

Accounting for Local Bodies
B.Com. Hons. in Accounting
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Short Descriptive Questions and Answers

1. State the procedure for issuing an Accounting Standard for Local Bodies?

Broadly, the following procedure is adopted for formulating Accounting Standards for Local Bodies:

1. Determine the broad areas in which Accounting Standards need to be formulated and the priority in regard to the selection thereof.
2. For the preparation of the Accounting Standards, the CASLB will be assisted by Study Groups constituted to consider specific subjects. In the formation of Study Groups, provision will be made for wide participation by various interest groups.
3. The draft of the proposed standard will normally include the following:
 - a. Objective of the Standard,
 - b. Scope of the Standard,
 - c. Definition of the terms used in the Standard,
 - d. Recognition and measurement principles, wherever applicable,
 - e. Deviations, if any, from the corresponding International Public Sector Accounting Standard (IPSAS), as an Appendix to the Standard.
4. The CASLB will consider the preliminary draft prepared by the Study Group and if any revision of the draft is required on the basis of deliberations, the CASLB will make the same or refer the same to the Study Group.
5. The procedure for issuance of an Interpretation on any Accounting Standard for Local Bodies will be the same as that for issuance of an Accounting Standard since the authority of an Interpretation is the same as that of Accounting Standard for Local Bodies to which it relates.
6. The CASLB will circulate the draft of the Accounting Standard/Accounting Standards Interpretation for Local Bodies to the Council members of the ICAI and the following specified bodies for their comments:
 - a. Comptroller and Auditor General of India (C&AG)
 - b. Ministry of Urban Development, Government of India
 - c. Controller General of Accounts
 - d. Ministry of Panchayati Raj, Government of India
 - e. National Institute of Urban Affairs
 - f. Directorates of Local Bodies of the State Governments
 - g. Directorates of Local Fund Audit Department of the State Government
 - h. Major Local Bodies
 - i. National Institute of Financial Management
 - j. Securities and Exchange Board of India

2. State the Scope Of AS for Local Bodies

- (i) The CASLB is developing a set of standards which will be based on the accrual basis of accounting. Efforts will be made to issue Accounting Standards for Local Bodies after giving due consideration to the provisions of the applicable customs, laws, usages and economic environment in India. Accounting Standards formulated by the CASLB do not override the statute/law that govern the issue of general purpose financial statements of a particular Local Body.
- (ii) The Accounting Standards for Local Bodies are intended to apply only to items which are material. Any limitations with regard to the applicability of a specific Accounting Standard will be made clear by the ICAI from time to time.
- (iii) The CASLB believes that the adoption of the Accounting Standards for Local Bodies, together with disclosure of compliance with them will lead to a significant improvement in the quality of general purpose financial reporting by Local Bodies. This, in turn, is likely to lead to better informed assessments of the resource allocation decisions, thereby increasing transparency and accountability.
- (iv) In the formulation of Accounting Standards for Local Bodies, the emphasis would be on laying down accounting principles and not detailed rules for application and implementation thereof.
- (v) The Standards formulated by the CASLB include paragraphs in bold italic type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. An individual standard should be read in the context of the objective stated in that standard and this Preface.
- (vi) The CASLB may consider any issue requiring interpretation on any Accounting Standard for Local Bodies. Interpretations will be issued under the authority of the Council. The authority of Interpretations is the same as that of the Accounting Standard to which it relates.

3. State the limitation of cash system and advantages of accrual system of Municipal Accounting?

Limitations to Cash-Based System Of Accounting

Cash accounting is an accounting method in which payment receipts are recorded during the period they are received, and expenses are recorded in the period in which they are actually paid. In other words, revenues and expenses are recorded when cash is received and paid, respectively. The Limitations to Cash-Based System Of Municipal Accounting are as follows:

1. A cash-based accounting report in the govt. financial sector does not furnish a complete picture of the government's liabilities, since accrued liabilities from unfunded projects like pensions and commitments have not been taken into consideration.
2. On cash-based statement, no information has been provided about the government's assets, nor any costs of holding the assets, their consumption or usage.
3. More seriously speaking, cash basis accounting method allows room for financial opportunism since taxes may be garnered in surplus during a given period of time and may be refunded at a later date, expenses may be under-reported by postponing payments and revenues through taxation of the upcoming years would be preempted with single payments and so on. Moreover, the liabilities can be budgeted outside provided the government agencies being independent bodies.
4. The Companies and other Acts don't consider this system.

5. There is no requirement to maintain the books of the assets and liabilities. So, if one doesn't take care of their assets, they might get misplaced or stolen.
6. There are chances of discrepancies as one can show more expenses and less income involving unfair trade practices.
7. Some lenders may require the accounts preparation as per the GAAP provisions and hence, would refuse to lend money.
8. If the municipality or corporation wants to approve Audited Financial Statements, the accounts prepared under the cash basis of accounting are not considered.

Benefits of Accrual Accounting

Accounting method that records revenues and expenses when they are incurred, regardless of when cash is exchanged. The term "accrual" refers to any individual entry recording revenue or expense in the absence of a cash transaction.

The benefits of accrual system of municipal accounting have been summarized below:

1. Transparency of financial position: The information about the overall financial position and current stockpile of assets and liabilities of a public sector entity or a government will be obtained through accrual basis reporting since this information is essential:
 - (a) To decide the reliability of financing the services they provide.
 - (b) To prove the accountability to the public for assets and liabilities management realized in the financial statements.
 - (c) To devise a plan for future financial requisites of asset maintenance and replenishment and to repay liabilities that exist and to manage the financial needs.
2. Managing cash position and financing requirements: On accrual basis accounting, the organizations need to maintain complete records of assets and liabilities. It helps in the management of assets such as better maintenance, replacing assets more appropriately, recognition and disposal of assets that are redundant and asset risk management in case of loss arising out of damage or theft. This will help the management of the entity to consider alternate means of handling costs and delivering services.
3. Consistency: Rendering consistent framework for the identification of existing potential liabilities on accrual basis accounting, it facilitates to recognize the financial obligations and the criteria for recognition of liabilities:
 - (a) Obliges the entity/government to accept and formulate a plan for the payment of the entire recognized liabilities.
 - (b) Gives information on the effect of existing liabilities on the resources for the future.
 - (c) Provides substantial input for government to access whether current services can be provided continuously and to what extent new services or schemes may be catered to.
4. Financial decision-making: The impact of financial decision-making on net assets/equity is the limelight of accrual method influencing the public sector units and government to make long-term fiscal decisions rather than relying upon cash reporting.
5. Accurate information on revenues and expenses: Accrual accounting portrays information about revenues and expenses to include transactions of money that has yet to be received and paid.
6. Cash flow and management: Detailed report on current cash flows, projected cash flows and cash flows related with debts and credits can be incurred on accrual basis accounting. Thus, it may guide to have more efficient cash management and may help them to prepare better cash budgets.
7. Easy planning: One process that will become easier with accrual basis accounting is

planning, especially that it allows you to account for all of your expenses and revenue within the right period.

4. Objectives and Scope of ASLB 1 (Presentation of Financial Statements)

Objectives

The objective of this Standard is to prescribe the manner in which general purpose financial statements should be presented to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. To achieve this objective, this Standard sets out overall considerations for the presentation of financial statements, guidance for their structure, and minimum requirements for the content of financial statements prepared under the accrual basis of accounting. The recognition, measurement, and disclosure of specific transactions and other events are dealt with in other Accounting Standards for Local Bodies (ASLBs).

Scope

1. This Standard should be applied to all general purpose financial statements prepared and presented under the accrual basis of accounting in accordance with Accounting Standard for Local Bodies (ASLBs).
2. General purpose financial statements are those intended to meet the needs of users who are not in a position to demand reports tailored to meet their particular information needs. Users of general purpose financial statements include various stakeholders, Governments and their agencies and the public. General purpose financial statements include those that are presented separately or within another public document such as an annual report. This Standard does not apply to condensed financial information.
3. This Standard applies equally to all entities and whether or not they need to prepare consolidated financial statements or separate financial statements, as defined in ASLB on 'Consolidated and Separate Financial Statements.
4. This Standard applies to the entities described as Local Bodies in the Preface to the Accounting Standards for Local Bodies.

5. Objectives and Scope of ASLB 3 (Accounting Policies, Changes in Accounting Estimates and Errors)

Objectives

1. The objective of this Standard is to prescribe the criteria for selecting and changing accounting policies, together with the (a) accounting treatment and disclosure of changes in accounting policies, (b) changes in accounting estimates, and (c) the corrections of errors. This Standard is intended to enhance the relevance and reliability of an entity's financial statements, and the comparability of those financial statements over time and with the financial statements of other entities.
2. Disclosure requirements for accounting policies, except those for changes in accounting policies, are set out in ASLB 1, 'Presentation of Financial Statements'

Scope

1. This Standard should be applied in selecting and applying accounting policies, and accounting for changes in accounting policies, changes in accounting estimates, and corrections of prior period errors.
2. This Standard applies to entities described as local bodies in the Preface to the Accounting Standards for Local Bodies³.

3. ASLB 3 specifically states that an entity should select and apply its accounting policies consistently for similar transactions, other events and conditions, unless an ASLB specifically requires or permits categorisation of items for which different policies may be appropriate. Existing AS 5 does not specifically requires accounting policies to be consistent for similar transactions, other events and conditions.

4. Certain additional definitions such as ‘change in accounting estimate’, ‘impracticable’, ‘prospective application and ‘retrospective application’ etc. have been provided in ASLB 3, whereas the same are not provided in the existing AS.

5. ASLB 3 requires that changes in accounting policies should be accounted for with retrospective effect subject to limited exceptions, viz., where it is impracticable to determine the period specific effects or the cumulative effect of applying a new accounting policy. On the other hand, the existing AS 5 does not specify how change in accounting policy should be accounted for.

6. Objectives and Scope of ASLB 12 (Inventories)

Objectives

The objective of this Standard is to prescribe the accounting treatment for inventories. A primary issue in accounting for inventories is the amount of cost to be recognised as an asset and carried forward until the related revenues are recognised. This Standard provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realisable value. It also provides guidance on the cost formulas that are used to assign costs to inventories

Scope

1. An entity that prepares and presents financial statements under the accrual basis of accounting should apply this Standard in accounting for all inventories except:

- (a) Work-in-progress arising under construction contracts, including directly related service contracts;
- (b) Shares, debentures, derivative contracts and, other financial instruments of similar nature held as stock-in-trade; and
- (c) Work-in-progress of services to be provided for no or nominal consideration directly in return from the recipients.

2. This Standard does not apply to the measurement of inventories held by producers of agricultural and forest products, and minerals and mineral products, to the extent that they are measured at net realisable value in accordance with well-established practices in those industries. When such inventories are measured at net realisable value, changes in that value are recognised in surplus or deficit in the period of the change.

3. This Standard applies to entities described as local bodies in the Preface to the Accounting Standards for Local Bodies.

4. This Standard provides that Government Business Enterprises should use IFRSs has been deleted as it is not relevant for ASLB 12, which is applicable to Local Bodies of India.

5. The inventories are measured at net realisable value at certain stages of production. This occurs, for example, (a) when agricultural crops have been harvested or minerals have been extracted and sale is assured under a forward contract or a government guarantee, or (b) when an active market exists and there is a negligible risk of failure to sell. These inventories are excluded only from the measurement requirements of this Standard.

7. Objectives and Scope of ASLB 24 (Presentation Of Budget Information In Financial statements)

Objectives

This Standard requires a comparison of budget amounts and the actual amounts arising from execution of the budget to be included in the financial statements of entities that are required to, or elect to, make publicly available their approved budget(s), and for which they are, therefore, held publicly accountable. This Standard also requires disclosure of an explanation of the reasons for material differences between the budget and actual amounts. Compliance with the requirements of this Standard will ensure that entities discharge their accountability obligations and enhance the transparency of their financial statements by demonstrating - (a) compliance with the approved budget(s) for which they are held publicly accountable and (b) where the budget(s) and the financial statements are prepared on the same basis, their financial performance in achieving the budgeted results.

Scope

1. An entity that prepares and presents financial statements under the accrual basis of accounting should apply this Standard.
2. This Standard applies to all entities that are described as the Local Bodies in the Preface to Accounting Standards for Local Bodies and are required or elect to make their approved budget(s) publicly available.
3. This Standard does not require approved budgets to be made publicly available, nor does it require that the financial statements disclose information about, or make comparisons with, approved budgets that are not made publicly available.
4. In some cases, approved budgets will be compiled to encompass all the activities controlled by a local body. In other cases, separate approved budgets may be required to be made publicly available for certain activities, groups of activities, or entities included in the financial statements of a local body. This may occur where, for example, financial statements of a local body encompass local body's agencies or programmes that have operational autonomy and prepare their own budgets. This Standard applies to all entities that present financial statements when approved budgets for the entity, or components thereof, are made publicly available.
5. Different terminologies have been used in ASLB 24 as compared to corresponding IPSAS 24, e.g., terms 'balance sheet', 'income and expenditure statement', 'governing body', 'revised budget' and 'service level benchmarks' have been used in place of 'statement of financial position', 'statement of financial performance', 'legislative body', 'final budget' and 'service achievements'.

8. State the disclosure criteria of ASLB 12

1. The financial statements should disclose:
 - (a) The accounting policies adopted in measuring inventories, including the cost formula used;
 - (b) The total carrying amount of inventories and the carrying amount in classifications appropriate to the entity;
 - (c) The carrying amount of inventories carried at fair value less costs to sell;
 - (d) The amount of inventories recognised as an expense during the period;
 - (e) The amount of any write-down of inventories recognised as an expense in the period;
 - (f) The amount of any reversal of any writedown that is recognised in the statement of income and expenditure in the period;

- (g) The circumstances or events that led to the reversal of a writedown of inventories; and
 - (h) The carrying amount of inventories pledged as security for liabilities
2. Information about the carrying amounts held in different classifications of inventories and the extent of the changes in these assets is useful to financial statement users. Common classifications of inventories are merchandise, production supplies, materials, work-in-progress, and finished goods. The inventories of a service provider may be described as work-in-progress.
3. ASLB 1 prescribes a format for surplus or deficit that results in amounts being disclosed other than the cost of inventories recognised as an expense during the period. Under this format, an entity presents an analysis of expenses using a classification based on the nature of expenses. In this case, the entity discloses the costs recognised as an expense for
- (a) raw materials and consumables,
 - (b) labour costs, and
 - (c) other costs, together with the amount of the net change in inventories for the period.
4. The ASLB 12 requires more disclosures as compared to existing AS 2

9. What are the Provisions of Internal Audit regarding Gram Panchayat, Panchayat Samiti and Zilla Parishad?

The objective of internal audit will be to assist the administration in the effective discharge of its responsibilities by furnishing it with objective analysis, appraisal, recommendations and pertinent comments.

The internal audit officer should be concerned with review of all operations of Zilla Parishad or Panchayat Samiti with special reference to the financial propriety in implementation of the plan and program and also to act as an aid to the administration by conducting management, operational and performance audit.

(1) The accounts of the funds of a Panchayat Samiti or a Zilla Parishad shall be organized, examined and audited periodically with regard to section 196A of the Act by the Samiti Accounts and Audit Officer and the Parishad Accounts and Audit Officer in respect of Panchayat Samiti and the Regional Accounts and Audit Officer in respect of Zilla Parishad within their respective jurisdiction at least once in every month.

(2) It shall be the duty of the Parishad Accounts and Audit Officer and the Samity Accounts and Audit Officer to visit the Panchayat Samiti and Gram Panchayats for the purpose of supervision of internal audit of accounts of the fund of the Panchayat Samiti and Gram Panchayats within their jurisdiction, process replies to the annual audit report and such other duties as may be assigned by order from time to time.

(3) It shall be the duty of the Regional Accounts and Audit Officer to supervise the accounting and audit of the Panchayat institutions in the division and process the reply to the annual audit report and such other duties as may be assigned by orders from time to time.

(4) The Executive Officer of the Zilla Parishad or the Panchayat Samity, as the case may be, shall produce or cause to produce before the Regional Accounts and Audit Officer or the Parishad Accounts and Audit Officer and or the Samiti Accounts and Audit Officer as the case may be, the Books of Accounts, Cash Book, Registers, cash, records and documents and all other directly and or indirectly connected papers in possession of the Zilla Parishad or the Panchayat Samiti, as the case may be.

(5) While conducting the periodical internal audit of accounts of the fund of the Zilla Parishad and Panchayat Samiti It shall be the duty of the Internal Audit Officer to ascertain or verify that -

- (a) the accounts have been kept and are presented in proper manner as the case may be prescribed in these rules and the Act;
- (b) the particular items of receipts and payments are stated in sufficient detail;
- (c) the payments are supported by relevant vouchers incurred against proper authority;
- (d) all sums received under section 179 or 132 of the Act, as the case may be, have been properly brought into account and entered in the respective Cash Book;
- (e) the receipts and payments in all cases are authorized under the Act and the rules;
- (f) the total unpaid liabilities and whether that can be met out of the Zilla Parishad or Panchayat Samiti fund, as the case may be, when falling due;
- (g) the cash or imprest cash balance in the hands of the Drawing and Disbursing Officer and or imprest cash holder.
- (h) whether annual budget, supplementary or revised budget has been passed in the special meetings of the Zilla Parishad or the Panchayat Samiti, as the case may be, as required under the West Bengal Panchayat (Budget and Appropriation of funds) Rules, 1996, and the expenditure and accounts thereof, are in conformity with the budget proposals;
- (i) head' wise fund analysis statement to ascertain, whereabouts of fund and bank and Treasury Reconciliation Statement;
- (j) fund position showing opening balance, receipts, payments and closing balance of the appropriation registers;
- (k) whether there is any fund lying unspent for more than one year. If so, details of such fund, purpose of the fund and the reasons for delay in spending such fund shall be obtained;
- (l) the register of cheques, drafts etc. to ascertain details of receipt and payment and of unencashed cheques;
- (m) the maintenance of appropriation register (s) in the prescribed form;
- (n) the ledger accounts in respect of each head of account;
- (o) examine the advance register to verify adjustment thereof and prepare a list of advances lying unadjusted for more than one year and steps taken for utilization and or recovery of such unadjusted advance;
- (p) different stock registers and ascertain the opening balance, receipt, issue and closing balance thereof;
- (q) stock register of receipt books and demand and collection register;
- (r) the asset registers of durable and remunerative assets and register of properties – both movable and immovable;
- (s) resolution books of Sthayee Samitis and general body of Zilla Parishad or Panchayat Samiti, as the case may be;
- (t) whether all works done and all purchases made through tender committees;
- (u) scheme registers of different types of schemes and projects duly undertaken by the Zilla Parishad or Panchayat Samiti.
- (v) utilization certificates with reference to appropriation registers and accounts of work done through scheme registers;
- (w) whether meetings of Panchayat Samiti, Samanway Samiti and Sthayee Samitis are held regularly as per the provision of the Act.;
- (x) whether all sorts of expenditure stand duly ratified in the Artha Sthayee Samiti of Zilla Parishad or Panchayat Samiti, as the case may be;
- (y) the actions taken on the earlier internal audit reports, if no action is taken, obtain the reasons thereof;
- (z) the actions taken on the audit reports of the statutory auditor appointed under section 186 of the Act;

(6) In order to assess the effectiveness of the various internal control system of different wings or cells of the Zilla Parishad or the Panchayat Samiti, Internal Audit Officer shall;

(a) undertake checks in detail to ascertain whether records and reports reflect the actual state of operations and their results;

(b) determine whether the controls are sufficient to safeguard, the assets of the Zilla Parishad or the Panchayat Samiti and to prevent fraud, misappropriation, embezzlement etc. and their proper accounts and record exist and are available for inspection;

(c) check whether the established administrative plan, policies and procedures of the Zilla Parishad or the Panchayat Samiti as expressed in the minutes of the policy making bodies and authorities, orders and other written instructions are complied with;

(d) undertake follow-up of the systems and procedures to verify that they are in effective operation and to detect unauthorized departure therefrom;

(e) scrutinize all rules and orders of the Zilla Parishad or the Panchayat Samiti having financial implication;

(f) scrutinize all major agreements relating to properties, works and revenues;

(g) arrange for physical verification of assets and properties e.g. stores, furniture, equipment, books, etc. at suitable intervals and physical verification of cash and stock where deemed necessary;

(h) extend all co-operations to statutory auditor in conducting audit of the accounts of the Zilla Parishad or the Panchayat Samiti.

Weblography:

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