



ACCOUNTS DEPARTMENT  
ACCRUAL BASED ACCOUNTS SECTION

As per the orders of the Supreme Court of India the Council vide Resolution No 3(xii) dated 24.4.2002 approved for switching over from existing system of accounts i.e. single entry system to double entry system on accrual basis. Consequent upon orders of the Hon'ble Supreme Court of India, a Task Force was also constituted by Controller and Auditor General of India to recommend budget and accounting formats for Urban Local Bodies in India. The CAG task force issued a report on accounting and budget formats for ULBs'. Govt. of India accepted the task force report and forwarded the same to the State Govt. for implementation. The Council vide Reso. No.3(x) (D-4) dated 3.3.2003 approved for its adoption and implementation of recommended of the task force report in NDMC Accounting System.

The Council in the Resolution dated 24.4.02 also approved for appointment of consultants to assist NDMC in accomplishing the task of switching over to new system of account. Accordingly, the scope of work was finalized and the work was out-sourced and awarded to M/s.K.b.Chandna & Co. after approval of Council vide Reso.No.3 (D-21) dated 25.11.2003.

As per agreement the accounting firm, M/s K B Chandna & Co Have submitted the Annual Accounts of 2004-05 based on Double Entry System of Accounts on accruals

Short detail about submission of the accounts is as under:

The consultants after submitting the accounts also submitted a letter dated 20.4.2007, explaining reasons therein for delayed submission of accounts. The reasons submitted by the firm are justified to reasonable extent but same shall be suitably considered while releasing the payment to the firm. The reasons as highlighted in the letter are on following counts:

- 1 Delay in providing for complete infrastructure
- 2 Launching of National Municipal Accounts Manual by MOUD
- 3 Non admission of accounts submitted for the 1st quarter of 2004-05
- 4 Revision of Chart of Accounts from time to time
- 5 Inaccurate and slow response from various units for submission of data
- 6 Reduction in Infrastructure provided to the Consultants
- 7 Re-doing various items of works with respect to NMAM

The stipulated dates for submission of accounts and actual dates of submission of accounts are as under :

| Description of Item  | Stipulated date of submission | Actual date of submission |
|--|-------------------------------|---------------------------|
| Finalisation of the opening balance  | upto 30.9.2004                | 12.6.2007                 |
| Implementation report (I) (Balance sheet for the Period ending 30.6.2004   | upto 30.9.2004                | 30.3.2006                 |
| Implementation report(II) (Balance sheet upto 6 months i.e. upto 30.9.2004 | upto 31.12.04                 | 30.3.2006                 |
| Finalisation of Accounts for the year 2004-05                              | upto 30.06.2005               | 12.6.2007                 |

The para 6 of the agreement between M/s K B Chandna &Co and NDMC provides as under

*" Generate monthly accounts as well as annual accounts for the year 2004-05 on accrual system of accounting based on double entry by the firm. The actual work of writing a cash book and all other books for accounts including ledgers, preparation of bank reconciliation statement on the basis of single entry will*

*continue to be done by NDMC. However, the firm shall suggest modifications required for such type of work with respect to double entry system from time to time during execution for the work by the firm and it includes appropriate budgetary control system. Entry work related to the preparation of necessary records of double entry system of accounts shall be done by the accounting firm. The firm will submit the Implementation Report (I) on supervision and monitoring of implementation of new system up to 30.09.2004 {The Quarterly balance sheet is to be enclosed with the Report (I), and the Implementation Report II) on supervision and monitoring of implementation of new system upto 31.12.2004 {The balance sheet upto 6 months of the financial year i.e. upto 30.09.2004 is to be enclosed with Report II). The accrual system of accounting to be adopted by the firm will also provide procedure for regular updating of stores accounts and physical verification on annual basis. The accounts based on double entry for the year 2004-05 are also to be reconciled with that to single entry accounts for the corresponding period."}*

The firm submitted accounts for the first quarter of 2004-2005 i.e. April, 2004 to June 2004 on 27.4.2005 but these accounts were without opening balances and moreover were not considered suitable for NDMC because the accounts were compiled by recording entries from each voucher individually and they had no relativity to the accounts compiled on cash basis. Moreover the accounting ledgers prepared by the Consultants had no proper matching/similarity to the existing accounts, which were in the linear form and were depictive of all type of transactions related to Book Adjustments and cash payments. The matter was discussed in detail with the Consultants several time in various meetings by the then Director(A/c) and also the present Director(A/c) Finally it was decided to maintain the accounts in the existing form of linear ledger where each line represents a ledger in respect of transaction of that head of account and these accounts **should be based on the cash accounts of NDMC which were duly reconciled with working accounting units of NDMC and approved by NDMC.** It is pertinent to mention that agreement provides that original book of accounts including cash book is to be written by the Staff of NDMC. Accordingly the firm was asked to recast the accounts on the basis of accrued accounts by making provisions for accrual etc.

Based on the discussion the Consultants were provided the basic data of approved accounts and thereafter they worked on it to generate the accrual based accounts. As per agreement the Consultant required were to submit the quarterly balance sheet for the accounts of 2004-2005, but the Consultant submitted these quarterly balance sheets but without opening balances. These accounts were seen and discussed by the Financial Advisor so that the further accounts may be prepared after considering the suggestions. The basic reason for not including the opening balances was that the working units/division of NDMC did not provide the basic data to the Consultant even after repeated intervention and directions by the Chairperson. The data provided to the Consultant was not found correct or susceptible on verification. The data specifically related to fixed assets was got verified. In some cases it had to be recast. The verification of figures of current assets also took time as the departments were not in a position to provide consistent data required for preparation of accounts. As such there was no other alternative except to verify the data provided by the various working units of NDMC, by rechecking the same with reference to actual records.

Now, after completing the compilation of various records required for Double Entry Accounts and giving accrual effect to each transaction reflected in our cash related records, consultant Firm M/s.K.B.Chandna have submitted the financial statements of NDMC for the year 2004-05. These accounts were discussed in various meetings with the staff of Accounts Department and Financial Advisor. After discussing the suggestion/modifications, cleared by Financial Advisor, the firm has submitted the financial statements viz Balance Sheet as on 31.3.2005 and Income-Expenditure Statement for the year 2004-05 of the Council

*Countd.*



The detailed methodology used for preparation of accounts for double entry system on accruals is placed in the file at Flag 'M'. Various steps adopted are as under:

- 1 Finalisation of Chart of accounts for NDMC
- 2 Incorporating the new chart of accounts to the approved accounts.
- 3 Accrual of the expenditure pertaining to previous year i.e.2003-04
- 4 Adjustment of receipt on accrual bases
- 5 Accrual of income relating to previous years
- 6 Capturing of Opening assets i.e. fixed assets, current assets and current liabilities.
- 7 Prescribing new columns to insert accruals

The consolidated figures of accounts of 2004-2005 prepared on cash bases has been taken as the base for conversion of accounts to double entry system based on accrual. The compiled data was rearranged in groups to suit the requirement of mercantile accrual. After conciliation i.e. tallying the cash balance as per actual with the rearranged accounts, the Consultants incorporated the opening balances relevant to various head of accounts. These opening balances stands verified from the books of the working division either on the basis of opening of 1.4.2004 or closing balance of 31.3.2005 as reported and confirmed by the various working units. The working of NDMC is of complex nature where all the expenditures are incurred based on the approved budget provisions and no specific mention of the revenue/capital expenditure in respect of various head of accounts has been mentioned but the expenditure was incurred in respect of the various current assets and immovable assets. The accounts have been finalized after incorporating the opening balances and shifting of data to different schedules to give conventional basis for conversion of these accounts. The accrual in respect of expenditure incurred during 2005-2006 but pertaining to 2004-2005 have also been incorporated.

The accounts submitted by the Consultants include the following:-

1. Basic consolidated ledger for 2004-2005.
2. Balance sheet as on 31.3.2005
3. Income and Expenditure Accounts
4. Schedules to Balance Sheet
5. Schedules to Income and Expenditure Account.
6. Notes to Accounts.
7. Statement for assets/infrastructure assets.

Basic consolidated ledger for 2004-2005 (Flag'L') It has been prepared on the basis of existing accounts being maintained on cash basis where each line in statement of accounts represent ledger (in linear form) for a particular type of transaction for the respective head of account of the particulars accounting unit.

The accounting heads used for drawing up these Financial Statements and the underlying accounts, ledgers etc. are as per NMAM which were brought out in Feb 2005 as modified in NDMC

**Balance sheet:**

**Liabilities: Flag'B-1'**

Liabilities of NDMC are inclusive of New Delhi Municipal Reserve Fund & Surplus, grants, contribution for specific purposes, Loans, Current liabilities and provisions. **Total liabilities including the Reserves totaling Rs.1566,47,67,549,79 have been worked out at Rs.28,34,26,59,20,83.**

**Assets Flag 'B-2'**

This statement includes fixed assets of NDMC (accounted for nominal value of Rs.1 for each block of asset) capital work in progress, current assets, including stock in hand, sundry debtors, cash and bank balances.

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**Total Assets have been worked out at Rs.28,34,26,59,207.83**

**The above includes the following :**

Fixed assets (including land, Buildings, Roads and Bridges, Sewerage and drainage, vehicles etc) taken at nominal value of Re 1 per block Rs2,51,22,174.11  
Capital Work in Progress Rs99,66,18,279.03 and Investment in banks 2107,80,00,000.00

**Schedules to Balance Sheets-**

These schedules are the details of balances incorporated in the balance sheet. The figures in the schedules have been grouped as per nature of the transaction and also as described in the NMAM and NDMC Accounts Manual. The sub group included in the schedule are mainly as per new chart of account. Schedule No. 01 to B-22 have been assigned to various categories of transaction have been assigned as per guidelines of the Manual. The schedule No. B 1 to B-10 represent the transaction pertinent to various liabilities of the New Delhi Municipal Council and B 11 to B-20 represent the various types of assets held by NDMC.

**Income & Expenditure Statement:- 'I'**

It comprises of details of Income category-wise i.e. Tax revenue, Assigned Revenue, Rental Income, Fee and User Charges, Sale and hire charges, Revenue Grants, Income from Internet and other income.

The receipts from deposit works, as mentioned in budget of NDMC, has been excluded from the Income expenditure account. The amount of demands raised i.e. bills issued., in respect of Property Tax, Electricity Water charges, Licence fee in respect of Commercial Shops, Buildings, Parking Lots etc. have been taken as the income and the amounts received, as shown in the budget estimates has been taken as the amounts receivables. Similarly income from investment also includes amounts accrued but not due for realization. The interest received during the year and shown in budget estimates of 2004-05 has been bifurcated to the prior period receivables and receivable for the current year i.e. 2004-2005.

**Total Income on accrual Basis has been worked out to Rs.1097,55,47,515.59**

The expenditure as per Income & Expenditure account has been categorized as Establishment Expenses, Administrative Expenses, Operation and Maintenance, Interest and Finance charges, Programme Expenses Revenue Grants, Provision & Write Off, Misc.Expenses Depreciation.

As per accrual accounts the expenditure incurred on works in progress has been excluded from the expenditure statement as mentioned in the budget of NDMC and has been included in the balance sheet as assets under Capital-Work in Progress. The amount pertaining to transfer to various depreciation funds has been excluded from the Expenditure Account of cash basis. This amount is shown as expenditure in the Budget Estimates of NDMC. However, this amount has been shown as transfer to Reserve Funds/Segments after working out gross surplus of income over expenditure.

A sum of Rs.134,79,00,000 has been shown as expenditure for provisions towards doubtful receivable for Property Tax, E/Water Charges, Licence Fee, Fee for Parking Lots. A sum of Rs.26,82,309.00 has been charged to expenditure as depreciations on Plant & Machinery, Vehicles, Office Equipments, Furniture and other fixed assets.

**After considering the above items of Income and Expenditure the Gross surplus of income over expenditure has been worked out to Rs.369,21,87,428.54. A sum of Rs.261,17,43,862.84 has been transferred from the gross profit to**



various reserve funds/earmarked funds and the net surplus carried over to Municipal Fund has been worked out to Rs.108,04,43,565.70

**Schedule to Income/Expenditure Account. Flag 'K'**

The details of income and expenditure accounts has been maintained in various schedules named as schedules to income/expenditure. These schedules contain the consolidated amount under various types of income/expenditure and are based on the figures grouped in consolidated ledger.

These schedules are as mentioned in accounts manual being drafted for NDMC. The schedule I-1 to I-9 represent various types of income where as I-10 to I-19 represent the expenditure and I-28 represents the transfer to various reserve funds/segments.

**Significant Accounting Polices** These are the policies which are to be followed by NDMC while preparing the Accounts/financial Statements.

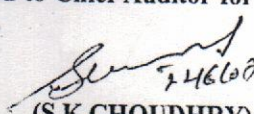
Notes to Accounts:- Contains the specific disclosures of transactions where the accounting policies could not be carried on.

**Statement of Fixed Assets/Infrastructure Assets:-** These are the details of assets under moveable-immovable category and has been compiled as per following type of Assets:-

|       |                             |
|-------|-----------------------------|
| FA-1  | LAND                        |
| FA-2  | BUILD UP PROPERTY           |
| FA-3  | VEHICLES                    |
| FA-4  | ROADS                       |
| FA-5  | LAMPOST & LUMINARY FITTINGS |
| FA-6  | DUSTBIN & DHALLAOS          |
| FA-7  | DRAINS                      |
| FA-8  | SEWERAGE & LAVATORY BLOCKS  |
| FA-9  | PUBLIC TOILET               |
| FA-10 | FURNITURE & FITTINGS        |
| FA-11 | PLANT & MACHINERY           |
| FA-12 | TRANSFORMERS & SWITCHGEARS  |
| FA-13 | ELECTRICAL CABLES           |
| FA-14 | BRIDGES & CULVERTS          |
| FA-15 | TRESS & PLANTS              |

The cash based accounts have already been approved by the Chairperson and audited by the Chief Auditors.

The First Ever Accrual based Financial Statements of NDMC along with the underlying accounts ledgers for the year 2004-05 including Balance sheet of NDMC as on 31.03.2005 are submitted for considerations and approval of the Chairperson so that accounts may, thereafter, be submitted to Chief Auditor for further necessary action as mentioned in NDMC Act, 1994.

  
(S.K. CHOUDHRY)  
Sr.A.O.(ABAS)


Jt.C.A.O. (T)

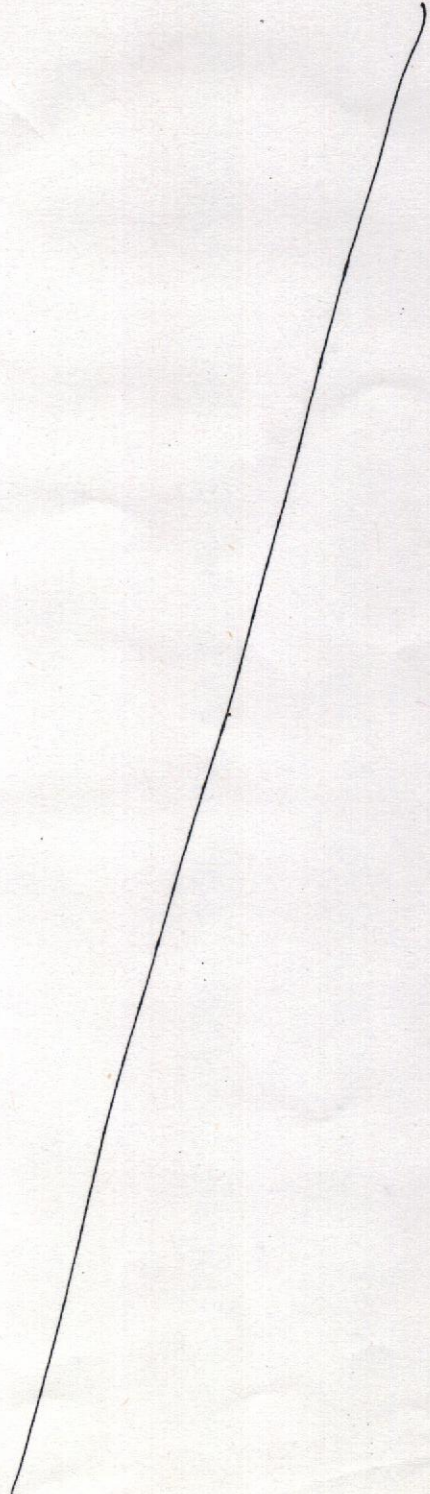
  
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As per detailed Note from Page 1 - S/N,  
we may seek the approval on Financial  
Statements for the year 2004-05 including  
Balance Sheets which are based on Accrual  
Based Accounting.

F.A  
Chairman

  
22.6.07



The first concrete results of our project for accounting reform in NDMC involving switch over from cash based accounting to accrual accounting on double entry basis, are now being presented in the shape of Financial Statement for the year 2004-05, along with Schedules indicating subsidiary details for each accounting figure reflected in the Financial Statements, the accounting policy and principles followed note on accounts indicating deviation from the stated policies & principles as well as qualifications to accounting presentations as well as the facts and transactions which have been kept outside the financial statement/accounts. The Financial Statement broadly include the Balance Sheet of NDMC as on 31<sup>st</sup> march 2005 and Income Expenditure statement for the year 2004-05. The Receipt and Payment Account and the Cash Flow Statements for the year 2004-05 have not been prepared at this stage as the cash based account available for 2004-05 on single entry basis substantively reflect the overall position of both these statements even as categorization of transactions may not correspond to classification of heads of account as per double entry account book keeping. These statements will be added in due course.

The contents of each statement have been explained in more detail by the senior AO, ABAS in his 5 page minute above. Broadly the position shown by the accounts for the year 2004-05 is as under:-

- a) *The total value of assets of NDMC as on 31<sup>st</sup> March, 2005 was 2834,26,59,209-83 (Rs.2834.27 Crores) (This reflects mostly the fixed deposits with Scheduled Banks along with interest accrued thereon)*
- b) *The above, however, includes various fixed assets amounting to Rs. 2,51,22,171.11 (Rs. 2.51 Crores) all fixed & other assets have been assigned a token value of Rs 1/- each till a fair basis of valuation is possible.*
- c) *Investments of Rs. 2107,80,00,000.00 (Rs. 2107.80 Crores)*
- d) *Work in-progress Rs. 99,66,18,279-03 (Rs. 99.66 Crores)*
- e) *Stock and stores .....Rs. 8,09,90,371-88 (Rs. 8.09 Crores)*
- f) *Other current assets Rs 624,29,187,59.69 (Rs.624.29 Crores) including cash balance currency and in bank (Rs 65.71 Crores)*

On the other hand the total liability of the Council as on 31.03.2005 was also Rs. 2834,26,59,209.83 (Rs. 2834.27 Crores) of which Rs 2747,64,98,590.32 (Rs.2747.64 Crores) are re-presented by the reserves (corresponding broadly to fixed assets and investments,) and the current liabilities including deposits held on behalf of contractors Rs. 82,03,65,590.32 (Rs. 82.03 Crores)

The detailed method of arriving at accrued accounting figures from the conventional record of Cash transaction has already been explained in the minutes of Sr.AO ABAS. However, to recapitulate, it basically involved two processes.

The first was to identify different transaction according to their nature and to categorize these as an asset, a liability, income or expenditure (whereas assets and liabilities go beyond a year income/expenditure are limited to a particular year).

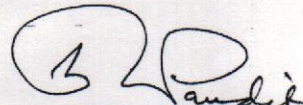
The second was to arrive at accrued value of transactions depending upon the fact whether or not, the cash against income assumed has been received and whether the cash against expenditure assume has been expended.

In most cases the cash in respect of transactions during the year would have been received or paid, against income and liabilities during the same year, thus having no specific impact of the figures reflected in the balance sheet and income expenditure statements. On the other hand transactions taking place in the initial and the last month of the financial year could have either spilled over from the previous year or would spill over into the next financial year, thus requiring to be recognized on accrual basis, even as no cash in flow or out flow has taken place against such transactions.

With this mile stone having been reached we are taking the first sure step towards a long journey of maintaining our account on accrual basis. This however, does not mean that the accounts framed are perfect in as much as the legacy assets have yet to be evaluated in a fair manner. At the same time some assets/liabilities income or expenditure may have escaped noticed and remained out of the accounts. But that does not detract from the value of these accounts as a true and fair presentation of the affairs of the Council for the relevant year. Therefore, the following aspects of this project will need further attention in the coming months.

- Re-verification of fixed assets, listed so far, their location and integration with a GIS data base.
- Addition to the list of assets that may have escaped notice during the current effort as and when a transaction in relation, thereto, arises.
- Valuation of fixed & other assets on a fair and Rational basis.
- Proper accounting of assets created through BOT mode and their valuation.
- More accurate computation of depreciation of fixed assets.
- Age wise classification of NDMC dues in arrears on account of tax as well as non-tax revenues and provisioning there against.

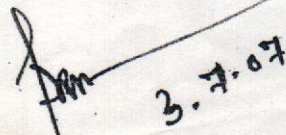
Chairman as the highest officer of the Council may kindly sign the financial statement in token of having accepted accounts. (This is a mandatory requirement). These accounts may then be forwarded to Chief Auditor for carrying out audit and certification of accounts on the basis of provisions in NMAM (page 11 of Chapter 32)

  
(BB PANDIT)

FA  
29.06.2007

~~CHAIRMAN~~

A good begining !!  
As proposed.

  
3.7.07

FA.