

**GUIDELINES
FOR PREPERATION
OF FINANCIAL
STATEMENTS
UNDER THE ACCRUAL
BASIS OF ACCOUNTING
FOR IAAD**

PRESENTATION OF FINANCIAL STATEMENTS UNDER THE ACCRUAL BASIS OF ACCOUNTING IN IAAD

1. Objective

The objective of this standard is to prescribe the manner in which financial statements should be prepared and also to ensure comparability with the entity's financial statements of previous period. To achieve this objective, this guidance sets out overall considerations for the presentation of financial statements, their structure, and minimum requirements for the content of financial statements prepared under the accrual basis of accounting.

2. Scope

This standard applies to all controlled entities come under the purview of C & AG of India (Controlling entity)

3. Definitions

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

Accounting policies are the specific principles, bases conventions, rules and practices adopted by an entity in preparing and presenting financial statements.

Accrual basis means a basis of accounting under which transactions and other events are recognized when they occur. It means the transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate. The elements recognized under accrual accounting are assets, liabilities, net assets/equity, revenue and expenses.

Actuarial value Actuarial value is a mathematical calculation, often of the financial condition of a pension plan. It includes the computation of the present monetary value of benefits payable to present employees, and the present monetary value of future employer and employee contributions, factoring in mortality among active and retired members and also to the rates of disability, retirement, withdrawal from service, salary and interest. It is the value of cash, investments, and other property belonging to a pension plan, as used by the actuary for the purpose of an actuarial valuation.

Assets are resources controlled by an entity

Cash comprises cash on hand and demand deposits.

Cash flows are inflows and outflows of cash.

Controlled entity is an entity that is under the control of another entity (known as the controlling entity) E.g., All field offices of IAAD

Controlling entity is an entity that has one or more controlled entities(O/o the C&AG of India)

Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrence of liabilities that result in decreases in net assets/equity.

Fair value is the amount for which an asset could be exchanged or a liability settled.

Heritage Assets are those assets which are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. (e.g., Historical buildings)

Liabilities are present obligations of the entity, the settlement of which is expected to result in an outflow of resources from the entity embodying economic benefits or service potential.

Net assets/equity is the residual interest in the assets of the entity after deducting all its liabilities. It may be positive or negative.

Net surplus/deficit is comprised of the following components:

- a) surplus or deficit from ordinary activities; and
- b) Extra-ordinary items.

Ordinary activities are any activities which are undertaken by an entity as part its service delivery or trading activities viz., Running of Departmental canteen.

Surplus/deficit from ordinary activities is the residual amount that remains after expenses arising from ordinary activities have been deducted from revenue arising from ordinary activities.

Segment is a distinguishable activity or group of activities of an entity for which it is appropriate to separately report financial information for the purpose of evaluating the entity's past performance in achieving its objectives and for making decisions about the future allocation of resources.

Reporting date means the date of the last day of the reporting period to which the financial statements relate i.e., 31.3.2010 for the financial period 2009 -10

Reporting currency is the currency used in presenting the financial statements. It is to be reported in thousands of rupees.

4. Purpose of Financial Statements

Financial statements are a structured representation of the financial position of and the transactions undertaken by an entity during the reporting period. They provide information about the sources and how the entity utilized their allocation etc. Generally, the financial statements provide information about an entity's;

- a) Assets;
- b) Liabilities;
- c) Net assets/equity;
- d) Revenue;
- e) Expenses; and
- f) Cash flows.

5. Responsibility for Financial Statements

The responsibility for the preparation of the financial statements of a field office rests with the head of an entity or Accountant General/Principal Accountant General

6. Components of Financial Statements

A complete set of financial statements includes the following components:

- (a) Statement of financial position or Balance sheet or statement of assets and liabilities
- (b) Statement of financial performance or Expenditure Statement of an entity for the reporting period
- (c) Segment Reporting
- (d) Accounting policies and Notes to the financial statements. The notes to the financial statements may also include “schedules”.

7. Guidelines for preparation and presentation of financial statements

7.1. Statement of Financial Position / Balance Sheet or Statement of Assets and Liabilities

The face of the statement of financial position should include the line items as detailed below are broad in nature. Each item may be sub-classified, when appropriate, by its nature. An entity should disclose, either on the face of the expenditure statement or in the notes to the statement of financial position, further sub-classifications of the line items presented, classified in the manner appropriate to the entity's operations, as set out in the guidelines.

7.1.1. Assets

Tangible Assets - Land & Buildings - The value of such property should be disclosed, and the method of valuation (cost, valuation or nominal) should be clearly stated. At the end of the financial period **the inventory value** at the beginning and end of the financial period of non-expendable equipment, furniture and motor vehicles should be disclosed and the method of valuation (cost or valuation) should be clearly stated in a note to the financial statements. Additions and

disposals made during the financial period should also be disclosed. Impairment reviews are undertaken for all assets at least annually. The costs incurred during construction which extend over more than one financial period should be accumulated and disclosed in a separate account. Separate disclosure should be made of the amounts and timing of commitments for acquisition of land or buildings

Intangible Assets – Software- These are stated at fair market value less accumulated amortization and any impairment losses. Amortization is provided over the estimated useful life using the straight line method at the rate of depreciation of 20%.

Method of valuation: Property (other than Land & Buildings) and Equipment are stated at fair market value cost less accumulated depreciation and any impairment losses.

Depreciation is provided for Property & Equipment over their estimated useful life using the straight line method (at the rate of 20%), except for land which is not subject to depreciation. In respect of the building, a nominal value based on the age of the building may be adopted as prescribed by the norms of Registration Department of the respective State Government.

Estimated useful life (years)

Tangible Assets	Useful life (years)
------------------------	----------------------------

Buildings Permanent	40
Buildings Temporary	5
Computer Equipment	5
Office Equipment	5
Office fixtures & fittings	5
Security & safety equipment	5
Telecommunication equipment	5
Motor Vehicles	5
Intangible Assets	
Software acquired externally	5
Internally developed software	5
Licenses, Rights and Copyrights on intangible assets	5

The following **Line Items** are to be reported in the Assets

7.1.1.1. Heritage Assets – The financial value increasing in nature to be reflected in the balance sheet has to be derived from a market price even if their physical condition deteriorates.

7.1.1.2. Land and Buildings – The total extent of land owned by the entity has been valued based on the guideline rates prescribed by the respective Government bodies, i.e., Rates prescribed by the Registration Department.

The value of the building may be arrived at considering the age of the building. In respect of the building aged more than 50 years, a nominal value of Rs.1/ per sqft may be adopted without providing any depreciation. In all other cases, the value of the building may be arrived at based on the guideline rates prescribed by the Government bodies after applying appropriate depreciation.

7.1.1.3. Furniture & Fittings – The value has to be arrived after applying depreciation over the asset's estimated useful life using straight line method of 20% depreciation.

7.1.1.4. Computers & related equipment - The value has to be arrived after applying depreciation over the asset's estimated useful life using straight line method of 20% depreciation.

7.1.1.5. Vehicles - The value has to be arrived after applying depreciation over the asset's estimated useful life using straight line method of 20% depreciation.

7.1.1.6. Advances made to staff – Advances to staff viz., Festival advance, MCA/Scooter/Cycle Advance, House Building Advance, Computer Advance, Fan Advance made during the reporting period recoverable in the form of equal monthly instalments are to be reflected in the balance sheet as assets.

7.1.1.7. Advances made to others – The Pre-paid credits available in the franking machine used for postage stamps are reflected against this item.

7.1.1.8. Cash balance & Deposits – The Cash in hand is to be shown.

7.1.1.9 Revenue Account – Opening Balance & Revenue for the current year to be added.

7.1.2. Liabilities

7.1.2.1 Capital Account – The consolidated figure of land and buildings, furniture and fittings, Computers and related equipments (after applying depreciation) has to be shown against this item in the balance sheet.

7.1.2.2. Capital Account – Reserves & Surplus Canteen – Some of the field offices may run Departmental canteen. Their accounts are generally prepared on profit and loss account basis. In such cases, Reserve and Surplus depicted in their annual accounts are shown against this item.

7.1.2.3. Pension Liability (Actuarial basis) – The anticipated average pension payable for office employees for the next 30 years has to be shown as pension liability. The average has to be worked out based on the pension paid to retired employees in the past three years.

7.1.2.4. Salaries and employees entitlements payable – Salaries and entitlements payable to employees pertaining to the month of

march every year (to be paid in April of next financial year) have to be shown as liability for the current financial year

7.1.2.5. Payable to others – The telephone & electricity charges related to march every year (to be paid in the month of April of next financial year) have to be shown against this item.

7.2. Statement of Financial performance or Expenditure Statement – Segment Reporting

The Expenditure statement should include comparative information of actual expenditure with the budgeted amounts as well as with the previous year actuals. This may be prepared by using a columnar format, with separate columns for budgeted amounts (Budget Estimate, FMA) and actual amounts for the current year and previous year, as shown in the **Appendix I**, in order to facilitate for making assessments of an entity's ability and also influence decisions about resources to be allocated to the entity in the future.

An entity should present an analysis of expenses using a classification based on either the nature of expenses or their functions within the entity, as appropriate Expenses are aggregated in the statement according to their nature, for example salaries, wages and depreciation, purchases of materials,

In respect of Audit offices viz. Civil Audit and Commercial & Receipt Audit Departments, the segment reporting may be prepared based on the types of audit being undertaken e.g., Scheme Review, Performance Audit, IT Audit, Excise audit, Expenditure audit etc or on the basis of areas of audit like Public works, Commercial, Civil, Revenue etc. The expenditure may be apportioned to each type of audit either based on the total mandays of audit or based on the number of audits performed during the year.

7.2.1. As a minimum, the face of the statement of financial performance should include line items which present the following amounts:

- Net Salaries = **(Salaries + Unpaid salaries – Prepaid Salaries – Previous year’s salaries)**
- Wages – Include Contract employees, Private Security charges & House keeping
- Honorarium
- Medical expenses towards employees
- Leave Travel Concession
- Net Travel Expenses **(Travel expenses + unpaid travel expenses – Travel advance and adjustment of previous year’s travel expenses)**
- Overtime Allowance
- Stationary include Local printing of forms
- Electricity and Water Charges include Hot & Cold weather charges
- Rent, Rates and Taxes
- Telephone, Telegram and Service Postage Stamps
- Publications include purchases of Books & periodicals in Hindi
- Repairs and other minor maintenance works to buildings – (Minor works)
- Grants-in-aid

- Professional Service charges include expenditure related to ISO certification, Legal Charges to Advocates.
- Depreciation
- Depreciation in Buildings
- Miscellaneous expenditure on computers and related equipment include AMCs, Purchase of Computer accessories / Consumables

- Revenue profit /revenue loss of Departmental canteen, if applicable
- Pension expenses
- Other miscellaneous expenses include Liveries of Group D, Repairs to furniture, Staff car/Two wheeler, Water Coolers, other office machineries & misc. office expenditure.
- Revenue expenses of office
- Revenue earned during the year
- Net Revenue expense transferred to Revenue Account
(Revenue expense – Revenue earned during the year)

7.3. Segment Reporting Details

The expenses associated with the main functions or classifications are further sub-classified and shown separately in the Segment Reporting – Details.

Entities classifying expenses should disclose additional supporting information viz., measurement basis (or bases), depreciation applied for items presented on the face of the financial statement in the order in which each line item is presented in this statement and as well as Notes to the financial statements in the form of detailed schedules.

7.3.1. Salaries and other entitlements of staff viz,: Honorarium, Medical expenses towards employees, Leave Travel Concession, Travel Expenses, Overtime Allowance may be apportioned among various groups of entity based on the men-in-position in each group. Expenses relate to Repairs and other minor maintenance works to buildings and other miscellaneous expenses may also be apportioned among various groups based on the same factor cited *ibid*.

7.3.2. Expenses relate to Stationary, Telephone, Telegram and Service Postage Stamps, Publications, Professional service charges and Grants-in-aid may be apportioned based on the availability of men-in-position in each group.

7.3.3. Expenses relate to Electricity and Water Charges, Rent, Rates and Taxes may be apportioned based on the area occupied by each group of the entity.

7.3.4. Wages paid to casual employees engaged towards security purposes and departmental canteen contract employees may be apportioned evenly among all groups.

7.3.5. The expenditure related to Computer and its related equipment may be apportioned based on the availability of number of PCs in each group.

7.3.6. Revenue profit and revenue loss of Departmental canteen - Departmental canteen exists in some of the field offices. Their accounts are generally prepared on profit and loss account basis. In such cases, Revenue profit and revenue loss of Departmental

canteen depicted in their annual accounts may be shown against this item.

7.3.7. Depreciation – Depreciation line item includes all tangible and intangible assets of an entity of the following categories. 20% Depreciation over their estimated life using the straight line method may be adopted.

- Buildings
- Electrical equipments
- Office equipments
- Furniture & fittings
- Electronic equipments
- Vehicle
- Computer & related items (including software)

7.3.8. Other Miscellaneous expense line item includes the expenses relate to the following sub-classifications.

- Liveries of Group D
- Repairs to Furniture
- Office Expenditure Miscellaneous
- Repair & Maintenance of staff car / 2 wheeler
- Repairs to Water Coolers
- Repairs to office machineries

7.3.9. Pension Expenses

- Take the three years (2007-08, 2008-09 and 2009-10) actual pension amount disbursed and the number of pensioners in an excel sheet.
- Highlight the three values and pull down for another 27 years which will work out the values in the geometric progression.
- Assess the average pensioners. 1400 has been determined in the example. Average the values calculated in 2 above to the determined number of pensioners , which will give the value per pensioner per year from which the value of the liability on pension can be calculated.

Or

- Take the value of the current expenses and use the net present value function available in the Excel sheet to calculate the value of pension liability for the next 30 years. The formula would be :

=NPV(8,0,D50)*30/1000

=NPV(8,0, 130487597)*30/1000.

8 is Discounted rate, 0 is the income which is nil and the third parameter is the current year expenses. 30 is expanded for another 30 years and divided by 1000 to have the values in '000 in the income and expenditure

7.4. Notes to the Accounts - (N)

Financial statements should include as **Note 1** a statement of the organization's objectives. Financial statements should include clear and concise disclosure of all significant accounting policies which have been used for proper understanding of the financial statements. These policies should be disclosed in **Note 2** to the financial statements, with cross-references as necessary to individual statements (Refer 7.3). The Notes to the Accounts may include Schedules which exhibits additional supportive information of line items..

The contents to be included in the notes to the Accounts are illustrated below for guidance.

7.4.1. Organization objectives – The entity named as 'O/o the Accountant General, State is headed by the Accountant General. The functions of the entity are:

....

.....

The entity is located at(361, Anna Salai, Teynampet, Chennai 600018) and its complement is approximately 1591 staff members.

7.4.2. Significant Accounting policies

- The financial statements of O/o the Accountant General.....have been prepared on the accrual basis of accounting in accordance with the International Public Sector Accounting Standards - (IPSAS)
- These are the first set of financial statements to be prepared on accrual basis of accounting. The following accounting policies have been adopted for the preparation of financial statements.
- Accounts are prepared annually
- Comparative information has been provided in the Statement of Financial Performance.
- Initial recognition of equipments purchased before 31st March 2009 at the cost of acquisition less accumulated depreciation, where the assets had more than 5 years remaining useful life.
- Financial statements are presented in thousands of rupees (Indian Rupees).
- Depreciation is provided for Property & Equipment over their estimated useful life using the straight line method (at the rate of 20%), except for land which is not subject to depreciation. In respect of the building, a nominal value based on the age of the building may be adopted as prescribed by the norms of Registration Department of the respective State Government.
- Cash and Cash equivalents are held at nominal value and comprise cash on hand
- Provisions are made for future liabilities viz., Pension Liability
- Impairment reviews are undertaken for all assets annually
- Post Employment Benefits – are defined benefit plans consisting Pension as well as Family pension to the retired employees. Contributory Pension Scheme introduced in the year 2004 for those employees who joined service on or after 1.1.0.2004. Provisions will be made after formulating accounting policies by the Controlling entity for CPS.
- Head of Department (Accountant General) of the entity is competent authority to write off losses and to make ex-gratia payments. During the Reporting period, no losses were written-off and no ex-gratia payments made.
- The reporting date is 31st March of the financial year.
- There are no contingent liabilities arising from legal actions and claims that are likely to result in a significant liability to this office.

7.4.3. An entity may also disclose sub-classifications and transactions of the line items presented in the financial statements (detailed in Para 7.3.) in the Notes to the Accounts with cross reference to the financial statement.

7.4.4. Schedules - (S)

Additional supporting information for items presented on the face of the financial statement may be provided in the form of Schedules with cross-reference to individual line item of financial statements (may be exhibited as S1,S2, S3 etc.) for the proper understanding of users. Specimen schedules prepared in the o/o the Accountant General may please refer to, for guidance.

7.4.4.1. Registers to be maintained electronically

To facilitate the preparation of financial statements including Schedules, Registers to be maintained electronically on annual basis for each of the individual line item as appropriate, in the following columnar format.

(E.g., Asset Register for both Tangible and Intangible)

Opening Balance

Additions during the reporting period

Total

Disposed

Depreciation

Closing Balance

7.5. APPENDIX I

Illustrative Financial structure in Excel Format

Take Print out of the following:

1. Statement of Financial Position
2. Statement of Financial Performance or Expenditure Statement
3. Segment Reporting
4. Schedules (1 -23)

NOTE: All the sheets have been individually closed with a password. Hence the cell having formula is locked. The sheet named details has cells in which the data has to be entered. These cells which are not locked will automatically take the data to the concerned sheet. The password for every sheet is "accrual". Where ever the data has to be entered the same is in unlocked position to automatically enter the data.