Purpose Financial Statements of Government**

**Draft Indian Government Accounting Standard (IGAS)**

(Modified ED on IGAS-4 (issued on June/July 2012 after 26th Board Meeting held on June 22, 2012) on the basis of comments received from Sh. R. Naresh, A.G., Nagaland dated September 05, 2012 and comments (track changed mode) of Smt. Preeti Jha, MS&PD/GASAB for TBG's meeting held on April 01, 2013.

Government Accounting Standards Advisory Board (GASAB), constituted by the Comptroller and Auditor General of India, with the support of Government of India, to formulate and recommend Standards, approved this Exposure Draft 4, **General Purpose Financial Statements of Government** for public exposure and comments. The proposals in this cash Exposure Draft may be modified in the final Standard in the light of comments received.

*Indian Government Accounting Standard 4*

**General Purpose Financial Statements of Government**

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## *Indian Government Accounting Standard 4*

# **General Purpose Financial Statements of Government**

### **1 Introduction**

- 1.1.1 Under Article 150 of the Constitution of India, the accounts of the Union and the States are to be kept in such form as the President may, on the advice of the Comptroller and Auditor General of India, prescribe. Finance Accounts of the Government presented to the Legislature constitute of financial information about a Government and are in the nature of a General Purpose Financial Statement (GPFS). The constitution ordains that no amount can be withdrawn from the Consolidated Fund without the enactment of an Appropriation Bill by the Parliament (in case of Union) or by the legislatures (in case of the States). Appropriation Accounts, which are a condensed presentation of Grant-wise compliance information with respect to the Appropriation Acts.
- 1.1.2 The Controller General of Accounts prepares the annual Finance Accounts for the Union Government and the Union Appropriation Accounts (Civil). The Departments of Defence, Posts and Railways prepare their own annual Appropriation Accounts. The annual Finance Accounts and Appropriation Accounts for State Governments are prepared by the Accountants General in the respective States and Union Territories with Legislature (with the exception of Goa, Delhi and Puducherry, which have their own Directorate / Controller of Accounts). The accounts of Union and States and Union Territories with Legislature are audited by the Comptroller and Auditor General and are presented to the parliament or the respective legislatures.
- 1.1.3 In this standard, general purpose financial statements have been defined as set of documents, schedules and accompanying notes that convey comprehensive financial information about an entity.

### **2 Objective**

- 2.1.1 The purpose of this Standard is to lay down the principles to be followed in presentation and minimum requirements relating to structure and contents of General Purpose Financial Statements of Governments prepared under cash basis of accounting.

- 2.1.2 The statement of receipts and disbursements during the year and information about cash flows of an Entity enable stakeholders to evaluate the likely sources and uses of cash and the ability of an Entity to generate adequate cash in the future. This information also indicates the expenditure priorities of the Entity in the delivery of goods and services as well as the impact of the taxation policies of the Entity. Stakeholders can then assess the sustainability of the Entity's activities (whether future budgetary resources will be sufficient to sustain public services and to meet obligations as they become due) and appraise financial accountability.
- 2.1.3 The basis and policies of accounting needs to be uniform. All Financial Statements need to be standardized to obtain optimal information, to ensure comparability with the Entity's own financial Statements of previous periods and with those of other entities. The basis and policies of accounting need to be uniform. Desirable attributes need to be defined to obtain a basic standard for financial reporting.
- 2.1.4 To achieve these objectives, this Standard sets out the financial elements for the presentation of GPFS prepared under the cash basis of accounting. It also requires that the selection of accounting policy should ensure certain qualitative characteristics in the information being presented. Desirable attributes of financial reporting are required to heighten their value to the users.
- 2.1.5 General Purpose Financial Statements (GPFS) essentially consists of Finance Accounts and Appropriation Accounts. The Financial Statements referred to in this standard are the General Purpose Financial Reports (GPFR).

### **3 Scope of the requirements**

- 3.1** *An Entity, which prepares and presents Financial Statements under the cash basis of accounting as defined in this Standard, should apply the requirements of this Standard in the presentation of its Financial Statements.*
- 3.1.1 The standard applies to financial reports of a government – Union, State and Union Territories with Legislature. The standard does not apply to accounts of (i) local bodies and (ii) Public Sector Undertakings or Departmental Commercial Undertakings (except Ministry of Railways).
- 3.2** *An Entity whose Financial Statements comply with the requirements of this Standard should disclose that fact. Financial Statements should not be described as complying with this Standard unless they comply with all the requirements of this Standard.*
- 3.3 *The standard lays down the minimum requirements that governments should follow in presentation of GPFS. The requirements in terms of contents of the financial report are the mandatory minimum requirements that financial reports should present.*

### **4. Definitions**

The following terms are used in this Standard with the meanings specified.

- 4.1 Accounting policies are the specific principles, bases, conventions, rules and practices adopted by an Entity in preparing and presenting Financial Reports.
- 4.2 Annual Financial Statement is the statement of estimated receipts and payments of a Government, required to be presented in Parliament vide Article 112 of the Constitution of India or in Legislative Assemblies vide Article 202 of the Constitution of India or Section 27 of the Union Territories Act, 1963, or all three, as the context may imply.
  - 4.2.1 The Annual Financial Statement comprises the main budget document of the Government along with the Demands for Grants. The Annual Financial Statement shows the estimated receipts and expenditure of Government under the three parts in which Government accounts are kept - Consolidated Fund, Contingency Fund and Public Account.
- 4.3 Cash comprises cash on hand and cash balance.
- 4.4 Cash balance Cash balance comprises the balances of the Government with the Reserve Bank of India and other banks, cash in treasuries and remittances in transit.
- 4.5 Cash basis means the basis of accounting where the transactions or other events represent the actual cash receipts and disbursements during the financial year.
- 4.6 Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
- 4.7 Cash flows are inflows and outflows of cash and cash equivalents.
- 4.8 Consolidated Fund means the Consolidated Fund of India or a State, referred to in clause (1) (2) and (3) of Article 266 of the Constitution of India, or of a Union Territory Government, referred to in Section 47 of the Union Territories Act, 1963, or all three, as the context may imply.
- 4.9 Contingency Fund means the Contingency Fund of India or a State, referred to in clauses (1) and (2) of Article 267 of the Constitution of India, or of a Union Territory Government, referred to in Section 48 of the Union Territories Act, 1963, or all three, as the context may imply.
- 4.10 Debt or Borrowings are the borrowed funds and include internal and external debt defined as Public Debt under the Consolidated Fund as well as the Liabilities of the Entity accruing under the Public Account.

- 4.11 Demands for Grants is a form for presenting the estimate of expenditure of the Government from the Consolidated Fund, to Parliament under Article 113 of the Constitution of India or to the Legislative Assembly of a State under Article 203 of the Constitution or to the Legislative Assembly of a Union Territory under Section 28 of Union Territories Act, 1963.
- 4.12 Departmental Commercial Undertaking means an enterprise that has all the following characteristics:
- (a) Is an entity that has been assigned limited financial and operational authority to carry on a business;
  - (b) Sells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery;
  - (c) Is not intended to be reliant on continuing government funding to be a going concern (other than purchases of outputs at arm's length by government);
  - (d) Its receipts and payments flow into and out of Consolidated Fund or the Public Account;
  - (e) Pays interest on Government fund and maintains proforma accounts; and
  - (f) Is controlled by a Government.
- 4.13 Entity means a Government Union and State Government or Union territory with legislature.
- 4.14 Estimates are estimated receipts and expenditure of the Government included in the Annual Financial Statement, the Demands for Grants or the Supplementary demands for grants, laid before the Parliament, referred to in Articles 112, 113 and 115 of the Constitution of India or laid before the State Legislatures, referred to in Articles 202, 203 and 205 of the Constitution of India or laid before the Legislative Assemblies of Union Territories, referred to in Section 27, 28 and 30 of the Union Territories Act, 1963, or all three, as the context may imply.
- (a) Budget estimates are the initial estimates for the subsequent year included in the Annual Financial Statement. These are also referred to as Original estimates.
  - (b) Revised estimates are the modified estimates for the current year included along with the Budget estimates for the subsequent year but not put to the vote of Parliament or State Legislatures or Legislative Assemblies of Union Territories.
  - (c) Supplementary estimates are the supplementary or additional expenditure not always incurred against supplementary estimate in the supplementary demands for grants.
- 4.15 Financial Statements are a set of reports, schedules or accompanying notes conveying comprehensive financial information about an Entity relating to the operation of Government Account. Finance Accounts of a Government is an example. The terms



'Financial Report' and 'General Purpose financial statement' (as defined in 4.16) in this standard are used to refer Finance Accounts and Appropriation Accounts.

- 4.16 General purpose financial Statements means financial statements intended to meet the information needs common to users who are unable to command the preparation of reports/ statements tailored so as to satisfy, specifically, all of their information needs. They include the Finance Accounts and the Appropriation Accounts of the government.
- 4.17 Government means all departments and ministries of a Government taken together, whether of the Union Government or State Government or Union Territory Government with Legislature.
- 4.18 Government Account is the account relating to the Consolidated Fund, the Contingency Fund and the Public Account.

- 4.19 Public Sector Undertaking means an enterprise that has all the following characteristics:
- (a) Is an entity with the power to contract in its own name;
  - (b) Has been assigned the financial and operational authority to carry on a business;
  - (c) Sells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery;
  - (d) Is not intended to be reliant on continuing government funding to be a going concern (other than purchases of outputs at arm's length by government); and
  - (e) Is controlled by a Government.
- 4.20 Indian Government Accounting Standards (IGAS): These are Government Accounting Standards as notified by Union government and are applicable to Union and States and Union Territory Government with Legislature. .
- 4.21 Public Account means the Public Account of India or of a State referred to in Clause (2) of Article 266 of the Constitution of India or both as the context may imply.
- 4.22 Reporting currency is the INR used in presenting the Financial Reports.
- 4.23 Reporting date means the date of the last day of the reporting period to which Financial Statements relate.
- 4.24 Reporting period means the period reported upon in the Financial Report.
- 4.25 Reserve Bank of India means any office or branch of the Banking Department of the Reserve Bank constituted under the Reserve Bank of India Act, 1934.
- 4.26 Schedules are supplementary information of financial nature, not flowing from accounts, but relating to the Government Account and augmenting Reports in a Financial Report. The Schedule of Committed Expenditure and the Schedule of Guarantees are examples.
- 4.27 Reports convey comprehensive financial information about an Entity relating to the Government Account primarily based on accounts information. Statement of Receipts and Expenditure and Statement of Balances are examples.
- 4.28 Definitions of financial elements: The broad classes of transactions and other events grouped in accordance with their economic characteristics are financial elements. Financial Statements portray the financial effects of these elements. The financial

elements recognized in statements of balances include Assets and Liabilities in the Consolidated Fund or the Public Account. A few related concepts are as follows:

- 4.28.1 Assets are resources controlled by an Entity as a result of past events and from which future economic benefits or service potential are expected to flow to the Entity. The assets specifically required to be depicted in the financial reports are the Cash and cash equivalents; other financial assets like loans and advances, equity investments in PSUs, etc.
- 4.28.2 Capital Receipts are receipts of capital nature, which cannot be set-off against Expenditure on Capital Account. These include disinvestment proceeds, receipts of issue of bonus shares, recoveries of loans and receipts from Borrowings.
- 4.28.3 Cash disbursements or payments are cash outflows.
- 4.28.4 Cash receipts are cash inflows.
- 4.28.5 Expenditure comprises decreases in economic benefits or service potential in the form of outflows during the reporting period and includes Expenditures on Revenue or Capital Account.
- 4.28.6 Expenditure on Capital Account denotes the expenditure met mostly from borrowed funds with the object of creating assets or investing outside the Government, where the benefit from the assets / investment is available beyond the year. It includes expenditure on disbursement of loans and advance and on reduction of liabilities. It also includes receipts of a capital nature from sale proceeds of assets as a set-off against expenditure.
- 4.28.7 Expenditure on Revenue Account denotes the expenditure met mostly from current revenues for the purchase of goods and services or transfer and other current payments.
- 4.28.8 Liabilities are present obligations of the Entity arising from past events, the settlement of which is expected to result in an outflow from the Entity of resources embodying economic benefits or service potential. Liabilities to be reflected in Finance Accounts include Public Debt (internal debt and external debt); contingency fund; and liabilities on public account.
- 4.28.9 Receipts are gross inflows of economic benefits or service potential during the reporting period and can be Revenue Receipts or Capital Receipts.
- 4.28.10 Revenue Receipts denote the proceeds of taxation and other non-exchange revenues as well as all exchange revenues of the Government on the Revenue Account.

## **5. Basis of Accounting**

**5.1** The accounting shall be on Cash Basis, i.e. the transactions in Government accounts shall represent the actual cash receipts and disbursements during a financial year as distinguished from amounts due to or by the Government during the same period. However, certain book adjustments may be specifically authorized by the Central Government on the advice of the Comptroller and Auditor General of India, as exceptions to the cash basis of accounting.

5.2 The basis of accounting being cash, the depreciation of physical assets and impairment losses are not recognized or expensed. The losses or write-offs of the physical assets at the end of their life are also not recognized or expensed.

## **6. Recognition and Measurement of Financial elements**

6.1 The Cash Receipts and Disbursements of the entity are recorded at the point of cash transaction. Receipts and disbursements are recognized for the value of cash transaction that is taking place, with the exception of specific cases of non-cash transactions where recognition and measurement is specifically defined by an order of the Central Government or by an Indian Government Accounting Standard.

6.1.1 The amounts under the debt, deposit, suspense, miscellaneous and remittance heads, with certain exceptions, are individually closed to balance. The balances of liabilities as well as the balances of loans and advances are recognized in financial reports.

6.1.2 The progressive investment of Government in statutory corporations, Government Companies, other joint stock companies, cooperative banks and societies etc as well as the progressive capital expenditure, though closing to government accounts annually, are recognized in financial statements.

## **7. Qualitative characteristics of Financial Statements**

**7.1** *While framing or adopting accounting policies, the preparers of Financial Statements should comply with the following requirements, in addition to specific requirements of other Indian Government Accounting Standards:*

- (a) Relevance*
- (b) Reliability*
- (c) Materiality*
- (d) Timeliness*
- (e) Offsetting*
- (f) Consistency of Presentation*
- (g) Comparative Information*
- (h) True and Fair view*

- 7.2 Inappropriate accounting treatments are not rectified either by disclosure of the accounting policies used, or by notes or explanatory material.
- 7.3 Relevance requires that the accounting policy may ensure that the Financial Statements are relevant to the decision-making needs of users and fulfill the objectives of financial reporting.
- 7.4 Reliability of financial information demands**
- (a) A faithful presentation of financial performance and financial position of the entity is rendered;
  - (b) That the Financial Statements reflect the economic substance of events and transactions and not merely the legal form;
  - (c) There is no bias, that is, the information is neutral;
  - (d) Prudence has been exercised in cases where adjustments are effected; and
  - (e) Completeness in all material respects.
- 7.4.1 Information has the quality of reliability when it is free from material error and bias and can be depended upon by the users to represent faithfully that which it either purports to represent or could reasonably be expected to represent. For example , a faithful presentation of a statement of financial performance would mean representing the transactions and other events that result in either an increase or decrease in expenditure or receipts at the reporting date.
- 7.4.2 The substance of transactions or other events is not always consistent with that which is apparent from the legal or contrived form. For instance, an Entity may dispose of an asset to another Entity in such a way that the documentation purports to pass legal ownership to that party; nevertheless, agreements may exist that ensured that the former entity continues to enjoy the future economic benefits embodied in the asset.
- 7.4.3 Financial Statements are not neutral if, by the selection of presentation of information, they influence the making of a decision in order to achieve a predetermined result or outcome. Prudence is the inclusion of a degree of caution in the exercise of the judgement that is needed in making the estimates under conditions of uncertainty.
- 7.5 Materiality:** Information is material if its omission or mis-statement could influence the decision-making or assessments by users about the allocation and stewardship of resources, and the performance of the entity made on the basis of the Financial Statements. Materiality depends on the nature or size of the item or error judged in the particular circumstances of omission or mis-statement.
- 7.6 Each material item should be presented separately in Financial Statements. Immaterial amounts should be aggregated with amounts of similar nature or function and need not be presented separately.

- 7.6.1 In deciding whether an item or an aggregate of items is material, the nature and the size of the items are evaluated together. Depending on the circumstances, either the nature or the size of the items could be the determining factor. Items that are material by virtue of their nature or by virtue of their size may be presented separately in Financial Statements.
- 7.6.2 The inherent nature or characteristics of an item or a group of items may also render these material. For example - where the law or regulation requires these to be separately disclosed, it may be considered material regardless of the amount involved. Article 112(2) of the Constitution of India provides that the estimates of Expenditure embodied in the Annual Financial Statement shall show separately the sums required to meet Expenditure charged upon the Consolidated Fund of India – similar requirements are available in case of Expenditure charged upon the Consolidated Funds of States and Union Territories with Legislatures. Therefore the charged Expenditure is shown separately from voted Expenditure, in Annual Financial Statement as well as the Finance Accounts and Appropriation Accounts, the two main Financial Reports of Governments.
- 7.6.3 Materiality provides a threshold rather than being a primary qualitative characteristic as to which information must be included to be useful. An item that is not sufficiently material to warrant separate presentation on the face of the Financial Statements may nevertheless be sufficiently material that it should be presented separately in the notes.
- 7.7 Timeliness:** Financial information should be made available within a reasonable period of time. Financial Statements prepared annually should be made available before the end of six months from the end of the reporting year.
- 7.7.1 The usefulness of Financial Statements is impaired if these are not made available to the users in time. If there is an undue delay in the reporting of information it may lose its relevance. Conversely, if reporting is delayed until all aspects are known, the information may be highly reliable but of little use to users who have had to make decisions in the interim. In achieving a balance between relevance and reliability on the one hand and timeliness on the other, the overriding consideration is how best to satisfy the needs of the decision-makers.
- 7.8 Disallow offsetting:** Items of Receipts and Expenditure should not be offset except when:
- (a) An Indian Government Accounting Standard requires or permits it; or
  - (b) A specific order of the Central Government provides for it.
- 7.9 **Consistency of Presentation:** The presentation and classification of items in the Financial Statements should be retained from one period to the next unless
- (a) A significant change in the nature of the operations of the entity being reported upon or review of its Financial Reports demonstrates that the

change will result in a more appropriate presentation of events or transactions; or

(b) An Indian Government Accounting Standard or a later amendment requires a change in presentation thereto.

7.9.1 The establishment of National Small Savings Fund (NSSF) in the Public Account of India in April 1999 is an illustration of a structural change in the presentation of financial statement. A sub-sector was introduced in the List of Major and Minor Heads of Accounts and a new statement was introduced in the Union Finance Accounts showing the position of National Small Savings Fund. This significant change in accounting procedure and presentation of Financial Statements resulted from a review of the operation of small savings schemes of the Government of India. The change was to result in a more transparent presentation of the transactions of these small savings operations in Government Accounts.

**7.10** When the presentation or classification of items required to be disclosed in the Financial Statements is amended, corresponding amounts in the previous period should be reclassified, unless it is impracticable to do so, to ensure comparability with the current period, and the nature, the amount of, and the reason for any reclassification should be disclosed. When it is impracticable to reclassify comparative amounts in the successive periods, an entity should disclose the reasons for not reclassifying and the nature of changes that would have been made if amounts were reclassified.

7.10.1 In case of rationalization of heads of accounts under a certain category it may not be possible to recreate the information for the previous period in line with the new classes of accounting heads created.

**7.11 Comparative Information:** Unless a provision of the Standard permits or requires otherwise, comparative information should be disclosed in respect of the previous period for all numerical information required by the Standard to be disclosed in the Financial Statements, except in respect of the Financial Statements for the reporting period to which this Standard is first applied. Comparative information should be included in narrative and descriptive information when it is relevant to enhance the understanding of the current period's Financial Statements.

7.12 In practice, a balancing or trade-off between qualitative characteristics is often necessary. The objective is to achieve an appropriate balance among the characteristics in order to meet the objective of Financial Statements.

7.13 True and Fair view: the application of the principal qualitative characteristics and of appropriate accounting standards normally results in general purpose financial statements that convey what is generally understood as a true and fair view of such information.

## **8 Attributes of financial statements**

- 8.1 **Readability:** This will ensure that the user is able to scan through the financial statements at ease and obtain the solution he is seeking.
- 8.1.1 The Financial Statements need to be presented in an attractive format with a meaningful and lucid narrative commentary to enhance readability. For instance, table headings need to be repeated on each page if reports flow into several pages, so that the reader follows the information with ease. Headers and footers may be optimally used to bring about continuity in longer reports – the title and sub-title of the statement may be reflected in the header while other relevant details can be introduced in the footer. Page numbering may invariably be incorporated.
- 8.1.2 In case of accounts of governments, the amounts are generally substantial, running into thousands of crores of rupees. It is important therefore, to depict the amounts in the Financial Statements in thousands/lakhs or crores to enable ready comprehension of the magnitude of the amounts. It is also necessary to use commas as dividers for these large figures. To the extent feasible, the reporting unit may be uniform.
- 8.1.3 Layering of the information can further improve readability. While the general users would appreciate the summary statements for an overview, the technical users would need specific details and may be guided to these reports or notes, by linkages provided in the summaries. The introduction of charts and graphs will also enhance readability. The introduction of tables in the accompanying review is encouraged. Where the source of the information in the table is outside the account, the same should be invariably mentioned.
- 8.2 **Clarity:** The Financial Statements should possess clarity and the information should be so presented as to guide the user according to his need.
- 8.2.1 Proper cross-linkages and a table of contents can facilitate easy understandability and clarity.
- 8.3 **Balanced:** The Financial Statements should give a balanced coverage of performance of the entity.
- 8.4 **Cost effective:** The benefits derived from information should exceed the cost of providing it.
- 8.4.1 The balance between benefits and costs is a pervasive constraint. The evaluation of benefits and costs is a matter of judgment. The costs do not always fall on those users who enjoy the benefits. Benefits may also be enjoyed by users other than those for whom the information is originally prepared. While this is a difficult and subjective criterion to apply, those responsible for the preparation of Financial Statements and the users of Financial Reports need to be aware of this constraint.
- 8.5 **Internal Consistency:** The presentation of receipts and disbursements as well as progressive balances in the Financial Statements should possess internal consistency.



The differences in the depiction of similar measures in different reports may be annotated to reconcile the amounts, if the differences are material.

**8.6 Accessibility and Updation:** The Financial Statements should be readily accessible to the concerned users and should be updated with regularity.

8.6.1 The body of the Financial Statements should indicate where the Financial Statements are available to interested public (sale / distribution centres or the address of the website on the Internet). All statements placed on websites should be updated regularly and should have a field to indicate the date of last updation.

**8.7 Understandability:** The users may be reasonably expected to comprehend the meaning of information presented in the Financial Statement. The information about complex matters should be suitably portrayed and annotated - it should not be excluded from the Financial Statements merely on the grounds that it may be too difficult for certain users to understand.

8.7.1 Users are assumed to have a reasonable knowledge of entities, activities and the environment in which they operate and to be willing to study the information. As indicated under the attribute of readability, layering of information may be resorted to for different levels of users, indicating different levels of details and complexities.

**8.8 Robustness:** The information system should be able to withstand organizational changes.

8.8.1 Organisational changes should not distort the financial reporting system - within the constraint of change, comparability should be possible. Where comparable figures are not available, the same should be disclosed.

**8.9 Attributability:** The activity measured must be capable of being attributed to the services or functions of the entity.

8.9.1 Ideally, decision centre-wise breakup of reports of financial performance may be presented as an aid to decision making by the implementing agencies and the executive.

**8.10 Verifiability:** The processes used in measurement of financial elements should have a clear documentation and should be amenable to validation.

8.10.1 Indicators used in the Financial Statements should be defined in an objective way so that different people have the same understanding of what the indicator means. Such documentation will allow the verification of the Financial Statements.

**8.11 Sub-totaling: Grand totals and sub-totals at each level should be depicted in all Financial Statements.**

8.11.1 Users should not need to work out aggregates of reports. Non-depiction of sub-totals renders internal comparison difficult.

## **9 Reporting Period**

**9.1** *The Financial Report should be presented at least annually. When in exceptional circumstances, an Entity's reporting date changes and the Financial Statement is presented for a period longer or shorter than one year, an Entity should disclose, in addition to the period covered by the Financial Report:*

- (a) The reason for a period other than one year being used; and*
- (b) The fact that comparative amounts for certain reports are not comparable.*

9.1.1 In exceptional circumstances, an Entity may be required to, or decide to, change its reporting date. For example, this may be done in order to align the reporting cycle more closely with the budgeting cycle. When this is the case it is important that users are aware that the amount shown for the current period and comparative amounts are not comparable and that the reason for the change in reporting date is disclosed.

## **10 Authorisation Date**

**10.1** An Entity should disclose the date when the Financial Statements were presented to legislature.

## **11 Identification of Financial Statements**

**11.1.1** The Financial Statements should be clearly identified and distinguished from other information in the same published document.

11.1.2 This Standard applies only to Financial Statements, and not to other information presented in an annual report or other document. Therefore, it is important that users are able to distinguish information that is prepared using this Standard from other information that is not the subject of this Standard.

**11.1.3** Each component of the Statement should be clearly identified. In addition, the following information should be prominently displayed and repeated when it is necessary for a proper understanding of the information presented:

- a. The name of the reporting entity or other means of identification;
- b. The Reporting date or the period covered by the Financial Reports, whichever is appropriate to the related component of the Financial Report;
- c. The Reporting currency;
- d. The level of precision used in the presentation of figures in the Financial Reports; and
- e. The level of details in terms of classification used in the Financial Reports.

## **12 Reporting Currency**

- 12.1 The financial statements shall be maintained in Indian Currency i.e., Indian Rupees. All transactions of the entity taking place in other countries shall be passed on monthly by the Indian Embassies / Missions to India and brought to account finally in the Indian books after they have been converted into rupees.

### **13 Components of Finance Accounts**

- 13.1 In particular, an Entity should prepare and present annual Finance Accounts for the Government. At the minimum, the Finance Account should depict the following information whether in separate statements or in appropriately condensed form:
- (a) Certificate of the Controller General of Accounts /Accountant General (A&E) countersigned by the Secretary (Expenditure) of Union Government/Finance Commissioner of State Government;
  - (b) Certificate of the Comptroller and General of India;
  - (c) Guide to Finance Accounts (introduction);
  - (d) Statement of Financial position as on (last day of financial year e.g., 31st March 2012) indicating Asset and Liabilities of the Government;
  - (e) Statement of Receipts and Disbursements for the financial year (e.g., for 2011-12);
  - (f) Statement of Receipts (Consolidated Fund);
  - (g) Statement of Expenditure (Consolidated Fund) by function and nature (nature indicates object head wise expenditure);
  - (h) Statement of Receipts and Disbursements during the year, by Major-heads, which recognizes all cash receipts, cash disbursements and cash balances controlled by the entity as well as book adjustments made;
  - (i) Statement of Balances in summary – a statement of financial position showing balances in the Government Account at the end of the year;
  - (j) Statement of Investments in share capital in government companies, corporations etc;
  - (k) Statement of Cash, other financial assets and deficit, if any;
  - (l) Statement of Liabilities (Public debt, contingency fund, liabilities on public account etc and accumulated surplus, if any);
  - (m) Statement of Debt position including net addition to debt during the year;
  - (n) Details of cash balance and investment of cash balance;
  - (o) Statement of Loans and Advances extended during the year with balances;
  - (p) Schedule of Guarantees given by the Government in summary, in case of annual reports;
  - (q) Detailed statement of Receipts in the Consolidated Fund, by Minor heads (if applicable);
  - (r) Detailed Statement of Expenditure on Revenue Account and Capital outlay by Minor-heads indicating Plan and non-plan separately.
  - (s) Detailed Statement of Progressive and Annual Capital Outlay by Minor-heads (except, by Major-heads / Sub-Major-heads for Capital Outlay on Railways and Defence Services in case of the Union);

- (t) Detailed Statements for the Statements of Investment, Debt and Loans and Advances, by Minor-heads with other details specified;
- (u) Statement showing distribution between Charged and Voted Expenditure;
- (v) Statement on Contingency Fund, with details of recoupment;
- (w) Details of receipts, disbursements and balances under the Public Account, by Minor-heads;
- (x) Detailed Statement on National Small Savings Fund;
- (y) Details of Prior Period Adjustments;
- (z) Detailed Statement on Sources and Application of funds for expenditure (other than revenue account);
  - (aa) Statement of Grants-in-aid given by the Government;
  - (ab) Detailed Statement on investments in earmarked funds;

13.1.1 In addition to the requirements of this standard, the Finance Accounts should also represent any other statement, information or disclosure required mandatory as per any of the other Indian Government Accounting Standards (IGAS), notified by Government of India.

13.1.2 Finance Accounts are reports of receipts and disbursements for the purpose of the Government for the year, together with the financial results disclosed by the revenue and capital accounts, the accounts of the public debt, the liabilities and assets as worked out from the balances recorded in the accounts.

13.1.3 The Statement of Balances is in the nature of a statement of financial position at the end of the year while the Statement of Receipts and Expenditure can be compared to a statement of financial performance of the Government during the year. These Reports depict the information separately for the Consolidated Fund, the Contingency Fund and the Public Account.

13.1.4 In addition, the following statements or information are recommended for inclusion in Finance Accounts in form of statement, information or disclosure over a period of time.

- (a) An object head-wise summary of expenditure incurred, separately under Revenue and Capital;
- (b) Statement of subsidies given, both implicit and explicit;
- (c) Statement containing debt and other liabilities as well as repayment schedule;
- (d) Expenditure on the North-East with balances in the pool, if applicable;
- (e) Statement of incomplete capital works;
- (f) Statement containing expenditure on salaries by various departments / units;
- (g) Detailed information on pensioners and expenditure on government pension;
- (h) Information on committed liabilities;
- (i) Accretion to or erosion in financial assets held by government;
- (j) Implications of major policy decisions taken by government during the year or new schemes proposed in budget for future cash flows;

- (k) Statement on maintenance expenditure with segregation of salary and non-salary portions.
- (l) Grants-in-Aid (Scheme wise and institution wise);
- (m) Statement of Externally Aided Projects;
- (n) Statement of Plan Scheme expenditure;
- (o) Financial results of irrigation schemes;
- (p) Statement of items for which allocation of balances as a result of reorganisation of States has not been finalised (if applicable);

14. **Components of Appropriation Accounts**

14.1 An Entity should prepare and present annual Appropriation Accounts for the Government, comprising the following components:

- (a) Review containing a summary table and an overview;
- (b) Summary of Grant-wise Appropriation Accounts;
- (c) Statement of Recoveries;
- (d) Statement showing capital and loan investments voted by Parliament for individual government business enterprises and actual expenditure there against;
- (e) Notes and comments to include reasons for excess /savings in actual expenditure

14.1.1 Appropriation Accounts are annual reports detailing grant-wise, the sums expended by the Government in the reporting year compared with the several sums specified in the schedule appended to the Appropriation Acts passed under various Articles of Constitution of India.

14.1.2 The Review should contain a commentary with priority to items in accordance to their significance and the quantum of deviation.

14.1.3 The Notes should indicate the extent of unreconciled expenditure.

14.2 The norms for recording reasons of variation and their presentation and condensation of head-wise Appropriation Accounts for Union Government (civil) and Postal Department will be at the Major head level, Defence Department will be at the Minor head level, Railway Department at..... and for State Governments and Union Territories with Legislatures will be at the sub-head level.

## **15 Notes and Disclosure of Accounting Policies**

- 15.1** The basis of preparation of Financial Statements and significant accounting policies related to material items shall be disclosed. Any changes from earlier policy may be disclosed along with the impact of such a change on financial indicators.
- 15.2 The notes should provide additional information, which is not readily discernible from the Financial Statements but is necessary for a fair presentation of the entity's financial performance and position.
- 15.3 Notes to the Financial Statements should be presented in a systematic manner. Each item in the statements should be cross-referenced to any related information in the notes.
- 15.3.1 The notes are supplementary to the Review: the latter is an overview of the Financial Statement whereas the notes detail all relevant facts and figures necessary to fully understand the Financial Report. Conclusions about the direction of finances of the Entity in the Review, based on comparison with budget and the past year may be amplified in the notes.
- 15.3.2 An illustrative list of notes and disclosures are indicated below:-
- a) Summary of significant accounting policies:-
    - i. Entity and accounting period
    - ii. Basis of Accounting
    - iii. Currency in which accounts are kept
    - iv. Form of Accounts
    - v. Classification between Revenue and Capital
  - b) Booking under Minor Head 800-“Other Receipts” and “Other Expenditure”
  - c) Unadjusted Abstract Contingency Bills (AC Bills)
  - d) Reconciliation of Receipts and Expenditure
  - e) Reconciliation of Cash balances
  - f) Guarantees
  - g) Loans and Advances
  - h) Position of Suspense Balances
  - i) Contingency Fund
  - j) Un-encashed Cheques – 8670-Cheques and Bills
  - k) Personal Deposit Accounts
  - l) Rendering of Accounts
  - m) Status on inclusion of Statements recommended by twelfth Finance in the Finance Accounts
  - n) Unspent balances in the bank relating to implementing agencies

- o) Periodical adjustments and book adjustments
- p) State Disaster Relief Fund
- q) Reserve Fund
- r) Position of awaited utilization Certificate (UC)
- s) Fiscal Responsibility and Budget Management (FRBM) Act

**16**    **Effective date**

- 16.1 This Indian Government Accounting Standard on General Purpose Financial Statements of Government shall be effective for the financial statements for the periods commencing from the 1<sup>st</sup> April subsequent to the date of notification of the standard by the Government.

**30.3 Agenda item:**

**Pilot Studies**

- i. Status Update*
- ii. Exposure Draft for Template for Pilot Studies*



### **Agenda 30.3.1 Status Update of Pilot Studies**

1. The Pilot Studies are being conducted by the states as a preparatory to transition to accrual accounting are in various stages despite commitment of some these studies as early as 2006. Out of the several studies proposed by the states as of date six have submitted Study Reports out of which some are interim reports . The position of the Pilot Studies for the different states are outlined in the table annexed. The States are being pursued by the GASAB Secretariat to expedite the Pilot studies from time to time. As a result action has been initiated in two States (Kerala and Odisha).

2. The Reports of the Pilot Studies of Andhra Pradesh, Madhya Pradesh and Rajasthan are hosted on the website of GASAB. The Reports of Pilot study of Pandit Dindayal Upadhyay Medical College, Rajkot on accrual accounting and Accrual Based Double Entry Accounting System of Public Works Bridge Construction Division Raipur (Chhattisgarh) have been received recently (25.03.2014 and 22.04.2014) and are under scrutiny

3. The Pilot studies in the states have been conducted by IPAI in many states , M/s Deloiite in Andhra Pradesh ( Annual Financial Statements of Government of Andhra Pradesh) and Pilot offices ( District Tribal Welfare Office, Ranga Reddy and Regional Transport Authority, Hyderabad) and various other agencies including private firms (Chartered Accountants, Autonomous bodies ).

4. Further a preliminary scrutiny of the Reports (interim and final) have indicated that these studies are following various parameters and some are also not complete. In order to standardise the studies a draft exposure for firming up the template for ongoing and future studies is being presented in the next segment.

5. As can be seen from the available data the Pilot studies are predominantly in the State sector. As per information available with GASAB Secretariat the Department of Posts and the Railways are in different stages of implementing Accrual Accounting. These organisations are

historically functioning on commercial lines in several areas of their operations and are therefore in a position for transition to accrual accounting.

6. As per the latest available information, no pilot study has been attempted in a Ministry which does not undertake predominantly Commercial operations as an entity.

**7. It is therefore proposed that a few Pilot Studies be initiated at the Ministry level under the oversight of Ministry of Finance through the office of the Controller General of Accounts.**

**Pilot Study Status of different states**

Sl. No.	Name of States	In Principle Approval received yes or not		Status of Pilot Study			Latest reminder issued for getting status update from concerned A.G., A&E
		Yes	No	Completed	Due	Not Initiated	
1.	Andhra Pradesh	✓		✓			75/ 27.02.2014
2.	Arunachal Pradesh	x	✓			✓	48/ 14.02.2014
3.	Assam	✓			✓		49/ 14.02.2014
4.	Bihar	✓				✓	52/ 14.02.2014
5.	Chhattisgarh	✓		✓			7,8/ 06.02.2014
6.	Delhi	✓					204/ 26.12.2013
7.	Goa	✓			✓		199/ 13.12.2013
8.	Gujarat	✓		✓	✓		143/ 19.11.2013
9.	Haryana	✓			✓		50, 51/ 14.02.2014
10.	Himachal Pradesh	✓			✓		197/ 12.12.2013
11.	J&K	✓			✓		71/ 26.02.2014
12.	Jharkhand	✓			✓		68/26.02.2014
13.	Karnataka	✓			✓		69/26.02.2014
14.	Kerala	✓			✓		19/ 17.01.2014
15.	Madhya Pradesh	✓		✓			54, 55/ 21.02.2014
16.	Maharashtra	✓			✓		40, 41/ 10.02.2014
17.	Manipur	✓			✓		56/ 21.02.2014
18.	Meghalaya	✓				✓	70/ 26.02.2014
19.	Mizoram	x	✓			✓	53/ 21.02.2014
20.	Nagaland	x	✓			✓	72/26.02.2014
21.	Odisha	✓			✓		17/ 14.02.2014
22.	Pudicherry	✓				✓	57/ 21.02.2014
23.	Punjab	✓			✓		5,6/ 06.01.2014
24.	Rajasthan	✓		✓			67/ 26.02.2014
25.	Sikkim	✓			✓		21/ 27.01.2014
26.	Tamil Nadu	x	✓			✓	16/ 15.01.2014
27.	Tripura	x	✓			✓	64/ 24.02.2014
28.	Uttarakhand	✓			✓		63/ 24.02.2014
29.	Uttar Pradesh	x	✓				20/ 24.01.2014
30.	West Bengal	✓			✓		65/ 24.02.2014

**Notes:**

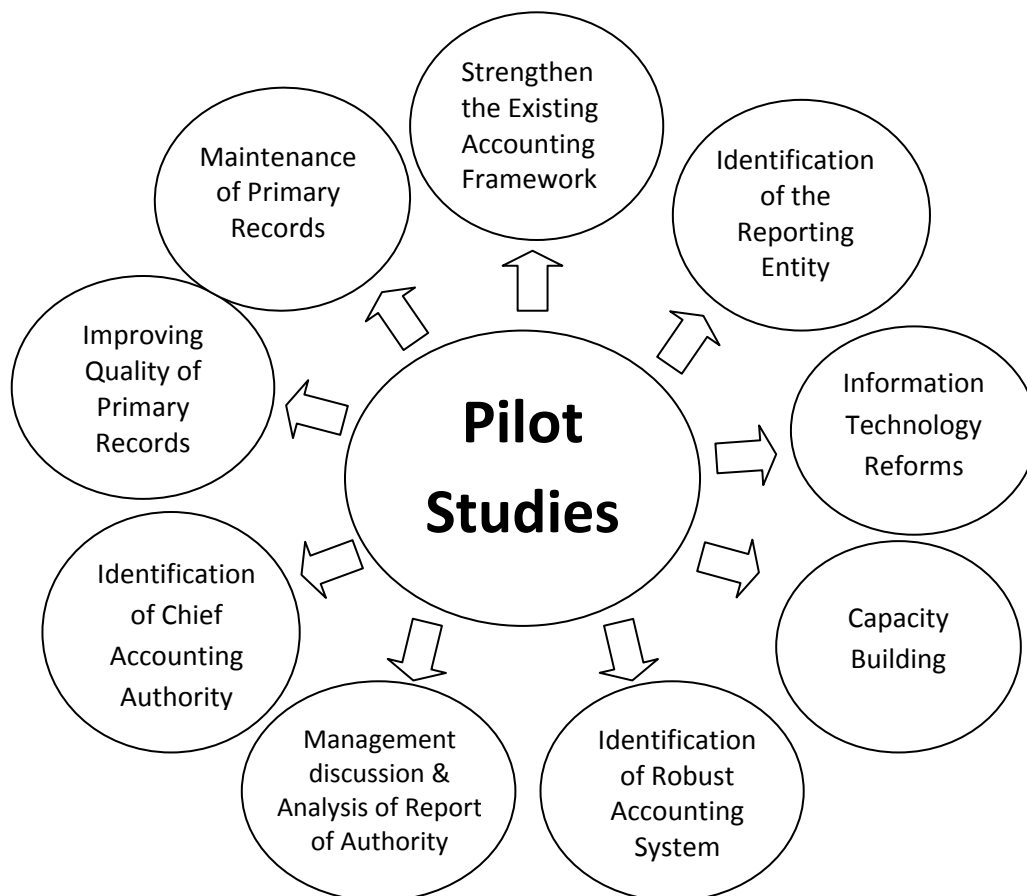
- (i) Incomplete data received i.r.o. Haryana Roadways.
- (ii) Till date pilot study is completed and reports received only from six states viz. Andhra Pradesh, Madhya Pradesh and Rajasthan, Gujarat, Chhattisgarh & Haryana.

### **30.3.2 Exposure Draft for Template for Pilot Studies**

### 30.3.2 Exposure Draft for Template for Pilot Studies

**Back ground:** To have uniformity in the Pilot Studies being conducted by various stakeholders, it has been proposed to provide guidance in the form of a template for the Pilot Studies on adoption of Accrual Accounts.

The role of pilot studies can outlined as follows



#### **Broad Principles**

IPSAS specifies recognition, measurement, presentation and disclosure requirements dealing with transactions and events for General Purpose Financial Statements on accrual basis. General Purpose Financial statements provide financial information of general nature. Specific information which can be made available on demand of specific stakeholder does not form part

of the General Purpose Financial Statement. In addition, IPSAS are also issued for cash based Accounting.

IPSAS cover various accounting aspects including presentation of financial statements, effects of changes in foreign exchange rates, financial instruments, contingent liabilities, segment reporting, impairment of assets etc. IPSAS have been designed to facilitate the generation of government financial reports of high quality that are internationally comparable.

IPSAS 1 *Presentation of Financial Statements* prescribes the overall considerations for the presentation of financial statements, guidance for the structure and minimum requirements for the content of financial statements prepared under the accrual accounting basis. As per IPSAS 1, the complete set of financial statements includes:

- Statement of Financial Position
- Statement of Financial Performance
- Statement of change in net assets/ equity
- Cash Flow Statements
- Accounting Policies and notes to the financial statements

It also provides illustrative financial statement structure.

As per IPSAS requirement the financial statements should not be described as complying with International Public Sector Accounting Standards unless they comply with all the requirements of each applicable International Public Sector Accounting Standard. Though the proposed model formats for Accrual AFS have to be conceptualised generally based on IPSAS-1, it should not be inferred that the State Finance Accounts prepared on Accrual basis are compliant with IPSAS unless the underlying transactions have been accounted for following the accounting policies and standards as per IPSAS.

With this background the Pilot Studies on Accrual Accounting would comprise of the following Framework

1. Timelines for the Pilot Study
2. The General Purpose Financial Statements (GPFS) to be generated for Accrual Accounts
3. Approach and Methodology
4. The existing Chart of Accounts and amendments required in the Chart of Accounts

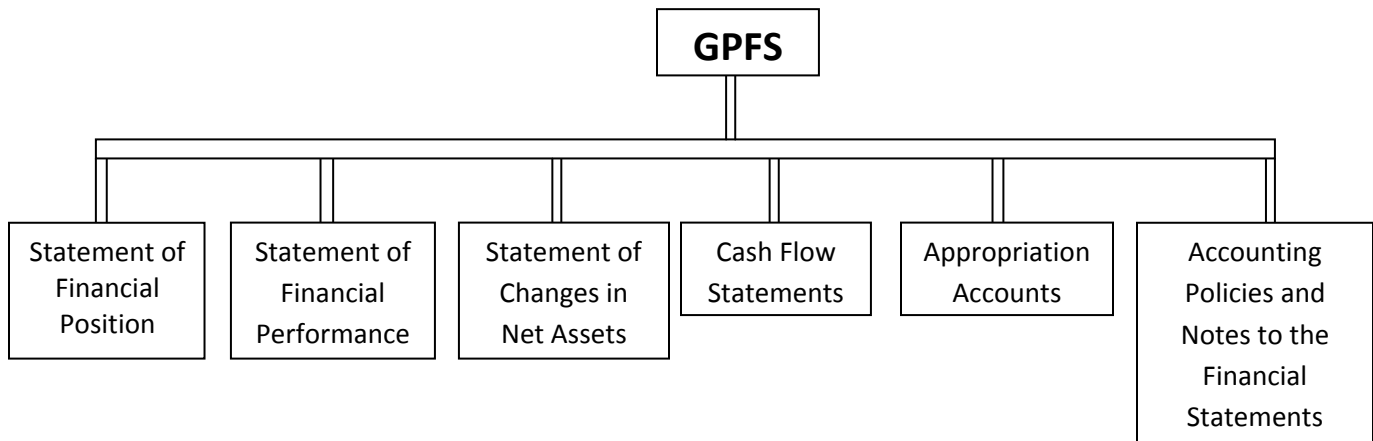
5. Documentation in detail of issues that have arisen and the resolution of these issues
6. Prescription of Registers with details to record information for facilitating transition to Accrual Accounting to be implemented.
7. Report Discussion with the Stakeholders

**1. Timelines for the Pilot Study :**

At the outset starting from selection of the entity / unit it is necessary to define timelines so the progress can be effectively monitored and slippages can be reduced.

**2. The General Purpose Financial Statements to be generated for Accrual Accounts**

The General Purpose Financial Statements to be generated for Accrual Accounts can be diagrammatically represented as:



**2.1 Statement of Financial Position**

The Statement of Financial Position exhibits the balance of assets and liabilities as on a particular date. The assets and liabilities may be further classified into current and non current categories. Statement of Financial Position must include the following:

- Assets – This should include all physical and financial assets, cash and cash equivalents, investment, inventories, receivables from exchange and non exchange transactions, capital work in progress.
- Liabilities – This should include all debts and borrowings of the government, payables, benefits payables to employees.

The progressive total of capital expenditure available in Finance Accounts should reconcile with lump sum figure in the Statement of Financial Position after making adjustment for valuation of historical assets.

## **2.2 Statement of Financial Performance**

The Statement of Financial Performance exhibits the revenue and expenses for an accounting period and the excess/deficit of revenue over expenses. The Statement of Financial Performance must include the following:

- Revenue from exchange transactions
- Revenue from non exchange transactions
- Expenditure by function and nature.
- Surplus/Deficit
- Appropriation to earmarked funds
- Cost of borrowings

## **2.3 Statement of Changes in Net Assets**

The Statement of Changes in Net Assets represents the changes between two reporting dates reflecting the increase or decrease in its net assets during the period.

## **2.4 Cash Flow Statements**

The Cash Flow Statement should provide cash flows during the period classifying them into operating, investing and financing activities.

- Cash flows from operating activities are primarily derived from the principal cash-generating activities. This includes cash receipts from taxes, from non-tax revenues, cash payments to suppliers/contractors, grants in aid received orgiven.
- Cash flows from investing activities are derived from acquisition and disposal of long term assets and other investments not included in cash equivalents. This includes cash payments to acquire or construct property, cash advances and loans made, etc.

Cash flow from financing activities represents the changes in the size and composition of the contributed capital and borrowings.



## **2.5 Appropriation Accounts**

As part of GPFS, Appropriation Accounts is to reflect

- Comparison of budget with actual
- Original with final budget
- Detailed reason for variations of actual with final budget

## **2.6 Accounting Policies and Notes to the Financial Statements**

- Accounting policies, rules and practices applied by an entity in preparing and presenting financial statements be stated
- Use of reasonable estimates and valuation methods for assets and liabilities be stated
- Stages and period of transition be stated

## **2.7 The various principles of recognition of Assets and Liabilities, recognition principles for Current Expenses and Receipts, 'Payables', Revenue are outlined in the succeeding paragraphs**

The focus of these operational guidelines is to analyze the changes that are required in the process of reporting of Accounts and other allied statements from cash based to an accrual based accounting system

## **2.8 Assets**

- The first step towards accrual based accounting system is categorization of assets into distinct group eg. Land, buildings, bridges, roads etc.
- All assets acquired through capital outlay are to be valued.
- Assets acquired through revenue outlay, materiality should determine whether the asset needs to be expensed or accounted for in the asset register. The threshold for materiality may be differing from one entity to the other.
- The materiality threshold should pre determined at an apex level before implementing the new system.
- Recognition and measurement of assets is required to be done on historical cost basis.
- Wherever, historical cost is not available or feasible, these may be valued on replacement cost basis (where the information on the replacement value and residual value of the asset is easily ascertainable).

- In case it is not possible to ascertain the above, these assets may be valued at a nominal value to be determined through an accepted process.
- Heritage assets too should be valued at nominal price.
- Assets prospectively acquired after the date of implementation of the new system should be valued on historical cost basis.

**The basis on which assets have been valued may be categorically mentioned in the Notes to Accounts.**

### **2.9 Provision for depreciation**

- Provision of depreciation should be made by allocating the value of assets category wise.
- Capital assets may be depreciated over their estimated useful lives unless they are either inexhaustible or infrastructure assets
- The provision should be estimated on a realistic basis and only revised where justified in the light of further experience.
- The provision of depreciation should be made each year and put away in a sinking fund.
- As is the accepted principle, land is not depreciated.

### **2.10 Liabilities**

- The first step towards accrual based accounting system is identification and categorization of liabilities into distinct groups eg. short term, long term and contingent liabilities.
- Guarantees should be disclosed in accordance with Indian Government Accounting Standard (IGAS 1) on 'Guarantees given by Governments: a disclosure requirement' notified by Government of India in December 2010.
- Accounting and classification of Grants-in-Aid should be disclosed in accordance with Indian Government Accounting Standard (IGAS 2) notified by Government in May 2011.
- Liabilities of the Government including Stock of Public Debt and Borrowings on Public Account and Liabilities on account of superannuation benefits, compensated leave, provisions and social security are to be provided for on accrual basis.

- Recognition of expenses relating to superannuation benefits, compensated leaves, provisions and social security may be taken after actuarial valuation.
- Contingent liabilities other than guarantees, Claims made by third parties against the Government should also be disclosed.

### **2.11 Recognition of all expenses and payables**

Recognition of all expenses on accrual basis would lead to recognition of payables, which will be shown as a liability.

### **2.12 Recognition of revenues and receivables**

Recognition of all revenue on accrual basis would lead to recognition of receivables, to be included in assets. The following table shows the accounting treatment and measurement to be followed in case of common expenses.

## **3. Approach and Methodology of Pilot Studies**

The approach to be followed for the Pilot study on Accrual accounting is outlined in the succeeding paragraphs

### **3.1 Understanding the Existing Systems**

- Understand the organisation structure of the pilot office and its reporting relationships /linkages with other wings of the department, if any
- Understand the accounting process at the pilot office including the compilation of accounts and reconciliation with head office and treasury offices
- Identify the books and records currently maintained at the pilot office and the information captured by them

#### **Purpose**

- **Identification of accounting transactions in the pilot offices**
- **Ensuring that the proposed accrual AFS take into account the existing accounting environment**

### **3.2 Analyse and identify Gaps for Accrual Accounting**

- Tabulate the information available and classify them as Assets, Liabilities, Income and Expenditure
- Identify the gaps in the information availability for transition to accrual accounting

## **Purpose**

- **Develop baseline information for the study**
- **Understand the information available in the existing books and records**
- **Identify the accrual accounting related information gaps**

### **3.3 Identification, Recognition, Measurement/valuation of accrual items**

- Design template for data collection
- Discuss the data compilation process with the concerned officials and conduct meetings wherever required based on Accrual Transaction Identification Framework
- Identify the valuation methodology (considering IPSAS/IGFRS and Generally accepted Accounting Principles)

## **Purpose**

- **Identification of accrual accounting related heads**
- **Preparation of Trial Balance**

### **3.4 Preparation of Accrual General Purpose Financial Statements (GPFS) for the year for the Pilot entity**

Based on the data compiled, prepare Trial Balance (which forms the basis for all other components of Accrual GPFS)

## **Purpose**

### **Preparation of Accrual General Purpose Financial Statements (GPFS)**

### **3.5 Preparation of Accrual GPFS**

#### **Stage 1 - Preparation of Trial Balance**

Trial balance is to be prepared based on the data obtained from various sources. Prior to preparation of trial balance, the data obtained has to be processed for accrual accounting related aspects. The Trial Balance as on March 31,XXXX year is to be arrived at.

#### **Stage 2 – Analysis of applicability of the Accrual GPFS**

The conceptualised format of accrual GPFS for the entity have to be analysed at the schedule level

### **Stage 3 – Preparation of Accrual GPFS**

The accrual GPFS shall be filled in based on the Trial Balance. The following statements have to be prepared .

- Statement Financial Performance
- Statement of Financial Position
- Statement of changes in Net Assets / Equity,
- Cash Flow Statement
- Notes to Accounts (including accounting policies)
- Schedules to the Statement of Financial Position and Financial Performance
- Statement of Comparison of Budget and Actual

As this being the first year of preparation of accrual GPFS, the cash flow statement and the statement of changes to new assets/equity can be prepared taking opening balance as Zero.

#### **Information availability**

A diagnostic study of the pilot in terms of information availability is required before deciding the approach for data collection.

**This will ensure that the possible gaps in availability of information are identified early.**

#### **Prioritise**

The data collection process may turn out to be a time consuming process if the requirements are not prioritised. The scope of data collection efforts should be ring fenced clearly prior to commencing data collection exercise.

#### **Maximum information**

Maximum information should be obtained from the records and registers of recent years. It is important to ensure quick wins, early in the exercise, that will demonstrate that transition to accrual accounting is not difficult.

#### **Involvement of all the key stakeholders**

It is important to ensure involvement of all key stakeholders. This would enable faster compilation of information and would also ensure sensitisation in respect of accrual accounting.

#### **4. The existing Chart of Accounts and amendments required in the Chart of accounts:**

For the Pilot study to be meaningful, it is essential that a detailed Chart of Accounts has to be prepared. Further an exercise has to be made for mapping the same to the existing Chart of Accounts to identify the necessary gaps / revisions that are required to implement Accrual Accounting in the entity / unit.

#### **5. Documentation in detail of issues that have arisen and the resolution of these issues**

The issues both technical and in implementation should be well documented so that they can be flagged for other studies as well as arriving at common principles for resolution of these issues.

#### **6. Prescription of Registers with details to record information for facilitating transition to Accrual Accounting to be implemented.**

The Pilot Study report should contain the List of Essential Registers along with the details to be captured along with their significance so that they can provide guidance for other Pilot Studies . This would also then be a prerequisite for the eventual shift to accrual accounting.

#### **7. Report Discussion with the Stakeholders**

Report Discussion with Stakeholders is essential for

- **Sensitisation of the Stakeholders**

Sensitisation of Stake holders on benefits of Accrual Accounting should be taken up as a continuous exercise. This should preferably be with the Heads of the Department

- **To assess the impact of the recommendation**

The discussion would also enable the Heads of the Department to identify the problem areas and be able to provide the solutions if necessary for obtaining account information

**30.4 Agenda item:**

**Feedback on Workshop on Experience Sharing of Transition from Cash to Accrual Accounting  
and status update on Advisory on Asset Accounting.**

### **30.4.1 Feedback on Workshop on Experience Sharing of transition from Cash to Accrual Accounting in the Department of Posts and Railways**

1. One of the missions of GASAB is to facilitate migration to accrual basis of accounting in the Government. To achieve this, GASAB has been taking up various activities as listed in the Operational Framework, Roadmap for Transition and Operational Guidelines prepared by the GASAB Secretariat. One key activity identified for facilitating migration to accrual accounting was pilot studies which are expected to play a meaningful role to play in GASAB's efforts towards steering accounting reforms in Government. For this purpose, State and Central Government stakeholders had identified select departments/DDOs where the pilot studies would be carried out. So far 7 pilot studies have been completed. GASAB Secretariat has also been following the process of holding interactive workshops for experience sharing and raising awareness among stakeholders as part of its efforts towards facilitating migration to accrual basis of accounting in the Government. Towards this end, a workshop on Experience sharing of transition from Cash to Accrual Accounting in the Department of Posts and Railways was organised by the GASAB Secretariat on 24<sup>th</sup> March, 2014 in the office of the Comptroller and Auditor General of India as a precursor to the 30<sup>th</sup> GASAB meeting.

2. The meeting was chaired by the Deputy Comptroller and Auditor General (Government Accounts) and Chairperson GASAB and attended by representatives of the Board members and Technical Advisors (TAs) apart from the Accountants General of the States which are members of GASAB during 2014. The list of participants in the Workshop is placed at **Annexure 1**.

3. The objective of the Workshop was to highlight the importance of pilot studies to understand the intricacies, technicalities and challenges of transitioning from cash to accrual accounting in Government, and ***to learn from the efforts and milestones made by the Department of Posts and Railways in this area particularly with reference to asset accounting and asset management*** as we prepare for the shift from cash to accrual accounting.

4. Shri Rajkumar Manocha, ED-AIMS, and Technical Advisor to the Financial Commissioner, Indian Railways and Sh. Rajnish Jenaw, DDG, Finance, Department of Posts (PDOP) made presentations on behalf of their respective organisations.



**5. Some of the key points from the experience sharing by Indian Railways is as follows:**

**5.(i)** The existing system of accounts in Indian Railways is largely Cash based so far as the preparation of Finance Accounts is concerned. However, they also follow partial commercial accounting which is based on accrual accounting as different from cash based accounting in areas like **Demands Payable, Demand Recoverable, Traffic Suspense, WMS – Workshop Manufacturing Suspense, Stores Suspense** which are maintained to link **Commercial Accounts, Generating Annual Profit and Loss Accounts, and Annual Balance Sheet**

**5.(ii)** With the 12<sup>th</sup> Finance Commission recommendations, Indian Railways took the decision to shift to accrual accounting and formulated its **Accounting Reform Policy and Programme in 2007**, appointed Accounting Reforms consultants, prepared a Basic Roadmap to transition to **Accounting Information Management (AIMS) based Accrual accounting in IR** and nominated an **Accounting Reform Team**.

**5.(iii)** The Accounting reforms include **Mercantile Accounting i.e Accrual based double entry and general ledger system of bookkeeping via subsidiary ledgers, a new accounting architecture based on Existing chart of accounts, Integrated IT infrastructure for AR ( i.e AIMS)**. Pilot implementation of the Accounting Reforms will be carried out first in two select railways, then in the other zonal railways before being rolled out pan India.

**5.(iv)** The areas identified for focusing during the transition included **Primary and Subsidiary Accounting System, Internal Check and General Ledger Control System, Assets, Liabilities, Income, Expenditure and Other Areas**.

**5.(v)** For the Asset side of the Balance Sheet, the following items were identified for consideration:

**FIXED ASSETS ACCOUNTING**

**(a) Construction of Asset Register (b) Physical enumeration of Assets (c) Physical verification of Assets (d) Tracing of Opening Balance Gross Block and Depreciation (e) Imputing value to Assets where not available and (f) Revaluation of Assets.**

## **INVENTORIES AND STORES ACCOUNTING**

**(a) Rationalisation of Inventories, (b) Physical Verification of Inventories, (c) Classification of Inventories, (d) Valuation of Inventories (e) Valuation of material at site and (f) Valuation of Non stock items**

## **OTHER ASSETS ACCOUNTING**

**(a) Accountal and valuation of all investments (b) Accountal of all advances including deposits with outside agencies (c) Provision amortization on IT Assets, IPR and other Copyrights , if any**

**5.(vi)** For the Liabilities side of the Balance Sheet, the following were identified for consideration:

**(a) Correct classification of owned and loan capital (b) Correct accountal of reserves fund and other funds (c) Assessment of accrued liabilities for contractual obligations (d) Assessment of accrued liabilities on account of establishment claims and (e)Disclosure of Contingent Liabilities**

**5.(vii)** Some of the expected results from the Accounting Reforms include: (a) **Govt Accounts in GASAB compliant form and format. This will result in a hybrid accounts being prepared which has reporting format supplemented by GASAB pronouncements e.g under IGFRS 1, like accounting policies, charter of responsibilities etc. (b) Annual Govt Accounts Financial Statements including Appropriation Accounts(CGA&CAG compliant) (c) Accrual based commercial accounts &MIS Reports (d) Annual Financial statements P&L A/C, Balance Sheet and Cash Flow Statement as per GAAP/IGFRS (e) Cost accounts Reports i.e Section/Route/Train costing (f) Activity Based costing Report, Performance Budget ,Variance analysis and Responsibility accounting Report and (g) Reconciliation of Finance and Cost accounts Reports**

**5.(viii)** Regarding a costing system in Indian Railways for considering their focus on identifying various cost centres, it was clarified that Indian Railways already has a robust system of cost accounting which would be further streamlined in shifting to accrual accounting.

**5.(ix)** It was also clarified that the Accounting Reforms was meant for the entire Railways.

6. So far as the Department of Posts (DoP) is concerned, it was mentioned that the mandate to switchover from cash based single entry accounting system to accrual based double entry system in the DoP was assigned to Accounting Research Foundation of Institute of Chartered Accountants of India (ICAI-ARF) with the signing of an MOU on 25th June, 2009 by ICAI-ARF and Department Of Posts, Government of India for implementing accrual accounting in two Head Post Offices (HPO) viz. (i) New Delhi GPO (Gole Dak Khana) and (ii) Naraina Industrial Estate Head Office (NIEHO), Naraina.

The highlights from the experience of the Department of Posts include the following:

**6.(i) The Existing Chart of Accounts** for classifying the accounting transactions of Department of Post were restructured to (a) Incorporate the new accrual heads required under accrual concept; (b) Facilitate preparation of accounts under accrual basis of accounting; and (c) Linkage of existing cash based budgets with accrual and cash based accounts.

**6.(ii) A new 7<sup>th</sup> tier** was also added to the existing chart of accounts containing six tiers for capturing the accrual accounting classification with the minimum digit structure.

**6.(iii) Two software namely 'Sanchay Post' and 'CC Patram'** are maintained in DoP for capturing Accruals from the data relating to Saving Bank Deposit Schemes and Cash Certificates and it was briefly explained as to how data maintained on cash based accounting is converted to that required as per accrual based accounting by running relevant queries.

**6.(iv) Fixed Assets Register** was prepared based upon the accounting policies finalized by ICAI-ARF team in consultation with DoP keeping in view the reporting standard "Property, Plant and Equipment" (IGFRS-2 issued by GASAB and IPSAS-17).

**6.(v) For collection of data on Assets**, the Stock Register and Permanent Register are referred to.

**6.(vi)** All the assets (movable and immovable) except Building of New Delhi HPO (Gol Dak Khana) are **valued at Historical cost**. In case of Building of New Delhi HPO, since the actual cost was not available, therefore building of New Delhi HPO was **valued at Rs. 1/-**

**6.(vii) Depreciation** was calculated for all items of fixed assets following the Straight Line Method provided in Schedule XIV of Companies Act, 1956 which are as follows:

Data processing machines including computers: 16.21 %

Electrical Equipments	7.07 %
Furniture & Fixtures	6.33 %
Mail Motor Vehicles	11.31 %
Motors-cars, Motor cycles & Scooters	9.5 %
Office Equipment	4.75 %
Plant & Machinery	4.75 %

**Land & Building**

Land	0 %
Building	1.63 %

Further it was informed that the percentage of Land & Buildings is 70% of the total assets of DoP calculated upto March 2013.

**6.(viii) Threshold** levels for capitalization of items as fixed assets has been fixed as Rs. 5000/-.

**6.(ix) Composition of Fixed Asset Register** was as follows:

**(a) Immovable Assets: Land & Building**

Land and Building comprise only those buildings and other constructions made for the use by Department of Post from the records available with them in respect of Different HPOs, Sub Offices and Branch Offices

The Fixed Asset Register provides following details in respect of **Land and Building:**

a.i. Account Code	a.ii. Name of Village/Locality
a.iii. Cost of Land	a.iv. Covered Area
a.v. Built-up area	a.vi. Cost of Development
a.vii. Cost of construction	a.viii. Year of construction
a.ix. Rate of Depreciation	a.x. Accumulated Depreciation
a.xi. Net Block as on reporting date	a.xii. Remarks

**(b) Movable Assets:**

In respect of **movable assets** the Fixed Asset Register provides following details:-

b.i. Account Code	b.ii. Name of Asset
b.iii. Type of Asset	b.iv. Date of Purchase
b.v. Rate per Unit	b.vi. Total no. of units

b.vii. Total Cost	b.viii. Place of installation
b.ix. Year of purchase	b.x. Rate of Depreciation
b.xi. Accumulated Depreciation	b.xii. Net Block as on reporting date
b.xiii. Remarks	

**6.(x) A robust system of review and verification of the Asset Register** was introduced which constituted of the following steps:

- Primary accounting unit SO (Sub Office) fills the form along with Assets of BO (Branch Office) > Rs.5000.
- These are physically verified by IPO (Inspector of Post Offices).
- The verified asset register information is then sent to the HO (Head Offices).
- The Other offices under account jurisdiction also send duly verified asset information to HO.
- HO will prepare the asset register information of its own duly verified as well as received from SO and other offices.
- HO will up load the information into Asset Register SW. (More than 1000 users are Created)
- The other CDDO (Cheque Drawing Disbursing Office) will also upload to Asset Register SW.
- Regional Asset Management Committee Headed by PMG will check and approve it.
- The Asset Management Committee Headed by CPMG (HOC) will certify the correctness of data of Asset Register with the help of IFA and Freeze the data.

**6.(xi) For Compilation of Opening Balance Sheet**, the basic steps followed was:

**6.xi. a CAPTURING OF DATA**

- Identification of Assets and Liabilities;
- Designing of formats for capturing data relating to accrual;
- Collection of data to prepare complete list of all assets and liabilities.

**6.xi. b VERIFICATION**

- Physical verification of immovable and movable assets;
- Physical verification of stores, inventories, cash, and investments as a particular date;

- Valuation of Assets and Liabilities, in cases where values are not available from the books and records;
- Cross-checking with original/source document, to the possible;
- Obtain third party certificates (like from banks) to confirm balances.

#### **6.xi.c. COMPILITION**

- Compilation of figures from various records, registers, and formats so filled in;
- Preparation of Opening Balance Sheet with the required disclosures;

**6.xii** A software on accrual accounting is under development for facilitating the migration.

**6.xiii** The SAP developed by TCS is being customized as per requirements of DoP and all the data is being migrated to this customized SAP software.

**6.xiv** Through this software ***two types of reporting will be generated viz. (i) Cash based accounting (15 digit CoA for submission to Controller General of Accounts (CGA)); and (ii) Accrual based accounting (10 digit CoA for internal purpose).***

**6.xv** The ***15 digit Head of Accounts have been converted to 10 digit as per the limitation*** of SAP software.

**6.xvi.** Through the IT Modernisation Project, called Core Banking Solutions (CBS) the post office will be moving from the existing Sanchay Post Application to the new CBS application called "FINACLE"

**6.xvii** CBS training of pilot locations for Tamil Nadu, Karnataka, Rajasthan, Maharashtra and Delhi circles is in progress and 38 Post offices (as on 10-02-2014) have been migrated to the new CBS application. The Financial System Integrator targets to complete the Rollout in 1000 Post offices across the circles by end of March 2014

**6.xviii.** In the new system will provide a single view of the financial performance of the DoP and maintain the accounting records under both accrual and cash system, and information on costs and tariffs. This will include tracking and reporting on budget approvals and fund utilization as per Government of India guidelines. It will also manage the procure-to-pay cycle for goods and services purchased by DOP including inventory management, budgeting and procurement, efficient vendor management for payables and receivables to ensure favorable liquidity position for the department.

**6.xix. Some of the major problems faced by DOP in the process of transition of Accrual Accounting are**

- (i) Non availability of proper primary information/record in respect of huge assets in Gov. departments
- (ii) Problem in drawing of opening balance sheet;
- (iii) Accrued Liability on account of retirement benefit;
- (iv) human resource constraint to deal with the additional activities involved in accrual based accounting and
- (v) the need to follow both accounting system as reporting on CGA is still based on cash accounting.

**7.** An important issue regarding the need for appropriate amendment to statutory legislations for implementation of accrual accounting was raised during the discussion considering that the extant legislations pertain to the cash based accounting prevalent in Government. Since this was a critical issue, it was decided that a Concept paper would be developed on this and brought up before the 30<sup>th</sup> GASAB for deliberations of the Board on how to address it and take forward.

**8.** It was clarified during discussions that in case of DOP, physical verification as well as verification based on available records were being carried out for enumeration of the assets.

**List of attendees of 'Workshop on Experience Sharing of Transition from Cash to Accrual Accounting' is being held on 24<sup>th</sup> March 2014 (Monday)**

**Members:**

1. Ms. Revathy Iyer, DAI (GA) & Chairman (GASAB)

**PAG and AG's :**

1. Sh. V. Kurian, PA G (A&E), Karnataka
2. Sh. Sushil Kumar, AG (A&E), Himachal Pradesh
3. Sh. N. S. Pillai, AG (A&E), Chhattisgarh
4. Sh. D.R. Patil, AG (A&E) Manipur

**Technical Advisors:**

1. Sh. P. Sesh Kumar, DG (Comml) -II
2. Sh. R.K. Manocha, ED (Aims), Ministry of Railways
3. Sh. Rajnish K. Jenaw, DDG (Fin), Department of Posts
4. Dr. Avinash Chandra, Tech. Director, Institute of Chartered Accountants of India
5. Sh. Vinod Kumar Vijay, Jt. CGDA (IFA)
6. Dr. S. K. Gupta, Director Technical, Institute of Cost Accountants of India

**Other participants:**

1. Ms. Shikha Mathur Kumar, Dy. Director General, Department of Posts
2. Sh. Ayaz A. Siddiqui, Deptt. of Posts
3. Sh. T. Uthaya Kumar, Addl. Budget officer, Department of Economic Affairs
4. Sh. G.K. Singh, Controller of Communication Accounts, Delhi
5. Ms. Simmi Nakra, Dy. Director General, (Accounts), Department of Telecommunication
6. Sh. G. Baskaran, Director (Accounts -II), Department of Telecommunication
7. Sh. C.J. Khatri, Jt. Secy. (Finance), Chhattisgarh
8. Sh. Uttam Singh, Dy. Secy. (Finance), Himachal Pradesh
9. Sh. Pravinder Yadav, Principal Director, Union Government of Accounts
10. Sh. K.P. Singh, Sr. A.O., Department of Telecommunication

**GASAB Secretariat:**

1. Sh. S. R. Dhall, Principal Director, GASAB
2. Sh. Pranav Khullar, Principal Director, GASAB
3. Smt. Akoijam Rina, Principal Director, GASAB



### **30.4.2 Status Update on Advisory on Asset Accounting and proposed way forward**

1. The Operational Framework and Operational Guidelines for Accrual based Financial Reporting in Government recognises the importance of Assets Identification and creating Assets Registers, and consolidation of assets category-wise at DDO level in a phased manner. While the Union and State level stakeholders will be responsible for carrying out the exercise of identification of assets, and their consolidation category-wise by creating appropriate Assets registers, GASAB is to provide necessary guidance to facilitate the process.

2. To meet the above end, a Task based Group (TBG), was constituted on 8th August, 2012 to develop an Advisory for Asset Accounting. The Advisory was meant to be used as a Guidance Note to assist Departments of Union Government and State Governments in implementing Asset Accounting in a systematic way since proper Asset Accounting will not only strengthen existing cash system of Accounting but will also go a long way in transition to accrual accounting.

3. The first draft of the Advisory was discussed by the Government Accounting Standards Advisory Board (GASAB) in its 27th Board meeting on 25<sup>th</sup> September, 2012 wherein it was decided that the Advisory needs to be revisited to make it more comprehensive.

4. A revised Draft Advisory was prepared after TBG meetings during August 2012, October 2012 and January 2013, and also TAs meeting in February 2013.

4. However, as on date, while some issues remain unresolved, the TBG needs to be reconstituted since officials have been transferred. The Board may nominate a new TBG for the purpose.

5. Some issues which have been flagged for consideration by the new TBG for taking forward the Advisory are as follows:

(i) The draft Advisory in its present form is applicable in the context of accrual accounting. Since it has to be used first under cash basis of accounting, it may be appropriate to first discuss the extent to which the Advisory has to be applied under cash basis of accounting and to divide the Advisory into two major sections: first one related to cash basis and a second one related to

accrual basis. Thus, while introductory understanding of Assets as in commercial set up may be given, the focus of the Advisory should be in the Government set up with cash accounting.

(ii) Details of how the existing formats for capturing information on assets may be worked out.

(iii) It need to ne deliberated whether there is a need to capture current assets of the Government like accounts receivables, tax due but not collected etc. at this stage?

(iii) It also needs to be decided whether to start the process of identifying intangible assets of the Government like exploration and evaluation of assets (extractive industries), expenditure on development and extraction of minerals, oil, natural gas and similar resource, telecom spectrum etc?

(iv) Lessons learnt through various pilot studies carried out by the Union and State Government departments may be used extensively to give real life feel in the Advisory.

(iv) Case studies based on scenarios of Government Accounts may be developed for better understanding.

(v) Since this will be a time consuming and comprehensive exercise, the new TBG may prepare a time bound plan for preparing the products in a phased manner.

**30.5 Agenda item:  
General Legal issues regarding GASAB and implementation of Accrual Accounting in  
Government.**

## **Agenda Item 30.5 Concept Paper on general legal issues for transition from cash based accounting to accrual based accounting**

### **Background:**

The issue regarding the need for appropriate amendment to statutory legislations for implementation of accrual accounting was raised during the Workshop on Experience Sharing on transition from Cash to Accrual Accounting in the Department of Posts and Indian Railways, held on 24<sup>th</sup> May 2014 in light of the fact that all extant legislations pertain to the cash based accounting prevalent in Government. Since this was a critical issue, it was decided that a Concept paper would be developed on this and brought up before the 30<sup>th</sup> GASAB for deliberations of the Board on how to address it and take forward.

1. The present system of government accounting in India is not only cash-based but also rule-based. Transition to accrual accounting from cash basis therefore involves amendment of rules governing accounting in government. Adoption of accrual based Government Financial Reporting Standards (IGFRS) without amendment of corresponding accounting rules will dilute the legal validity of the accounts. Ambiguity on the legal validity of accrual based accounts will in turn deter development of appropriate accrual based accounting policies and procedures and also hinder development of Information Technology based accounting applications. It is therefore imperative to carry out a review of legal framework of government accounting required to be put in place while migrating from cash based accounting to accrual based accounting. This paper attempts to highlight some of the macro level issues involved in the process and suggests possible solutions.

2. The legal framework applicable for government accounting in India is hierarchical in nature. The provisions governing budgeting, categorisation of government funds and form of accounts included in Chapter 1 of Part IV, chapter III of Part VI and Part XII of the *Constitution of India* form the foundation of this framework. Statutes, Rules, Regulations and Orders of Government dealing with accounting policies, procedures and practices constitute the

remaining part of the framework in the same order of primacy. Among these, the *Government Accounting Rules 1990* contain the principles, policies and procedures relevant for accounting of transactions in government. The requirements of *General Financial Rules* and Rules framed in accordance with *Fiscal Responsibility and Budget Management Act* also influence the basis of accounting and reporting. The *Central Government Account (Receipts and Payments) Rules 1983* although relevant are secondary to the extent that they deal more with regulating government transactions and less with government accounting.

**3.** Accounting Standards are subordinate in hierarchy to provisions of statutes, rules and regulations unless the fact of primacy of standards is specifically stated in the concerned legal enactment. Therefore a purely standards-based approach for migration to accrual based accounting is inadequate. It will have to be supplemented and preceded by a rule-based approach. The subordinate status of the accounting standards can be removed only through a specific amendment to *Government Accounting Rules 1990* according the accrual based standards superiority over existing cash based Government Accounting Rules, Regulations if any, Account Codes and Manuals. This primacy is accorded to Accounting Standards applicable for companies in India through provisions in the *Indian Companies Act*. The *Indian Companies Act* by insisting on compliance with Accounting Standards in *Section 211* (in respect of Profit & Loss Account) and *Section 227* (in respect of Balance Sheet) has provided the necessary legal superiority for the standards over conflicting provisions if any in other rules or regulations governing the accounts. Mere reference to provisions of *Article 150* of the Constitution while notifying the *Indian Government Financial Reporting Standards (IGFRS)* like in the case of *Indian Government Accounting Standards (IGAS)* already notified will not by itself provide the necessary superiority since provisions of any Government Order are inherently subordinate to provisions of corresponding subordinate legislation.

**4.** Manuals and Codes also have an important role in government accounting procedures. The *Comptroller & Auditor General's Manual of Standing Orders Volume II*, *Account Code for Accountants General*, *Civil Accounts Manual*, *List of Major and Minor Heads*, *Central Public Works Accounts Code*, *State Finance Code*, *State Treasury Code* and *State Public Works Accounts Code* also contain cash based accounting instructions which will have to be modified in the

context of migration to accrual based accounting. They need to be identified and alternate accrual based accounting instructions given for both the transition phase and full- fledged adoption of accrual based accounting.

At present there is congruence between provisions of *Government Accounting Rules 1990* and present accounting procedures since both are cash based. Further, the *Indian Government Accounting Standards (IGAS)* which are cash based also do not conflict with the accounting rules. This congruence will be lost if migration to accrual accounting is done without amendment to corresponding Accounting Rules.

5. Since a phased transition to accrual based accounting is envisaged in the 'Way Forward' recommended in the '*Operational Guidelines for Accrual based Financial Reporting in Government*' there will be a period when both accrual based accounting and cash based accounting will coexist. The adoption of full-fledged accrual based General Purpose Financial Statements is proposed only in Phase III which is scheduled for the year 2015. During Phase I and Phase II while the underlying revenue and expenditure transactions will be reported on accrual basis, the Financial Statements themselves will be on cash basis unless the formats prescribed in the rules provide for dual presentation during the transition period. Normally this anomaly is prevented through a period of parallel run during which accounts are reported in both formats until the new formats are adopted through appropriate statutory or subordinate legislation.

6. The transition to accrual accounts at departmental level will involve Information Systems for authorisation, payment and accounting of transactions. New IT systems will have to be developed for this purpose as envisaged in '*Operational Guidelines for Accrual based Financial Reporting in Government*'. These Operational Guidelines suggest an Enterprise Resource Planning Application similar to SAP for implementation of accrual based accounting. Implementing Entities will require the following two assurances for an investment decision;

- Assurance on legal validity of the accrual accounting system;
- Assurance on critical accrual based accounting policies and procedures to be adopted for development of IT Application.

The proposed three-phase migration plan needs an enabling provision upfront as part of Phase I to address these concerns. They cannot wait till all or sufficient number of *Indian Government Financial Reporting Standards (IGFRS)* are notified. The pilot projects are being executed on the basis of decisions of Apex Body, Taskforce, GASAB, recommendations of the twelfth and thirteenth Finance Commissions and Second Administrative Reforms Commission. While the mandate is adequate for pilot projects, the same cannot be considered as a sufficient mandate for deviating from existing accounting rules, policies and procedures and for development of IT systems for migration. There is an urgent need to identify minimum number of accrual based accounting policies and procedures required for the migration and fast track their approval by way amendment of rules and codal provisions so that the entities proposing to migrate have clarity on functional requirement specifications and system requirement specifications.

7. The information flows in government pertaining to budgeting, approvals for transactions, their recording and accounting presently are inadequate for migration to accrual based accounting. New and different kinds of information on revenue, expenditure, assets and liabilities will be necessary to manage the transition. For instance in respect of revenues, information on assessments made by an assessing authority presently outside the accounting system will have to be integrated with the accounting system; for payments, a new system to capture obligations not extinguished will have to be implemented. Similarly for assets, a method of valuing work-in-progress will have to be laid down. The information flows and the appropriate authorities involved in their creation, management and reporting will have to be identified and empowered through appropriate amendments to existing legal framework or through creation of new entities and procedures. The provisions of *General Financial Rules (Rules 53, 190 and 202)* and *Fiscal Responsibility and Budget Management Rules of Government of India (Forms D1, D2 and D4)* provide some rudimentary information for eventual migration. More such enabling provisions and formats under various rules and codes both at union and state level will have to be devised to plan the migration.

8. *Rule 18 of the Government Accounting Rules 1990* provide for preparation of pro-forma accounts in respect of departmental commercial undertakings or government entities carrying out a commercial activity. Pro-forma accounts are suggested to address their need for assessing

the cost of their service. Their main accounts which are based on government accounting framework do not provide the information as they are cash based. *Rule 18* mandates preparation of suitable Capital, Manufacturing, Trading and Profit and Loss accounts for these entities. The commercial accounts are kept on a *pro forma* basis outside the general accounts of Government. The actual transactions entering these *pro forma* accounts, except those adjusted on a liability basis, will find a place primarily in the regular accounts and the commercial accounts will be additional as well as separate. Further these *pro forma* accounts shall be maintained by the Departmental authorities themselves in such form as may be prescribed. *Pro forma* accounts are also sometimes required to be prepared for transactions which do not relate to commercial or quasi commercial undertakings of Government e.g., transactions of the Famine Relief Fund. The form in which any *pro forma* accounts are prepared in Accounts Offices will be determined by the Government concerned on the advice of the Comptroller and Auditor General of India.

9. *Pro-forma* accounts provide a window for development of accrual based accounting systems even without amending the *Government Accounting Rules 1990* in those undertakings which have a commercial character. The '*Operational Guidelines for Accrual based Financial Reporting in Government*' also endorse departmental commercial undertakings as ideal entities for introduction of accrual accounting. The Indian Postal department and Indian Railways are therefore ideally suited for the migration. These entities can develop accrual based accounting systems on a pro-forma basis in addition to their regular accounts which can continue to be cash based until the Government shifts to full-fledged accrual based accounting system. The flexibility and delegated authority available to these entities in deciding on the form of Pro-forma accounts can be availed to experiment on accrual based accounting in government without affecting the regularity of accounts or threat of wasteful investment. However the departmental clearances if any required for this purpose will have to be identified and necessary approvals given for the migration to accrual based pro-forma accounts. This may also involve development of entity specific general purpose financial statements which may not be suitable for all government entities. The migration of other government entities can be planned after the results of transition of pro-forma accounts to accrual basis are studied.



**10.** The need for critical accrual accounting policies and procedures upfront, the necessity of a mandate though relevant provisions of accounting rules as discussed above calls for review of the migration strategy including the accounting entities which can spearhead the transition probably through pro-forma account. The proposed phases of transition may also need to be revisited in this context. The need for creation of new and different information systems supported with legal backing will also have to be assessed. Since there are marked differences between the processes and systems existing in the union and the states, a government-wise analysis will be necessary for successful migration.

**30.6 Agenda item:**

**Review of Roadmap for Transition to Accrual basis of Accounting in Government and Operational Framework for Accrual Accounting.**

## **30.6 Review of Roadmap for transition to Accrual basis of Accounting in Government and Operational Framework for Accrual Accounting**

### **Background**

The Twelfth Finance Commission, thereafter referred to as the TFC, recommended adoption of Accrual Accounting , for the Union and State Governments . The central Government, as well as 22 State Govts/UTs have accepted this recommendation in principle. In its explanatory memorandum to the action taken on the recommendation of the TFC, the Hon' Finance Minister had stated that the GASAB would recommend an operational framework and a detailed roadmap for its implementation.

In light of the above, two documents were prepared by the GASAB secretariat in 2007, namely, "Operational framework of Accrual basis of Accounting in Governments in India ", and "Roadmap and Transition Path for Accrual Accounting' out-lining the broad contours of Accrual Accounting framework. These documents were meant to be developed further and tailored to suit organization-specific requirements. Though the roadmap had initially considered a period of 10-12 years as a reasonable and feasible timeframe for this purpose of transition, given that the user departments are in different stages of preparedness, the GASAB secretariat was required to review the framework and roadmap comprehensively after three years of the date of issue. Hence, another Guideline document was prepared by the GASAB secretariat in June 2011, outlining the three-stage of Way forward for enabling this transition from Cash to Accrual systems.

The Roadmap and the Way Forward is being brought back to the Board Agenda, because there is need felt to rationalize these three documents and to prepare a more comprehensive timeline for this transition , alongwith clearly defined responsibility centres. The Board may like to consider assigning timelines for this work.

A Table containing the topics/sub topics outlined in the Roadmap and Guidelines and current status thereon is placed below for reference during discussion.

	<b>Topic and Sub topics</b>	<b>Achievement</b>	<b>Responsibility Centre</b>	<b>Remarks</b>
	<b><u>1st Phase</u></b> <b><u>(2011-12 to 2012-13)</u></b>			
1.	<p><b>Setting up Task Force /Cell:</b> Task force for facilitating an integrated approach across Governments.</p> <p>It will provide a forum for evolving accounting policies and experience sharing and facilitating resolution of issues faced by different stakeholders</p>	<p>An Apex Committee has been constituted for implementation and transition to accrual based accounting systems in Government.</p> <p>Vide letter No. F. No. 1 (120)-B(AC)/2009 dated September 13, 2011</p>	<p>Finance Ministry;</p> <p>Follow up is required</p>	
(i)	Task force in the concerned Ministry / Department headed by the Secretary		Respective Governments/Departments	Details not available
(ii)	Task force in the concerned State Department headed by the Secretary		Respective Governments/Departments	

2.	Building adequate database		Respective Governments/Departments	
(i)	Assets identification and creating Assets Registers for physical assets.	Sample asset register circulated to the States  Assets Advisory under preparation/consideration by GASAB Secretariat.	Respective stakeholders	
(ii)	Identification of Liabilities		Respective stakeholders	Details not available
3.	<p><b>Pilot Study</b></p> <p>For Civil Ministries / Departments and the State governments departments with an asset base to be selected</p> <p><b>State governments</b></p> <p>Public Works Irrigation Rural Development Health Education</p> <p><b>Civil Ministries</b></p> <p>Railways Department of Posts</p>	Pilot Studied conducted in 9 departments of state government departments.		CGA- RML, 4 divisions of CPWD DOP- 2 Post offices. Reports not available with GASAB.

4.	Detailed framework for accounting	An Operational Framework was prepared by GASAB in February 2007.  An Operational Guidelines was prepared in June 2011 where Way Forward is chalked out.	Implementation by respective stakeholders.  Facilitation by GASAB Secretariat	
5.	Preparing Chart of accounts		MoF (Budget Division)/CGA/C&AG	
6.	Laying down accounting policies		Government Ministries/Departments	Details not available
7.	Devising documentation / subsidiary ledgers		Respective stakeholders	Details not available
8.	Organisational arrangements for data / information flow		Respective stakeholders	Details not available
9.	Decision on IT system <i>or</i> IT enabled Integrated Financial Management System		Respective stakeholders	Details not available
10.	Training needs/Capacity building in terms of human resources	Till _____ date _____ 8 Seminars/Workshops/Meetings were conducted in different states.	Respective stakeholders	Details not available
11.	Pilot Implementation	Details need to be worked out.	Respective stakeholders	

12.	Centrally Sponsored Scheme for Treasury Modernisation issued by MoF mention developing of an Accounts Module and budget module. The benefits of these modules can be greatly enhanced to include revision in account code classification/chart of accounts, building into it features of asset management, liabilities and other key features of accrual accounting.	Government of India has approved scheme for implementation of the Mission Mode Projects "Computerisation of State Treasuries". An Office Memorandum No. F. No. 6(57)/FRU/04-Part-III dt. July 2010 has been issued to All the Chief Secretaries of all States/UTs  (copy of the same received from G.A. wing of CAG office)	Ministry of Finance and State Governments	Status is not available
<b><u>2nd Phase (2013-14 to 2014-15)</u></b>				
1.	Valuation of historical assets			
2.	Provision of depreciation			
3.	Recognition of all expenses and payables			
4.	Recognition of revenues and receivables			
<b><u>3rd Phase : Preparation of Statements of General Purpose Financial Reporting (GPFS) including the following (2015 onwards)</u></b>				
1	Preparation of Statements of General Purpose Financial Reporting (GPFS)	One IGAS 4-General Purpose Financial Statement is under consideration of GASAB with PD-3/GASAB.	GASAB Secretariat & Respective TBG	Work in progress
2	Statement of Financial Position			
3	Statement of Financial Performance			

4	Statement of assets/liabilities			
5	Cash flow Statements	One IGAS-Cash Flow Statements was formulated and sent to Ministry of Finance after comprehensively reviewed by GASAB on the advice of MoF.  Later on it was reflected as IGFRS by Ms. Preeti Jha, MS & PD/GASAB in her handing over note.		
5.	Appropriation Accounts			
6.	Accounting policies and Notes to the Financial Statements			
7.	Management and Discussion Analysis			

**Proposed Way Forward:**

- (i) Comprehensive Review of work status
- (ii) Formation of Review Committee
- (iii) Consideration of milestones
- (iv) Agree on responsibility centres