Accounting for Local Bodies

B.Com. Hons. in Accounting
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Long Descriptive Questions and Answers

What are the main features of 73rd amendment of the constitution in 1992?

The passage of the Constitution (73rd Amendment) Act, 1992 marks a new era in the federal democratic set up of the country and provides constitutional status to the Panchayati Raj Institutions (PRIs).

The main features of the Act are:

Three tier Structure – Gram Panchayat, Intermediate Panchayat and Parishad:

o A three-tier structure provides uniformity in structure.
o Panchayats at the village level, intermediate level and district level.
o Two tier of panchayats in population not exceeding 20 lakhs,

Gram Sabha :

o A Gram Sabha constituted in each village.
o Exercising powers and functions as per state Act.
o It consists registered voters.

Composition of Panchayats :

o Direct election of a panchayat at three tiers.
o Chairpersons of the Gram Panchayats are the Ex-officio members at the intermediate level . o Chairpersons of the Gram Panchayats at the intermediate level are the Ex-officio members in the Panchayats at the district level.
o Association of MPs and MLAs
o All the members have the right to vote in the meetings.
o The Chairpersons at the intermediate and district levels elected indirectly by elected members.
o Direct election of the Chairpersons at the village level.

Reservation of Seats:

o Reservation for the SCs and STs at the three levels.
o The seats to be filled by direct election.
o One-third of the seats are reserved for SC or ST women.
o Not less than one-third membership has been reserved for women.
o Direct election in every panchayat and by rotation.
o Not less than one-third of offices of Chairpersons reserved for women by rotation.
o The offices of Chairpersons shall also be reserved for SCs and ST.

Tenure of Panchayats :

o A term of five years has been provided for every panchayats.
o It is dissolved earlier on specific grounds and in accordance with the state Act.
o Panchayat shall be completed before the expiry of its duration or before the expiration of a period of six months from the date of dissolution in the normal course.

Powers to impose taxes to the Panchayats :

o Empowered to authorize the panchayats to levy, collect and appropriate suitable local taxes. o Making grants-in-aid to the panchayats from the consolidated fund of the state.

o Panchayat discharge its functions smoothly with adequate finance at their disposal.

Audit of Accounts :

o The state Legislatures have been authorised to make provisions in respect of the maintenance of accounts by the Panchayati Raj bodies and the auditing of their accounts. **State Finance Commission**:

o State Finance Commission constituted at the State level.

o Review the financial position once in every five years.

o To recommend to the state the pattern of distribution of funds between the state and the Panchayati Raj bodies.

State Election Commission :

o Elections to the panchayats conducted regularly under the overall supervision of the State Election Commission.

o The Election Commission headed by a State Election Commissioner, who shall be appointed by the Governor.

Exemption of certain areas:

o Constitution Amendment Act have uniform application in the country.

o The following areas have been exempted from the operation of the Act because of the socio-cultural and administrative considerations:

- Scheduled areas listed under the V Schedule in the states of Andhra Pradesh, Bihar, Gujarat, Himachal Pradesh, Madhya Pradesh, Maharashtra, Orissa and Rajasthan.
- The states of Nagaland, Meghalaya and Mizoram.
- The hill areas of district of Darjeeling in the state of West Bengal for which Darjeeling Gorkha Hill Council exists.

o In conformity with provisions in the Constitution Amendment Act, an Act called the Provisions of Panchayats (Extension to the Scheduled Areas) Act, 1996 passed by the Government of India.

o Organization and functioning of Panchayats in the Scheduled Areas is different to that of Panchayats in the non- scheduled areas.

Functions :

o The Eleventh Scheduled of the Constitution places as many as 29 functions within the purview of the Panchayati Raj bodies.

Discuss the objectives and functions of the committee on Accounting Standards for local bodies.

The following are the objectives and functions of the CASLB:

(i) To conceive of and suggest areas in which Accounting Standards for Local Bodies need to be developed.

(ii) To formulate Accounting Standards for Local Bodies.

(iii) To examine how far International Public Sector Accounting Standards (IPSASs) prepared by the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) can be integrated into national Accounting Standards for Local Bodies envisaged in paragraph (ii) above and to integrate the same to the extent possible with a view to facilitate global harmonisation.

(iv) To review, at regular intervals, the Accounting Standards for Local Bodies from the point of view of acceptance or changed conditions, and, if necessary, revise the same.
(v) To provide, from time to time, interpretations and guidance on Accounting Standards for Local Bodies.
(vi) To respond to issues arising from implementation of Accounting Standards for Local Bodies.
(vii) To take adequate steps for propagation and dissemination of the requirements contained in the Accounting Standards for Local Bodies, including appropriately addressing the training issues, with a view to ensure effective implementation of the standards.
(viii) To take steps in facilitating improvement in accounting methodology and systems of Local Bodies, keeping abreast of the state of development of accounting systems in Local Bodies and to act as a forum to receive feedback from Local Bodies regarding problems faced by them in the adoption of accrual accounting and in application of the Accounting Standards.
(ix) To create awareness amongst various stakeholders such as end users and citizens about the benefits of the accounting reform process in Government and Local Bodies.
(x) To carry out such other work relating to Accounting Standards and other aspects of accounting and financial reporting by Local Bodies as may be entrusted to it by the Council.
(xi) To formulate comments on the drafts of Accounting Standards for governmental bodies issued by various authorities including International 5 Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC).
(xii) To perform such other functions as may be assigned by the Council such as, to provide support to Government(s) and regulators, e.g., the Technical Committee on Budget and Accounting Standards for ULBs constituted under the aegis of Ministry of Urban Development, in their endeavours towards various other aspects of financial reporting including preparation of asset registers, performance measurement, budgeting, costing, internal control and audit.

The main function of the CASLB is to formulate Accounting Standards for Local Bodies so that such standards may be established by the ICAI in India. While formulating the Accounting Standards, the CASLB will take into consideration the applicable laws, customs, usages and the economic environment prevailing in India.

The ICAI, being a full-fledged member of the International Federation of Accountants (IFAC), is expected, inter alia, to use its best endeavors to incorporate the requirements of International Public Sector Accounting Standards (IPSASs) issued by the International Public Sector Accounting Standards Board of IFAC into the national accounting requirements. Accordingly, while formulating the Accounting Standards, the CASLB will give due consideration to IPSASs, and try to integrate them, to the extent possible, in the light of the conditions and practices prevailing in India.

The Accounting Standards for Local Bodies are issued under the authority of the Council of the ICAI. The CASLB has also been entrusted with the responsibility of propagating the Accounting Standards and of persuading the concerned authorities to adopt them in the preparation and presentation of financial statements. The CASLB will provide interpretations and guidance on issues arising from Accounting Standards. The CASLB will also review the Accounting Standards at periodical intervals and, if necessary, revise the same.

Explain in brief ASLB 24 regarding presentation of budget information in financial statement.

Objective

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.

Presentation of a Comparison of Budget and Actual Amounts

Subject to the requirements of ASLB, an entity should present a comparison of the budget amounts for which it is held publicly accountable and actual amounts, either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with ASLBs. The comparison of budget and actual amounts should present separately for each level of governing body's oversight:

(a) The original and revised budget amounts;

(b) The actual amounts on a comparable basis; and

(c) By way of note disclosure, an explanation of material differences between the budget for which the entity is held publicly accountable and actual amounts.

Presentation and Disclosure

An entity should present a comparison of budget and actual amounts as additional budget columns in the primary financial statements only where the financial statements and the budget are prepared on a comparable basis.

Comparisons of budget and actual amounts may be presented in a separate financial statement, (Statement of Comparison of Budget and Actual Amounts or a similarly titled statement) included in the complete set of financial statements as specified in ASLB 1. Alternatively, where the financial statements and the budget are prepared on a comparable basis – that is, on the same basis of accounting for the same entity and same reporting period, and adopt the same classification structure – additional columns may be added to the existing primary financial statements presented in accordance with ASLBs. These additional columns will identify original and revised budget amounts and, if the entity so chooses, differences between the budget and actual amounts.

Changes from Original to Revised Budget

An entity should present an explanation of whether changes between the original and revised budget are a consequence of reallocations within the budget, or of other factors by way of note disclosure in the financial statements.

The revised budget includes all changes approved by the governing body or other designated authority to revise the original budget. Consistent with the requirements of this Standard, an entity will include in the notes to the financial statements, an explanation of changes between the original and revised budget. That explanation will include whether, for example, changes arise as a consequence of reallocations within the original budget parameters or as a consequence of other factors, such as changes in the overall budget parameters, including changes in government policy.

Multi-year Budgets

Some local bodies approve and make publicly available multi-year budgets, rather than separate annual budgets. Conventionally, multi-year budgets comprise a series of annual budgets or annual budget targets. The approved budget for each component annual period reflects the application of the budgetary policies associated with the multi-year budget for that component period. In some cases, the multi-year budget provides for a roll forward of unused appropriations in any single year.

Discuss the content of Balance Sheet & Income & Expenditure statement with respect to ASLB 1

ASLB-1 Standard requires particular disclosures on the face of the balance sheet (including statement of changes in equity annexed thereto), income and expenditure statement and requires disclosure of other line items either on the face of those statements or in the notes. This Standard sometimes uses the term disclosure in a broad sense, encompassing items presented on the face of the (a) balance sheet (including statement of changes in equity annexed thereto), (b) income and expenditure statement. Disclosures are also required by other ASLBs. Unless specified to the contrary elsewhere in this Standard, or in another ASLB, such disclosures are made either on the face of the balance sheet, income and expenditure statement (whichever is relevant), or in the notes.

<u>Information to be Presented on the Face of the Balance Sheet</u>

As a minimum, the face of the balance sheet should include line items that present the following amounts:

- (a) Property, plant and equipment;
- (b) Investment property;
- (c) Intangible assets;
- (d) Biological assets (i.e. living, plants and animals)
- (e) Investments accounted for using the equity method;
- (f) Other investments (excluding amounts shown under (e), (h), (i) and (j));
- (g) Inventories;
- (h) Recoverables from non-exchange transactions (taxes and transfers);
- (i) Receivables from exchange transactions;
- (j) Cash and cash equivalents;
- (k) Taxes and transfers payable;
- (l) Payables under exchange transactions;
- (m) Provisions;
- (n) liabilities (excluding amounts shown under (k), (l) and (m));
- (o) Minority interest, presented within equity; and
- (p) Equity/reserves and surplus attributable to owners of the controlling entity.

Additional line items, headings and sub-totals should be presented on the face of the balance sheet when such presentation is relevant to an understanding of the entity's financial position. The judgment on whether additional items are presented separately is based on an assessment of:

(a) The nature and liquidity of assets;
(b) The function of assets within the entity; and
(c) The amounts, nature and timing of liabilities.

An entity should disclose, either on the face of the balance sheet (including statement of changes in equity annexed thereto), or in the notes, further sub classifications of the line items presented, classified in a manner appropriate to the entity's operations.

Information to be Presented on the Face of the Income and Expenditure Statement

As a minimum, the face of the Income and expenditure statement should include line items that present the following amounts for the period:

(a) Revenue;
(b) Employee costs;
(c) Finance costs;
(d) Depreciation and amortisation;
(e) Other operating expenditure;
(f) Share of the surplus or deficit of associates and joint ventures accounted for using the equity method;
(g) Minority interest share of surplus or deficit; and
(h) Surplus or deficit.

The following items should be disclosed on the face of the income and expenditure statement as allocations of surplus or deficit for the period:

(a) Surplus or deficit attributable to minority interest; and
(b) Surplus or deficit attributable to owners of the controlling entity.

Additional line items, headings and subtotals should be presented on the face of the income and expenditure statement when such presentation is relevant to an understanding of the entity's financial performance.

When items of revenue and expense are material, their nature and amount should be disclosed separately.

Circumstances that would give rise to the separate disclosure of items of revenue and expense include:

(a) Write-downs of inventories to net realisable value or of property, plant and equipment to recoverable amount or recoverable service amount as appropriate, as well as reversals of such write-downs;
(b) Restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;
(c) Disposals of items of property, plant and equipment;
(d) Litigation settlements; and
(e) Other reversals of provisions

Give a brief note on presentation of true & fair view & compliance with ASLBs

Financial statements should present true and fair view of the financial position, financial performance and cash flows of an entity. True and fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses set out in ASLBs or the Conceptual Framework for General Purpose Financial Reporting by Local

Bodies[5]. The application of ASLBs, with additional disclosures when necessary, is presumed to result in financial statements that achieve presentation of true and fair view.
An entity whose financial statements comply with ASLBs should make an explicit and unreserved statement of such compliance in the notes. Financial statements should not be described as complying with ASLBs unless they comply with all the requirements of ASLBs.
In virtually all circumstances, a true and fair presentation is achieved by compliance with applicable ASLBs. Presentation of true and fair view also requires an entity:

(a) To select and apply accounting policies in accordance with the ASLB 3, 'Accounting Policies, Changes in Accounting Estimates and Errors' which sets out a hierarchy of authoritative guidance that management considers in the absence of a Standard that specifically applies to an item.

(b) To present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.

(c) To provide additional disclosures when compliance with the specific requirements in ASLB is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

Inappropriate accounting policies are not rectified either by disclosure of the accounting policies used, or by notes or explanatory material.
When an entity departs from a requirement of a Standard, it should disclose:

(a) That management has concluded that the financial statements present true and fair view of the entity's financial position, financial performance and cash flows;

(b) That it has complied with applicable ASLBs, except that it has departed from a particular requirement to achieve presentation of true and fair view;

(c) The title of the Standard from which the entity has departed, the nature of the departure, including the treatment that the Standard would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements set out in this Standard, and the treatment adopted; and

(d) For each period presented, the financial impact of the departure on each item in the financial statements that would have been reported in complying with the requirement.

In the extremely rare circumstances in which management concludes that compliance with a requirement in a Standard would be so misleading that it would conflict with the objective of financial statements set out in this Standard, but the relevant regulatory framework prohibits departure from the requirement, the entity should, to the maximum extent possible, reduce the perceived misleading aspects of compliance by disclosing:

(a) The title of the Standard in question, the nature of the requirement, and the reason why management has concluded that complying with that requirement is so misleading in the circumstances that it conflicts with the objective of financial statements set out in this Standard; and

(b) For each period presented, the adjustments to each item in the financial statements that management has concluded would be necessary to achieve presentation of true and fair view.

When assessing whether complying with a specific requirement in a Standard would be so misleading that it would conflict with the objective of financial statements set out in this Standard, management considers:

(a) Why the objective of financial statements is not achieved in the particular circumstances; and

(b) How the entity's circumstances differ from those of other entities that comply with the requirement. If other entities in similar circumstances comply with the requirement, there is a rebuttable presumption that the entity's compliance with the requirement would not be so misleading that it would conflict with the objective of the financial statements set out in this Standard.

Weblography:

https://www.panchayatgyan.gov.in/documents/
https://brainly.in/question/9198057
https://www.google.com/
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