UNIT 11 ACCOUNTING SYSTEM IN INDIA: CLASSIFICATION OF GOVERNMENT ACCOUNTS, ACCOUNTING SYSTEM IN INDIA, SCHEME OF DEPARTMENTALISATION OF ACCOUNTS*

Structure

11.0 OBJECTIVES

After going through this unit, you should be able to:

- Describe the classification of government accounts;
- Discuss the accounting system in India;
- Explain the scheme of departmentalisation of accounts; and
- Analyse the cash and accrual system of accounting and accounting standards.

11.1 INTRODUCTION

Accounting is one of the most effective tools for financial administration to keep a record of the transactions of government that facilitates proper planning and maintenance of investments, revenue, and expenditure. Accounting is a recording tool of financial transactions since ancient times as reflected from evidence from Mesopotamia, Egypt, Babylonia, Greece, and China. In ancient India, Kautilya had outlined accounting in detail in his book *Arthashastra.* It mentioned the procedures of appointment of Treasury officers, maintenance of accounts, frauds, etc. Around

[1] Contributed by Dr. Anupama Puri Mahajan, Former Post-Doctoral Research Fellow (Public Administration), Himachal Pradesh University, Shimla.

the medieval period, the accounting records were divided into military and civil accounts. The Britishers established a system of budgeting, cash accounting, double entry, accounting year, etc. Post-independence, several changes were introduced in the government accounting system.

Accounts are statement of facts relating to money. Accounting is a tool of management. It helps in providing data that facilitates plans, activities to be performed, expenditure incurred on various activities etc.

In this unit, we shall discuss the classification of government accounts, the accounting system in India, the scheme of departmentalisation of accounts and analyse the cash and accrual systems of accounting.

11.2 CLASSIFICATION OF GOVERNMENT ACCOUNTS

The Government of India shows the receipts and its distribution in three separate parts in its accounts. The accounts of government are classified in three parts according to the structure given below:

1. Consolidated Fund of India

2. Contingency Fund of India and

3. Public Account

1. Part 1: Consolidated Fund of India

All revenues received by the government by way of taxes such as Income Tax, Central Excise, Customs, and other receipts i.e., non-tax revenues are credited into the Consolidated Fund constituted under Article 266 (1) of the Constitution of India. Similarly, all loans raised by the government by issue of public notifications, treasury bills (internal debt) and loans obtained from foreign governments and international institutions (external debt) are credited into this fund. All expenditure of the government is incurred from this fund and no amount can be withdrawn from the fund without authorisation from the Parliament.

Divisions of Consolidated Fund

There are two main divisions of the Consolidated Fund explained briefly below:

The first division consists of two parts:

1. **Revenue Account:** Revenue Account is the account of:

   i) The current income of the government derived mainly from taxes and duties, fee for services rendered, fines and penalties, etc., and

   ii) The expenditure met from that income.

Capital, Public debt and loans: It includes receipts and expenditure heads of the capital account, public debt, loans, and advances.

The second division consists of three parts:

a) Capital: It is concerned with capital receipts.

b) Expenditure Heads: It covers expenditure usually from loans to create assets which are longing and stable in nature.

c) Public Debt, Loans, and Advances: It covers loans sanctioned and repayment of internal and external debt by the government.

2. Part II: Contingency Fund of India

Art 267(I) of the constitution provides that "Parliament may by law establish a Contingency Fund in the nature of an imprest to be entitled the Contingency Fund of India into which shall be paid from time to time such sums as may be determined by such law, and the said Fund shall be placed at the disposal of the President to enable advances to be made by him out of such Fund for the purposes of meeting unforeseen expenditure pending authorisation of such expenditure by Parliament by law under Article 115 or Article 116". Similarly,the legislature of a state may by law establish a contingency fund which shall be placed at the disposal of the Governor of the state.

3. Part III: Public Account

The Public Account is constituted under Article 266 (2) of the Constitution. It deals with the money received by the government i.e., state provident funds, deposits under national savings. The receipts under public account do not constitute normal receipts of government. The parliamentary authorisation for payments from the public account is therefore not required. These funds do not belong to the government. They have to be paid back to the rightful owners. The government acts as a banker in the transactions of public account. The receipts and disbursements, such as deposits, reserve funds, remittances, etc., which do not form a part of the 'Consolidated Fund' are included in the Public Account and are not subject to a vote by the legislature, as they are not moneys out of the Consolidated Fund.

Public Account: Public Account comprises 6 main divisions, namely:

i. Small Savings

ii. Reserve Fund

iii. Deposits and Advances

iv. Suspense and Miscellaneous

v. Remittances

vi. Cash Balance

11.3 ACCOUNTING SYSTEM IN INDIA

Government accounting refers to the manner in which the accounts are categorised, records are maintained and details all transactions of money received, spent, transferred and disposal of assets and liabilities are kept. The accounting system provides the data that is useful for decision making. Accounting is defined as the art of record keeping, categorisation and presenting the fiscal transactions and financial actions and interpreting their results. In simplest words, accounting may be defined as:

- the classification and recording of monetary transactions;

- the presentation and interpretation of the results of those transactions in order to assess performance over a period and the financial position at a given date;
- the monetary projection of future activities arising from the alternative planned courses of action.

The three aspects are recording, reporting, and forecasting(Mahajan Sanjeev and Anupama Puri Mahajan,2004).

The Secretary of each department is the Chief Accounting Authority for that Department. He/she is assisted in the discharge of the payment & accounting functions by the Additional Secretary & Financial Adviser.

The accounting organisation is common for all the departments and comprises a Principal Accounts Office, Nine Pay & Accounts Offices, and an Internal Audit Wing. The Chief Controller of Accounts is assisted by one Controller of Accounts, one Deputy Controller of Accounts, one Assistant Controller of Accounts and twelve Pay & Accounts Officers stationed at – New Delhi (6), Jaipur (1), Nagpur (1), Mumbai (2), Chennai (1), Kolkata (1).

The Pay & Accounts Office is the basic unit of departmentalised accounts organisation. Its main functions include:

1. Pre-audit and payment of all bills, including those of loans and grants-in-aid.
2. Compilation of monthly accounts of receipts and payments.
3. Maintenance of General Provident Fund accounts and authorisation of retirement benefits.

The Principal Accounts Office consolidates monthly accounts compiled by its various Pay & Accounts Offices.

Functions

All payments pertaining to the ministry are made through the Pay and Accounts Offices (PAOs). There are Drawing and Disbursing Officers (DDOs) under the Ministry presenting their claims/bills to the accredited Pay & Accounts Officer who issues cheques after exercising the necessary scrutiny. For operational convenience DDOs have been authorised cheque drawing powers to issue cheques basically for salary and contingencies.

Accounting Process

The PAOs are the field units where the accounting process first starts. The vouchers and the bank scrolls form the basis for compilation of accounts. The Cheque Drawing DDOs send weekly list of payments along with relevant vouchers to the PAO, which are also included by him/her in his/her accounts. The monthly accounts are prepared and submitted to the Principal Accounts Office. The Principal Accounts Office consolidates the monthly accounts received from all the PAOs and renders a consolidated monthly account for the entire ministry to the Controller General of Accounts.

The annual finance accounts and appropriation accounts are also prepared by the Principal Accounts Office. The Finance Accounts present classified and consolidated accounts of transactions of the Ministry under the Consolidated Fund, Contingency Fund, and the Public Account. Appropriation Accounts give grant-wise expenditure

against the corresponding provision approved by Parliament with explanations for variation. Both Finance Accounts and Appropriation Accounts are submitted to the Controller General of Accounts. They finally find a place in the Union Government's account prepared by the Controller General of Accounts (CGA)and laid before the Parliament along with the Audit Report of the Comptroller and Auditor General of India.

We shall be discussing the role of Controller General of Accounts in section 11.5 of this unit.

Check Your Progress Exercise 1

Note: i) Use the space below for your answers.

ii) Check your answers with those give at the end of the unit.

1) Describe the classification of the Consolidated Fund of India.

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2) Explain the following:

i) Contingency Fund of India ii) Public account

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3) Discuss the accounting system in Government of India.

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11.4 CASH AND ACCRUAL SYSTEMS OF ACCOUNTING IN INDIA

Cash Accounting: In this system of accounting, transactions are recorded when there is actual flow of cash. It records income when received and expenses in the period in which they are incurred. The whole focus is on cash management. Budgetary and legislative compliance is easier under this system.

Accrual Accounting: It is a system of accounting in which transactions are recorded in the books of accounts, when the transactions occur rather than when payment is received or made. The transactions are recognised as soon as a record to receive revenue and/or an obligation to pay a liability is created. The expenses are recognised when the resources are consumed, and incomes are shown when they are earned. Therefore, the focus is on recording the flow of resources i.e., labour, goods, services, and capital.

The Government of India follows cash accounting, but the Government Accounting Standards Advisory Board (GASAB) has been asked to prepare a roadmap for shifting to accrual system of accounting. Accrual accounting system enables better internal control, better quality information for decision making, a more complete and transparent view of the financial position of the government. The system enables a

more effective assessment of the performance and provides the necessary information for linking the input costs to outputs and outcomes required by the government.

11.5 SCHEME OF DEPARTMENTALISATION OF ACCOUNTS

The Departmentalised accounting system of the Government of India is called as the Scheme of Departmentalisation of accounts. The C&AG's (Duties, Powers and Conditions of Service) Act, 1971, states that from 1976, the C&AG of India has been relieved of the responsibility for compiling the accounts of the Union Government (Civil) in a phased manner. The Indian Civil Accounts organisation was set up in 1976 after the separation of the accounting and auditing functions in civil ministries of Government of India. Since 2001, the CAG does not compile the accounts of Central Civil Ministries/Departments and the Union Territories except the accounts pertaining to the Indian Audit and Accounts Department and the Union Territory Administrations of Chandigarh and Dadra and Nagar Haveli. The office of the Controller General of Accounts (CGA) is under the Department of Expenditure of the Ministry of Finance. Given below are the main features of the Scheme of Departmentalisation of Accounts:

1. **Organisation of the Controller General of Accounts:** The organisation of the CGA is under him/her in the Department of Expenditure (DOE) in the Ministry of Finance. The CGA has the responsibility for:
   - Establishing and maintaining a technically sound accounting system in the Departmentalised Accounts Offices;
   - Liase with the Budget division and the CAG in matters of accounting;
   - Issuing guidelines about payment functions of the civil ministries of the government and arrangements for the collection of receipts due to the government.
   - Issuing relevant inputs to the ministries on important aspects relating to accounting, financial reporting, internal audit, etc.
   - Consolidation of monthly civil accounts of the union government which have been submitted to him/her by various ministries/departments; and
   - Authenticate all orders and other instruments.
2. **Authority:** The Secretary of the Ministry/Department concerned will be the Chief Accounting Authority for the Ministry/Department.
3. **Principal Accounts Office:** A Principal Accounts Officer (PAO) heads the Principal Accounts Office to:
   (i) combine all the accounts of the ministry;
   (ii) make annual appropriation accounts of the demands for grants;
   (iii) disburse, loans and grants through the RBI to the state governments;
   (iv) write manuals with respect to any technical advice; and

(v) maintain appropriation audit registers.

4. **Pay and Account Offices:** The PAOs make payments pertaining to respective Ministries/Departments and in certain cases payments will be made by the departmental DDOs authorised to draw funds, by means of cheques drawn on the branches of RBI, SBI and its subsidiaries of the Public Sector Banks.

11.6 ACCOUNTING STANDARDS IN INDIA

The Indian Accounting Standards (Ind AS), as notified under section 133 of the Companies Act 2013, have been formulated keeping the Indian economic & legal environment in view and with a view to converge with International Financial Reporting Standards (IFRS), as issued by and copyright of which is held by the International Financial Reporting Standards (IFRS) Foundation. The mission of the Government Accounting Standards Advisory Board (GASAB) is to formulate and recommend **Indian Government Accounting Standards (IGASs)** for cash system of accounting.

The Comptroller and Auditor General of India (C&AG) constituted Government Accounting Standards Advisory Board (GASAB) with the support of Government of India through a notification dated 12th August, 2002. The decision to set-up GASAB was taken in the backdrop of the new priorities emerging in the Public Finance Management and to keep pace with international trends. The new priorities focus on good governance, fiscal prudence, efficiency & transparency in public spending.

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

Objectives of Accounting Standards

These are to:

1. Establish and improve standards of governmental accounting and financial reporting to enhance accountability mechanisms;
2. Formulate and propose standards that improve the usefulness of financial reports based on the needs of the financial report users;
3. Keep the standards in tune with the changing governmental environment;
4. Provide guidance on implementation of standards;
5. Consider significant areas of accounting and financial reporting that can be improved through the standard setting process; and
6. Improve the common understanding of the nature and purpose of information contained in financial reports.

Check Your Progress Exercise 2

Note: i) Use the space below for your answers.

ii) Check your answers with those given at the end of the unit.

1) Briefly discuss the cash and accrual accounting in the Government of India.

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2) Explain the scheme of departmentalisation of accounts in Government of India.

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3) What are the objectives of accounting standards in the government accounting?

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11.7 CONCLUSION

The accounting system in India over time has undergone lot of changes. The Government of India and its state governments use cash-based system of accounting. Their preparation is governed by the Government Accounting Rules, 1990 framed under the Article 150 of the Constitution of India. The accounts that are prepared by the authorities have to be certified by the Comptroller and Auditor General of India before submission to the President or the Governor of a State or the Administrator, as the case may be, which will be then laid before the Lok Sabha and the Rajya Sabha. The central government's banking business regarding the receipt, collection, payments, and remittances, are handled by the Reserve Bank of India (RBI) The RBI maintains separate accounts for various Ministries/Departments. The transactions of Railways, Posts, Telecommunications and Defence Department shall be distinguished from the central transactions. Each state government has a separate agreement with the RBI and the latter keeps separate accounts for them through the branches situated in their state. As discussed in the unit the office of Controller General Accounts (CGA) plays an important role in Indian accounting system. There are measures taken by GASAB to ensure proper accounting standards

11.8 GLOSSARY

Appropriation Accounts: These accounts relate to the money set aside for specific purpose during the financial year.

Finance Accounts: This shows the details of the receipts and expenditure for all the three accounts.

Government Accounting Standards Advisory Board (GASAB): It was constituted by the Comptroller and Auditor General of India through a notification dated 12th August 2002. It is a nodal advisory body in formulation and improving standards of government accounting, financial reporting and enhancing accountability mechanisms. It has representation from important accounting heads in government,

Ministry of Finance, Department of Posts, Finance Secretaries of states, RBI, and heads of premier accounting and research organisations.

11.9 REFERENCES

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11.10 ANSWERS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress Exercise 1

1) Your answer should include the following points:

- The Consolidated Fund of India has two divisions.
- The **First division** is revenue account which includes the current income of the government derived mainly from taxes,duties, fee for services rendered, fines and penalties etc., and expenditure met from that income.
- The other component incudes capital, public debt, and advances.
- The Second **division** consists of three parts a) Capital b) Expenditure heads c) Public debt, loans, and advances.

2) Your answer should include the following points:

- **Contingency Fund of India**: It is in the nature of an imprest created by the Parliament placed at the disposal of the President of India. Expenditure of unforeseen nature is met from this fund.
- **Public Account**: It includes small savings, Reserve Fund; deposits and advances, Suspense and Miscellaneous; Remittances; and Cash balance.

3) Your answer should include the following points:

- The Secretary of each department is the Chief Accounting authority for the department.

- The accounting organisation has a Principal Accounts office, Nine Pay and Accounts offices, and an Internal audit wing.
- The Pay and accounts office (PAO) is the basic unit of departmentalised accounts organisation.
- It is entrusted with payments pertaining to the ministries and the preparation of annual finance and appropriation accounts.
- These accounts are submitted to the Controller General of Accounts which are later placed before Parliament.

Check Your Progress Exercise 2

1) Your answer should include the following points:

- Cash accounting is the system of accounting where transactions are recorded when there is actual flow of cash. It records income when received and expenses in the period when they are incurred.
- Accrual accounting is a system of accounting in which transactions are recorded in the books of accounts, when the transactions occur rather than when the payment is received or made.

2) Your answer should include the following points:

- Setting up of Indian Civil Accounts organisation in 1976 for compiling the accounts of central civil ministries/ departments and the Union Territories (UTs) except the accounts pertaining to the Indian Audit and Accounts Department and the UT administration of Dadra and Nagar Haveli.
- CGA works in the Department of Expenditure in the Ministry of Finance.
- The Secretary of the Ministry/Department concerned is the Chief Accounting Authority.
- The Principal Accounts Office shall be headed by the Principal Accounts Officer (PAO) entrusted with accounting and related functions.
- The Pay and Accounts Offices (PAOs) shall make payments pertaining to respective ministries/departments.

3) Your answer should include the following points:

The objectives of Accounting Standards are to:

- Establish and enhance the standards of government accounting and financial reporting;
- Formulate and propose standards that improve the usefulness of financial reports;
- Keep the standards in tune with changing government environment;
- Provide guidance on implementation of standards;
- Consider areas of accounting and financial reporting for improvement;
- Improve common understanding of nature and purpose of information in financial reports.