

**Accounting and Classification of  
Grants-in-aid**

# Accounting and Classification of Grants-in-aid

*The Standard, which has been set in bold italic type, should be read in the context of the explanatory paragraphs in this Standard, which are in plain type and in the context of the “Preface to Indian Government Accounting Standards”. The Indian Government Accounting Standards are not intended to apply to immaterial items.*

## **Introduction**

1. Grants-in-aid are payments in the nature of assistance, donations or contributions made by one government to another government, body, institution or individual. Grants-in-aid are given for specified purpose of supporting an institution including construction of assets. The general principle of grants-in-aid is that it can be given to a person or a public body or an institution having a legal status of its own. Such grants-in-aid could be given in cash or in kind used by the recipient agencies towards meeting their operating as well as capital expenditure requirement.

2. Grants-in-aid are given by the Union Government to State Governments and by the State Governments to the Local Bodies discharging functions of local government under the Constitution. This is based on the system of governance in India, which follows three-tier pattern with the Union Government at the apex, the States in the middle and the Local Bodies (LBs) consisting of the Panchayati Raj Institutions (PRIs) and the Urban Local Bodies (ULBs) at the grass root level. Accounts of these three levels of Government are separate and consequently the assets and liabilities of each level of government are recorded separately. Grants-in-aid released by the Union Government to the State Governments are paid out of the Consolidated Fund of India as per Articles 275 and 282 of the Constitution. The Union Government releases grants-in-aid to the State/ Union Territory Government under Central Plan Schemes and Centrally Sponsored Schemes. Sometimes, the Union Government disburses funds to the State Governments in the nature of Pass-through Grants that are to be passed on to the Local Bodies. Funds are also released directly by the Union Government to District Rural Development Agencies (DRDAs) and other specialized agencies including Special Purpose Vehicles (SPVs) for carrying out rural development, rural employment, rural housing, other welfare schemes and other capital works schemes like construction of roads, etc.

3. The 73<sup>rd</sup> and 74<sup>th</sup> Constitutional Amendment Acts envisage a key role for the Panchayati Raj Institutions (PRIs) and the Urban Local Bodies (ULBs) in respect of various functions such as education, health, rural housing, drinking water, etc. The State Governments are required to devolve funds, functions and functionaries upon them for discharging these functions. The extent of devolution of financial resources to these bodies is to be determined by the State Finance Commissions. Such funds received by the Local Bodies from the State Governments as grants-in-aid are used for meeting their operating as well as capital expenditure requirements. The ownership of capital assets created by Local Bodies out of grants-in-aid received from the States Government lies with the Local Bodies themselves.

4. Apart from Grants-in-aid given to the State Governments, the Union Government gives substantial funds as Grants-in-aid to other agencies, bodies and institutions. Similarly, the State Governments also disburse Grants-in-aid to agencies, bodies and institutions such as

universities, hospitals, cooperative institutions and others. The grants so released are utilized by these agencies, bodies and institutions for creation of capital assets as well as for meeting day-to-day operating expenses.

## **Objective**

5. The objective of this Standard is to prescribe the principles for accounting and classification of Grants-in-aid in the Financial Statements of Government both as a grantor as well as a grantee. The Standard also aims to prescribe practical solutions to remove any difficulties experienced in adherence to the appropriate principles of accounting and classification of Grants-in-aid by way of appropriate disclosures in the Financial Statements of Government.

## **Scope**

*6. This Standard applies to the Union Government and the State Governments in accounting and classification of Grants-in-aid received or given by them. The Financial Statements should not be described as complying with this Standard unless they comply with all the requirements contained therein. This Standard encompasses cases of Pass-Through Grants mentioned in paragraph 2 above.*

## **Definitions**

*7. The following terms are used in this Standard with meaning specified, unless the context otherwise requires:*

*Accounting Authority is the authority which prepares the accounts of the Government.*

*Financial statements mean the Annual Finance Accounts of the respective Governments.*

*Grants-in-aid are payments, transfers or devolution of funds, in cash or in kind, in the nature of donations or contributions by one government (grantor) to another government, body, institution or individual (grantee).*

*Government means all departments and ministries of a Government taken together, whether of the Union Government or State Government or Union Territory Government with Legislature.*

*Local Bodies include Panchayati Raj Institutions and Urban Local Bodies under the provisions of Article 243 and Article 12 of the Constitution.*

*Pass-Through Grants means grants-in-aid given by the Union Government to the State Governments for transfer to an ultimate grantee.*

## **Recognition**

*8. Grants-in-aid in cash shall be recognised in the book of the grantor at the time cash disbursements take place. Grants-in-aid in cash shall be recognised in the book of the grantee at the time cash receipts take place.*

*9. Grants-in-aid in kind where value as paragraph 13 is available shall be recognized in the books of the grantor at the time of their receipt by the grantee. Grants-in-aid in kind where value as paragraph 13 is available shall be recognized in the books of the grantee at the time of their receipt by the grantee.*

## **Accounting and Classification**

*10. Grants-in-aid disbursed by a grantor to a grantee shall be classified and accounted for as revenue expenditure in the Financial Statements of the grantor irrespective of the purpose for which the funds disbursed as Grants-in-aid are to be spent by the grantee except in cases referred to in paragraph 14.*

*11. Grants-in-aid, that are in the nature of Pass-Through Grants, from the Union Government to the State Governments to be disbursed to ultimate grantee shall be classified and accounted for as revenue expenditure in the Financial Statements of both the Union Government and the State Governments irrespective of the purpose for which such grants are to be spent by the ultimate grantee except in cases referred to in paragraph 14.*

*12. Grants-in-aid received by a Government shall be classified and accounted for as revenue receipts in its Financial Statements irrespective of the purpose for which the funds received as grants-in-aid are proposed to be utilized.*

*13. Grants-in-aid in kind shall be valued or disclosed as per the following:*

*(a) Grants-in-aid in kind in the nature of consumables, or of value as given by the grantor of less than Rupees one crore must be disclosed in appropriate quantitative terms,*

*(b) Grants-in-aid in kind relating to natural calamities or emergency purpose must be disclosed in appropriate quantitative terms,*

*(c) In other cases, grants-in-aid in kind would be valued as per cost given by the grantor or market value, whichever is lower,*

*(d) Market value would be the value prevailing in the market and in the absence thereof the replacement cost of the same or similar assets of same age, condition and purpose,*

*(e) Cost given by the grantor for the purpose of clause (c) above will include any other costs incurred by the grantee for making the asset operational. This will include any transportation cost incurred to bring the asset to its present location.*

*14. Expenditure on Grants-in-aid for the purpose of creating assets shall not, except in cases specifically authorized by the President on the advice of the Comptroller and Auditor General of India, be debited to a capital head of account in the Financial Statements of the Government.*

15. Grants-in-aid are part of the operating expenditure of the grantor and thus classified and accounted for as revenue expenditure in the Financial Statements irrespective of its ultimate application by the grantee. This position holds true even in those cases where Grants-in-aid are utilized by the grantee for the purpose of creation of assets. Receipts of grants-in-aid are also required to be treated as revenue receipts in the Financial Statements of Government.

16. Grants-in-aid are also received in kind by various grantees in the form of equipment, stores or permanent assets like land. Normally, such grants-in-kind should be valued at

current market prices. However, in case of non-availability of market prices, cost incurred by grantor may be used as the basis of valuation. In some cases, the grantor and grantee may view the value differently. Such grants shall be accounted for at value indicated by paragraph 13 of this standard.

17. The Pass-Through Grants are normally given through an intermediate grantee for devolution to ultimate grantee. Such Grants-in-aid are also accounted for as revenue expenditure both in the books of grantor and the intermediate grantee as stated in paragraph 11.

## **Disclosure**

***18. Where grants-in-aid given is classified and accounted for as revenue expenditure by the grantor, the Financial Statements of the grantor shall disclose quantum of total funds released to the grantee(s) and funds allocated for creation of capital assets out of the Grants-in-aid released during the financial year in the format prescribed in paragraph 26 of this Standard.***

***19. Information regarding Grants-in-aid in the format prescribed in paragraph 26 shall be generated from the accounting records except for such grants as mentioned in paragraph 21 of this standard.***

***20. Exceptional cases specifically authorized by the President on the advice of the Comptroller and Auditor General of India, as referred to at paragraph 12 of this Standard, shall be disclosed by way of note to the format prescribed in paragraph 26.***

***21. Grants-in-aid in kind shall be disclosed in quantitative as paragraph 13 of this standard. Grants-in-aid in kind shall be disclosed in the financial statements of the grantor at the time of their receipt by the grantee. Grants-in-aid in kind shall be disclosed in the financial statements of the grantee at the time of their receipt by the grantee.***

22. The details required in paragraphs 18 and 19 shall be provided for by the accounting classification of receipt and payment of grants-in-aid through sub-classification below revenue head by distinguishing grants paid for operating expenditure from those paid for creation of capital assets. This would enable the accounting authorities to clearly identify quantum of funds released as grants-in-aid and meant to be utilized for meeting operating expenses and for creation of capital assets from accounting records itself.

23. Details of information required in paragraph 21 will be collected and compiled by respective departments/ministries of Government and consolidated for grantor (Government) by the concerned Accounting Authority for preparation of above disclosure format.

24. In order to ascertain the extent of Grants-in-aid disbursed by the grantor to the grantee for the purpose of creation of capital assets, the Financial Statements of the grantor shall disclose the details of total funds released as Grants-in-aid and funds allocated for creation of capital assets by the grantee during the financial year, in the form of an Appendix to the Financial Statements in the format prescribed in paragraph 23. This will enhance transparency and lead to improved disclosure of information in the Financial Statements of the grantor. Such disclosures shall also enable the users of Financial

Statements to assess the quantum of future capital formation activity to be undertaken by different grantees supported by funds from the Government.

### Effective Date

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

### Format for Disclosure

26. Suggested format is given below:

**Statement Containing Details<sup>(1)</sup> of Total Funds Released During the Year \_\_\_\_\_ as Grants-in-aid and Funds Allocated for Creation of Assets**

(Rupees in Lakhs)

Name/Category of the Grantee	Total Funds Released as Grants-in-aid			Funds Allocated for Creation of Assets Out of Total Funds Released Under Column No. (2)		
	(1)	(2)		(3)		
	Plan	Non-Plan	Total	Plan	Non-Plan	Total
State Government <sup>(2)</sup>						
Union Territories Government <sup>(2)</sup>						
Urban Local Bodies <sup>(3)</sup>						
Panchayati Raj Institutions <sup>(4)</sup>						
Public Sector Undertakings						
Non-Governmental Organisations (NGOs)						
Autonomous Bodies						
Co-operative Societies and Co-operative Institutions						
Statutory Bodies and Development Authorities						
Others						

- (1) Details of information required will be generated from the accounting records by providing appropriate sub-classification as 19 in this standard.
- (2) Applicable in case of the Union Government only.
- (3) Urban Local Bodies – This category will include Municipal Corporations, Municipalities, Notified Area Authorities and similar institutions, by whatever name called.
- (4) Panchayati Raj Institutions – This category will include entities like Zilla Parishads (District Panchayats), Block Panchayats and Gram Panchayats (Village Panchayats), by whatever name called.
- (5) Public Sector Undertakings – This category will include statutory corporation, Government Companies and other Joint Stock Companies.

**Note:**

- (a) **Value of grants given in kind shall be disclosed in the following format:-**

**Statement Containing Details of Total Value of Grants-in-aid in kind and Value of Grants-in-aid in kind being Capital Asset in Nature**

(Rupees in lakhs)

Name/Category of the Grantee	Total Value of Grants-in-aid in kind	Value of Grants-in-aid in kind being Capital Asset in Nature
(1)	(2)	(3)

**OR**

Name/Category of the Grantee	Disclosure of grants in aid in kind in quantitative terms <sup>(1)</sup>
(1)	(2)

- (1) Details of information required will be collected and compiled by respective departments/ministries of Government and consolidated for grantor (Government) by the concerned Accounting Authority for preparation of above disclosure format.