

**NATIONAL MUNICIPAL ACCOUNTING
TRAINING MANUAL FOR
ELECTED REPRESENTATIVES AND
TOP MANAGEMENT**



**Government of India
Ministry of Urban Development**

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PREFACE

The Ministry of Urban Development (MoUD), Government of India, has taken several initiatives to make urban local bodies self-sustaining viable entities of local-self government.

In pursuance of the recommendations of the Eleventh Finance Commission and *Guidelines for the Utilization of Local Bodies Grants* issued by Ministry of Finance, Department of Expenditure, Government of India, the Comptroller and Auditor General(C&AG) of India constituted a Task Force, to recommend *Accounting and Budget Formats for Urban Local Bodies* in India. The Task Force in its report, interalia, suggested adoption of accrual basis of accounting by ULBs.

To provide a generic framework of National Municipal Accounting and a simplified tool kit, the National Municipal Accounts Manual (NMAM) was developed, based on the Task Force Report. The C&AG facilitated the development of the NMAM, which was brought out by the MoUD with the objective of providing support to the State Governments in implementing financial management reforms in the ULBs. The NMAM is now followed by this model Training Manual that State Governments can customize to meet local requirements. The C&AG has overseen the development of this Training Manual. The Indo-USAID FIRE-D project and National Institute of Urban Affairs have supported the initiative.

Efficient and transparent financial management is a prerequisite for a well functioning city, enabling it to provide adequate civic services on a timely basis to its citizens. With a view to providing better financial management, improved governance, accountability, and transparency of management, MoUD aims at implementing municipal accounting reforms as a part of the mandatory reform agenda under the Jawaharlal Nehru National Urban Renewal Mission (JNNURM).

This model National Municipal Accounts Training Manual comprehensively deals with the recommendations of NMAM through modern training methodology. This manual is expected to strengthen the capacity of local governments through the introduction of improved financial management, budgeting, accounting and auditing practices. Since significant skill upgradation will be required to implement the financial management reforms in ULBs, this manual will support the ULBs in their endeavors in achieving the municipal accounting reforms agenda under the JNNURM.

The training manual is accompanied by a separate volume meant for elected representatives and top management of ULBs. The information provided will enable them use improved financial management, MIS, financial indicators, and techniques to read financial statements in their decision-making functions.

We hope this National Municipal Accounts Training Manual will facilitate and assist State Governments in developing State specific municipal accounts training manuals.

M. Ramachandran

Secretary

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Foreword

The 74th Constitutional Amendment has paved the way for emergence of Urban Local Bodies (ULBs) as constitutional entities empowered to provide improved governance and more effective delivery of civic services.

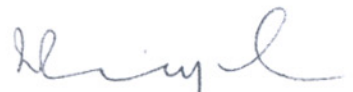
Recognising the importance of improved financial accounting and reporting in the context of growing responsibilities of ULBs, the Eleventh Finance Commission and the 'Guidelines for the Utilization of Local Bodies Grants' issued by Ministry of Finance, Department of Expenditure, Government of India recommended that the Comptroller and Auditor General(C&AG) of India would prescribe the Accounting and Budget Formats for ULBs. Accordingly, the C&AG facilitated the development of the National Municipal Accounts Manual (NMAM), which was brought out by the MOUD with the objective of aligning national level perspectives of reforms in municipal finance and financial management with that of the State Governments. The NMAM was to be followed by a model training manual that State Governments could then customize to meet local requirements.

This training manual is an acknowledgement of the fact that significant skill acquisition and upgradation is required in ULBs across the country in order to ensure a smooth transition to the accrual based system of accounting as envisaged in the NMAM. It reaffirms the importance of training and structured instructional techniques in helping organizations meet new challenges.

The training manual facilitates a greater appreciation of the philosophy, methods and practices as envisaged in the NMAM through practical exercises, elucidation of concepts and systematic cross referencing to relevant portions of the NMAM. This document also provides a carefully delineated structure for each session with training objectives, summaries and even an option of slides that the instructor could possibly use. With due customization to meet state and ULB specific requirements, the Manual will assume greater relevance and usefulness.

In a unique initiative, the training manual is accompanied by a separate volume meant for elected representatives and top management of ULBs to enable this crucial group gain a basic appreciation of the theory and practice of accrual accounts as outlined in the NMAM.

Over the past few years, as part of the mandate of Technical Guidance and Support (TGS), the C&AG has made significant strides in improving the accounting and auditing infrastructure in local bodies across the country through training. This training manual will also be a valuable addition to these efforts and will definitely enhance the skill levels in ULBs and Local Fund Audit across the country.



N.R.Rayalu

Deputy Comptroller & Auditor General

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- Office of the Comptroller & Audit General of India
- Ministry of Urban Development, Government of India
- All team members of A. F. Ferguson & Co.
- Several other experts who contributed to the preparation of this Manual



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CHAPTER I INTRODUCTION

Project Background

1.1 In pursuance of the recommendations of the Eleventh Finance Commission and Guidelines for the Utilization of Local Bodies Grants issued by Ministry of Finance, Department of Expenditure, Government of India, the Comptroller and Auditor General of India (CAG) was to prescribe the Accounting and Budget Formats for Urban Local Bodies (ULB). Accordingly, CAG constituted a Task Force, which submitted its report on Accounting and Budget Formats for ULB to the Ministry of Urban Development (MoUD). The report of the Task Force was accepted by the Government of India and forwarded to State Governments for implementation, keeping in view the local requirements.

1.2 In this context, MoUD organized a “National Workshop on Municipal Accounting Reforms”, wherein it was agreed that the CAG, with USAID FIRE-D support, would prepare model national municipal accounts manual and a companion model-training manual and common software for computerization of budget and accounts and these will be provided by the MoUD to the State Governments. Based on these, the State Governments can prepare state-level accounting manual, state-level training manual and adopt the software according to their requirements. Pursuant to these decisions, the CAG constituted a committee under the Chairmanship of the Deputy Comptroller & Auditor General (Local Bodies), to monitor and provide guidance for the development of the model-accounting manual, model-training manual and development of the accounting software.

1.3 Since the development of model training manual and the development of the accounting software were to be based on the model accounting manual, the aforesaid committee decided to proceed with the development of the model accounting manual on a priority basis. Now that the National Municipal Accounts Manual (NMAM) has been prepared and launched, the MoUD has decided to proceed with the development of a companion-training manual and accounting software.

National Municipal Accounts Manual

1.4 The NMAM contains the required forms, formats, procedures, accounting entries, periodical statements, reconciliation procedures, etc with respect to transactions of the ULB. The recommended principles for accounting have also been included.

Training Manual

1.5 This training manual is targeted at the Elected Representatives and the Top Management of the ULB. It gives an overview of the accounting system and also helps the reader in understanding the financial statements. The training manual opens with a brief introduction to the Accrual Based Double Entry System of Accounting including the Accounting Principles. An overview of the NMAM is given in Chapter 4 and Chapter 5 provides an understanding of the financial statements and Management Information System (MIS) reports.

1.6 The manual has been structured as follows:

- Chapter 1 – Introduction (this chapter)
- Chapter 2 – Urban Local Bodies in India
- Chapter 3 – Introduction to Accrual Based Double Entry System of Accounting
- Chapter 4 – Overview of National Municipal Accounts Manual
- Chapter 5– Understanding Financial Statements and
- Chapter 6 – Management Information System Reports

CHAPTER 2 URBAN LOCAL BODIES IN INDIA

Introduction

2.1 Local government institutions have always existed in India in one form or another since ancient times. The present form of urban local government owes its genesis to the British rule. The first municipal mechanism created during British rule was the Municipal Corporation introduced in Madras (Chennai) in 1688, which was followed by Municipal Corporations in Bombay (Mumbai) and Calcutta (Kolkata) by 1762. Subsequently, Lord Mayo's Resolution of 1870 called for the introduction of an elected President in the municipalities. The current form and structure of municipal bodies is based on Lord Ripon's Resolution on local self-government adopted in 1882. His Resolution of 18 May 1882 on local self-government dealt with the constitution of local bodies, their functions, finances and powers and laid the foundation of local self-government in modern India. Since then the structure of municipal bodies has essentially remained the same, even though the urban areas multiplied.

2.2 There are two types of local government: urban local government and rural local government. The Local government bodies are covered in the State List and are governed by the State Statutes or in the case of Union Territories by the Union Parliament.

2.3 Until 1992, the Indian Federation functioned as a two tier structure consisting of Centre and the States. The Seventy Third (for rural local bodies) and the Seventy Fourth (for urban local bodies) Amendments to the Constitution gave a formal recognition to the third tier – the local governments. Consequent to this Amendment, the States had to make necessary amendments to the legislation dealing with the local governments.

Present Scenario

2.4 Local Governments have now become an integral part of the National Government structure. The level of government that is closest to the citizens and in the best position, both to involve them in the decision making process for improving their living conditions and to make use of their knowledge and capabilities in the promotion of all round development.

2.5 The last few years saw many states delegating a significant number of functions to the local governments. This devolution of functions meant that the local governments have to strengthen their support processes and also look out for effective modes of financing the new functions.

2.6 The devolution of functions also called for proper assessment of the resources of the local governments. For this purpose, the aforesaid amendment recommended the formation of State Finance Commission (SFC) with a term of five years. The recommendations of SFC shall include amount of grants to the local governments, measures needed to improve the financial position of the Municipalities etc.

Way Forward

2.7 The rapid urbanization and the consequent growth in the functioning of local governments calls for excellent support systems. Strengthening and capacity building of the local government staff and the top management therefore assumes paramount importance. As one of the steps in that direction, this

training manual shall give an overview of the accounting system, an overview of the NMAM, understanding of financial statements etc.

CURRENT SYSTEM OF ACCOUNTING

2.8 The accounts of the ULB have traditionally been maintained on cash based single entry system of accounting. Some of the major implications have been

- Full picture of Assets & Liabilities are readily “not available” in one statement.
- Inadequate managerial attention e.g. on speedier collection of receivables due to lack of information or delayed information.
- Inadequate cash management. (several in operative bank accounts)
- Expenses not matched with revenues of the period making determination of surplus/deficit for the period a difficult task.
- Certain capital expenditures treated as revenue items e.g. roads, bridges, drainage etc.
- Did not present a “proper” picture of the financial health of the ULB.
- Inadequate managerial attention e.g. on movement of payables/liabilities
- Inadequate information on “to what extent, the assets of the ULB have been used up”

2.9 In view of the above and in terms of the recommendations of the CAG Task Force on Accounting Reforms for ULB and the NMAM released by the MOUD, Government of India, it has been decided to introduce Accrual Based Double Entry System at all ULB in India.

CHAPTER 3

INTRODUCTION TO ACCRUAL BASED DOUBLE ENTRY SYSTEM OF ACCOUNTING

“Accounting is an art of recording, classifying and summarizing in significant manner and in terms of money transactions and events which are, in part at least, of a financial character and interpreting the results thereof”.

3.1 Accounting is the principal technical process through which the spending allowed in a Municipal Budget is recorded and controlled. A good accounting system can provide confidence that Municipal resources are being used properly and assure the public that the funds have been spent in keeping with adopted budgets, with no misuse of public funds.

3.2 This chapter gives a bird’s eye view of the types of accounting system, the current accounting system at the ULB and the basic accounting principles.

TYPES OF ACCOUNTING SYSTEM

3.3 Accounting Systems are broadly classified into two types – Accrual and Cash Basis. Cash basis of accounting refers to the system of accounting where the transactions are accounted based on the actual cash receipts and cash payments. In an Accrual based accounting system, the revenues and expenses are identified with specific periods of time, such as month or year, and are recorded as earned or incurred, without regard to the date of receipt or payment of cash.

3.4 The Accounting Systems can also be classified based on the way transactions are recorded in the books of accounts as either single entry or double entry system of accounting. Every transaction has got a “two-fold” effect. Single Entry system captures only “one side” of a transaction whereas the double entry system of accounting captures “two fold” effect of each transaction.

Accrual Basis of Accounting

3.5 Accrual system of accounting means a method of recording financial transactions based on accrual, i.e., on occurrence of claims and obligations in respect of incomes or expenditures, assets or liabilities based on happening of any event, passage of time, rendering of services, fulfillment (partially or fully) of contracts, diminution in values, etc., even though actual receipts or payments of money may not have taken place.

3.6 In this system, there is a change in accounting for transactions and reporting the financial results so as to provide the ULB and the Government with the Financial Reports, in the form of two important financial statements for the purposes noted against each:

STATEMENT	PURPOSE
Income & Expenditure Statement	To determine the financial performance of the ULB
Balance Sheet	To assess the financial status of the ULB

3.7 Conversion to and Accrual Based Double Entry System of Accounting is one of the mandatory reforms envisaged under JNNURM / UIDSSMT. A well implemented accounting system will ensure transparency in budgeting and financial management systems for all municipal functions. The benefits of Accrual Based Double Entry system of Accounting is given in Exhibit 3.1.

Exhibit 3.1

Benefits of Accrual Based Double Entry System of Accounting

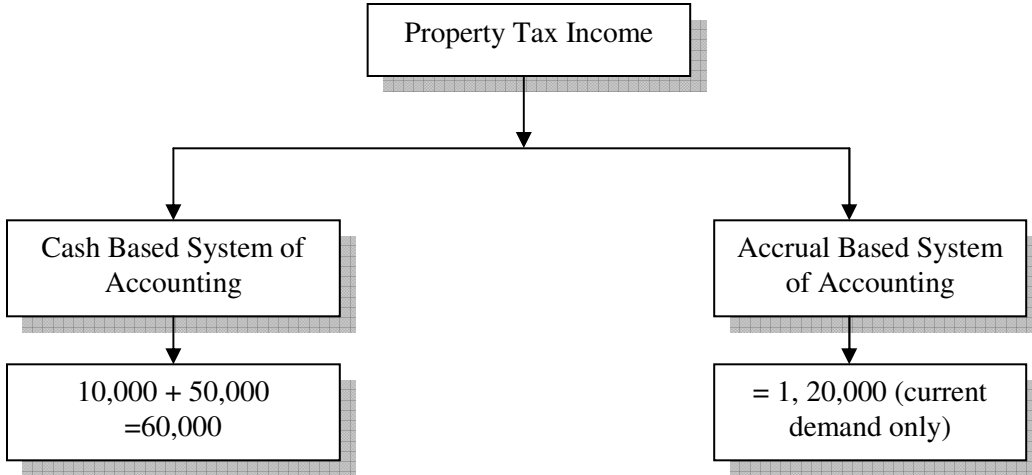
- ❖ Revenue is recognised as it is earned and thus “Income” constitutes both revenue received and receivable. The accrual basis not only records the actual income but also highlights the level and efficacy of revenue collection, thereby assisting decision makers in taking financial decisions.
- ❖ Expenditure is recognised as and when the liability for payment arises and thus it constitutes both amount paid and payable. In accrual basis of accounting, expenditure incurred on repairs and maintenance shall be recognised as expense of the period in which they are incurred and, if not paid for during the year, shall be treated as a liability (payable) and be disclosed as such in the Balance Sheet.
- ❖ Expenses are matched with the income earned in that year. Thus, it provides a very effective basis to understand the true performance of the organisation for the operations that is conducted in that year.
- ❖ A distinct difference is maintained between items of revenue nature and capital nature. This helps in proper presentation of financial statements, viz., the Income and Expenditure Statement and the Balance Sheet.
- ❖ Costs which are not charged to Income & Expenditure Account are carried forward and kept under continuous review. Any cost that appears to have lost its utility or its power to generate future revenue is written-off.
- ❖ The surplus or deficit as shown at the year-end represents the true financial performance of the organisation arising out of the various transactions during that year.
- ❖ Proper financial analysis and reporting is possible.
- ❖ The “full” cost of servicing is captured and thus helps in identifying financial viability of rendering services.
- ❖ Timely and right quality information for planning, decision-making and control at each level of management is made possible.
- ❖ Effective follow-up of receivables by the municipal body and proper ascertainment of payables by the municipal body is enabled.
- ❖ A true picture of the financial position of an organisation can be presented and that helps in better financial management.
- ❖ One of the distinct advantages of adopting accrual accounting system is ease in financial appraisals by financial institutions. It also facilitates credit rating through approved Credit Rating Agencies, which is a pre-requisite for mobilising funds in the financial markets through debt instruments.
- ❖ Better management of liabilities, which can further help in better planning for future years.

Illustration of Cash and Accrual Basis of Accounting

3.8 **Income from Property Tax:** (Details available from the demand and collection register for the year 2006-07)

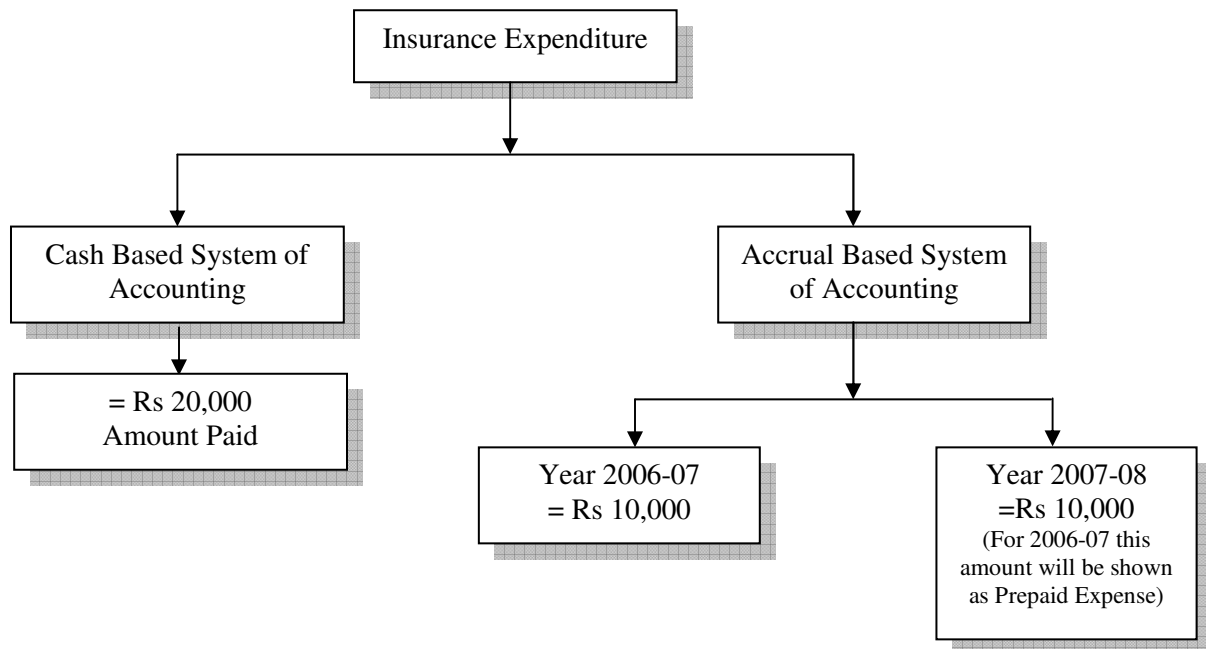
- Receivable (Pertaining to the previous year 2005-06) – Rs 40,000

- Receivable (Current year) – Rs 1,20,000
- Collection made during the current year
 - Rs 10,000 (Arrears)
 - Rs 50,000 (Current demand)



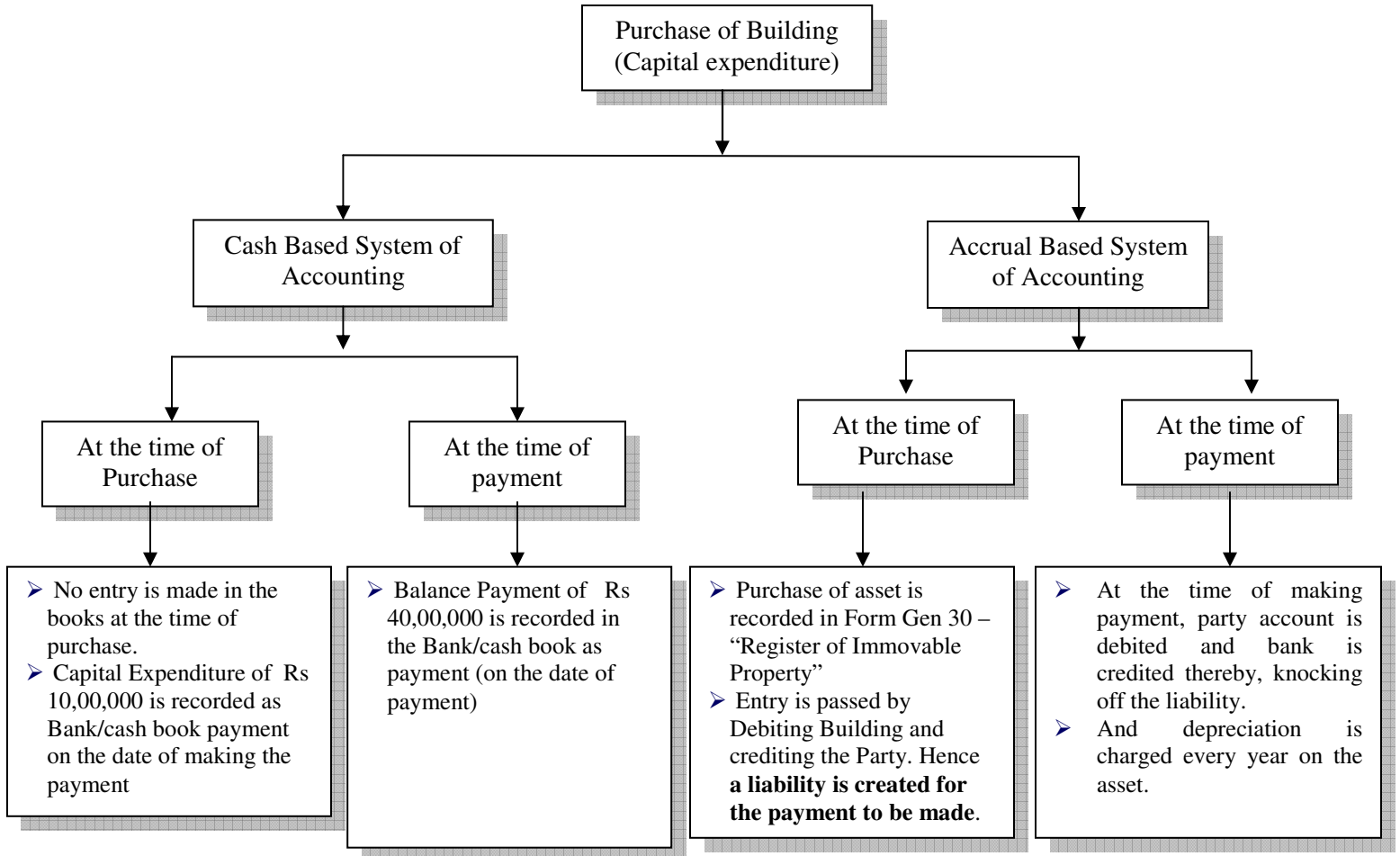
3.9 **Expenditures:** Expenditure relating to insurance premium for vehicles

- Insurance premium paid for the period from October 2006 to September 2007 amounts to Rs 20,000.
- This means expenditure for period October 2006 to March 2007 would be Rs 10,000 and from April 2007 to September 2007 is Rs 10,000.



3.10 **Capital Expenditure:**

- Building was acquired at a cost of Rs 50,00,000 from Mr 'X' on 25th September 2006.
- An upfront payment of Rs 10,00,000 for the same was made to the party on the same date and the balance was payable at the end of the year.



ACCOUNTING PRINCIPLES

3.11 Accounting Principles are the general principles and procedures under which the accounts of an individual organisation are maintained. An accounting principle is an adaptation or special application of a principle necessary to meet the peculiarities of an organisation or the needs of its management.

3.12 Accounting Principles are provided for all functional areas including

- Revenue - Property & other taxes, Grants etc.
- Expenses – Salaries, Repairs and Maintenance etc.
- Fixed Assets
- Investments
- Receivables including provisioning for receivables
- Loans Received

3.13 The Financial Statements of the Local Body shall contain a Statement of Significant Accounting Principles as notes to accounts in respect of important Accounting Principles adopted in preparing and presenting such information. These Accounting Principles shall be followed by the ULB consistently each year.

EXERCISE

1. Indicate the correct alternative in each of the following cases:
 - a. Under double entry system of accounting, income constitutes
 - i. Income received
 - ii. Income receivable
 - iii. Both
 - b. Under double entry system of accounting, expense constitutes
 - i. Amount paid
 - ii. Amount payable
 - iii. Both
 - c. Market value of investments is shown as a footnote according to:
 - i. Consistency concept
 - ii. Disclosure concept
 - iii. Conservatism concept
 - d. Provision for bad and doubtful debts is created in anticipation of actual bad debts on the basis of :
 - i. Conservatism concept
 - ii. Going concern concept
 - iii. Disclosure concept
 - e. The policy of 'anticipate no profit and provide for all possible losses', arises due to:
 - i. Conservatism concept
 - ii. Consistency concept.
 - iii. Materiality concept
 - iv. Disclosure concept
2. Explain with accounting entries as to how the following transaction would be accounted under cash based accounting and accrual based accounting system.
 - a. Property tax demand for the first half year of 2007-08 amounts to Rs.4,50,000.
 - b. Collections of Property tax made during the year – Rs 20,000 (arrears), Rs 30,000 (current year demand).
 - c. Expenditure relating to insurance premium on machinery amounting to Rs 10,000 for the period January 2007 to December 2007 was paid in the month of December 2006.
 - d. Salaries amounting to Rs 1,50,000 is payable for the month of September 2007.
 - e. A sum of Rs 10,00,000 is payable to supplier "Z" for supply of hardware stores.

CHAPTER 4

OVERVIEW OF NATIONAL MUNICIPAL ACCOUNTS MANUAL

INTRODUCTION

4.1 In terms of the Eleventh Finance Commission recommendations and the Guidelines for the utilization of Local Bodies Grants issued by the Ministry of Finance, Government of India, CAG constituted a Task Force to recommend budget and accounting formats for ULB. Accordingly, CAG of India constituted a Task Force, which submitted its report on Accounting and Budget Formats for ULB to the MOUD. The task force noted the urgent need for improved municipal accounting because it would serve as an effective management tool concerning ULB financial activities and financial position, promote more effective and timely decision making and facilitate greater accountability and transparency.

4.2 The key recommendations of the Task Force for the ULB in this regard are as follows:

- To introduce an accrual system of accounting;
- To implement improved accounting policies;
- To use model budgeting and accounting formats, including financial statements and cost sheets for each utility (i.e., water and sanitation, solid waste management, street lights, hospitals, schools); and
- To set up required management information systems.

4.3 With the objective of aligning the National Level perspectives of reforms in municipal finance and financial management with that of the State Governments, the MOUD launched the formulation of NMAM, based on the Task Force Report. The CAG has facilitated and overseen the development and Indo – USAID FIRE project and National Institute of Urban Affairs has supported the initiative.

4.4 The NMAM comprehensively details the accounting principles, procedures and guidelines designed to ensure correct, complete and timely recording of municipal transactions and produce accurate and relevant financial reports. The manual is to be adopted and followed by various State Governments while drafting their specific municipal accounts manual.

COVERAGE AND CONTENT

4.5 The manual has been structured as follows:

- Part I – General
- Part II – Accounting for transactions
- Part III – Period end procedures
- Part IV - Others

4.6 Part I focuses on the basic concepts, conventions on which accounting system is based. Accounting concepts are necessary assumptions, conditions and postulates which are developed to facilitate communication of accounting and financial information to all readers of the financial statements, so that all readers interpret the statements in the same meaning and context. This section also contains a

compilation of the Significant Accounting Principles to be followed in preparation of the accounts of the ULB. Recommendation on Chart of Account (COA) and Codifications structure to facilitate maintenance of accounts and preparation of financial statements is also provided in detail. A well defined COA not only fulfils accounting requirements but also the Budgeting and MIS requirements and also facilitates preparation of various reports. General procedures for making routine collections and payments along with the accounting entries to be passed are provided in this section.

4.7 Part II is broken down further in to revenues, expenditures, assets and liabilities. Accounting Principles governing the accounting for day today transaction of the ULB covering major revenues and expenditure like Property tax, Water supply charges, Octroi, Stores, Employee related expenses are discussed in this part. Further the principles to be followed for accounting of major balance sheet items like Fixed assets, Loans & Advance, Borrowings are also given.

4.8 Every chapter in this section covers the following aspects:

- Transaction brief and applicability
- Accounting Principles
- Procedure details
- Recommendations on books/registers to be maintained
- Forms and Formats for books of accounts
- Sample Accounting Entries
- Period-End Procedures
- Reconciliation Procedures
- Internal Control Procedures
- Formats for Periodical / Annual Financial Statements

4.9 Part III concentrates on the procedures to be followed to facilitate preparation of periodical accounts. The focus is on a daily, monthly, quarterly and annual procedure. The method of preparation of financial statement like Income & Expenditure, Balance Sheet, Cash flow, Receipt & payments account are provided in this part. The need and the method of preparation of various reconciliation statements like bank reconciliation, deposits reconciliation, receivables reconciliation, payables reconciliation etc are provided for user's guidance. The types of audit reports and its contents are provided to enable the ULB prepare for requirements of audit.

4.10 Part IV is on Budgeting and Management information reports which provides guidance to the users for preparation of various reports which is of interest to the top management and which will facilitate decision making. Guidelines for preparation of opening balance sheet which will enable smooth transition to Accrual Based Double Entry System of Accounting are also provided.

CODING STRUCTURE

CHART OF ACCOUNTS

4.11 COA defines the heads under which the income and expenditure of local bodies are classified and facilitates maintenance of accounts and preparation of financial statements. A well designed COA shall not only fulfill accounting requirements but also the Budgeting and MIS requirements and shall be flexible enough to consolidate and collapse to facilitate generation of various information reports. The structure suggested, have been developed based on the recommendations of Task Force Report with limited modifications to meet the above said requirements.

CODIFICATION STRUCTURE

4.12 The codification structure facilitates capture of all type of financial information within an ULB, which are essential in a government set-up. Each type of classification is considered as a group.

4.13 The mandatory groups for all local bodies are

- i. Functions
- ii. Account Heads

4.14 Optional Groups are

- i. Functionary (Responsibility center/department)
- ii. Field (Geographical center)
- iii. Funds

Functions

4.15 Functions shall represent the various functions or services carried out by the local body. Budgets in ULB are centered round its functions.

4.16 Functions of the ULB can have three levels within it.

- a. First level under this group represent various functions both obligatory and discretionary.
- b. Second Level in function would represent the particular type of service under a function, known as “Function Description” and
- c. Third level will represent a particular cost center, Known as “Cost Centre”, which provides the service.

4.17 The first level of functions/codes is mandatory for all ULB. All functions of the ULB are broadly classified under 10 major groups. Within this long listing of functions has been made. These functions are fitted within the group with each group having flexibility to go upto 9 sub functions. States can introduce two sub –levels of 2 digits each to suit their requirements.

Account Heads

4.18 Account heads shall represent the nature of the income or expenditure.

4.19 Accounting subjects can be divided into two levels: Primary and Secondary. Primary account code represents the subject of the income and expenditure.

4.2 **Primary Account Codes:** The Code of an Account head shall be numeric and shall be 7 digits. A 7 digit code is suggested to give flexibility to add new codes and for each State to define certain of its unique requirements. The code is structured into:

- Major Head Code :
- Minor Head Code; and
- Detailed Head Code.

Functionary (Responsibility center/department)

4.20 Functions are provided through various responsibility centres called departments.

4.21 In the government set-up, demands for expenditure are drawn by the department discharging the functions and become the responsibility center for the assigned functions. Functionary group represents

this. Each sub-level within this group typically can represent the organisational structure within the ULB. This level is used only for the internal control of the ULB. It is therefore not proposed to prescribe any codification structure for the same.

Field (Geographical center)

4.22 Geographical dispersion of these activities may also be monitored more so in the context of introduction of Ward committees and decentralisation. Hence, some ULB identify their income and expenditure budgets at function, functionary (department) and field level.

Funds

4.23 ULB set up various funds for meeting certain objectives. Income and expenditure under these funds are to be identified and disclosed separately. However the method of disclosure may be different. When they adopt the integral concept, separate books of accounts are not maintained for the funds. Identity is created by providing separate account heads to capture the income and expenditure for each such fund. In some states, separate books of accounts and financial statements are maintained considering it as a separate accounting entity. In such cases, the identity of the fund (entity) is required as an additional classification.

4.24 Each group can have various levels within it to drill down further information. The levels even in the mandatory groups can be either mandatory or optional based on the requirements. First level in function and Account Heads are mandatory for all ULB and other levels are left to the states to define. This would mean that all ULB would have to use the function codes and account codes as defined in NMAM only. For other levels each State can define the codes though some of them may be mandatory at the State level. Similarly for budgeting the functionary group would be mandatory though each State can define these heads based on its internal organisation structure. Similarly, States or cities, which have decentralised accounting zones/boroughs etc and prepares budgets at these levels, would have to use the field group as mandatory.

4.25 The coding logic for the above structure is summarized in Table 4.1.

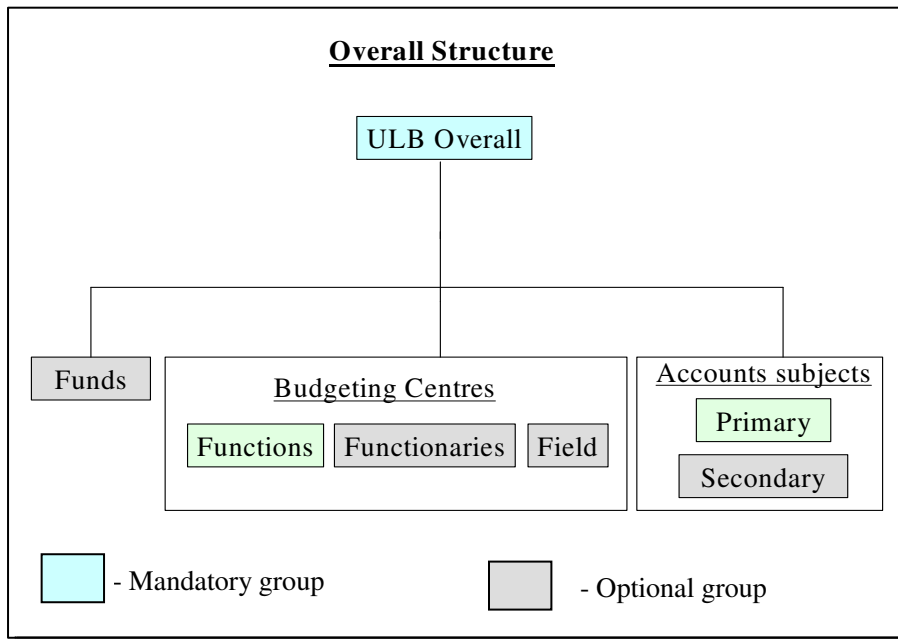
Table 4.1
Coding Structure

Component	Description of the Coding Structure	Coding Structure								
Fund	2 levels of 2 digits each - Used to capture activities/ group of activities for which separate books of accounts are required to be maintained. FUND Codes to be prescribed by the State Government.	<table border="1" style="display: inline-table; vertical-align: middle;"> <tr> <td>X</td><td>X</td> <td>X</td><td>X</td> </tr> </table>	X	X	X	X				
X	X	X	X							
Function	Can be up to 4 levels - Initial 2 levels of 2 digits to be as per the recommendations of the NMAM. The first level represents the function group, the second level the function and the 3 rd and 4 th levels of 2 digits each capture the Sub-Functions and Sub Sub-Functions. NMAM gives the list of functions up to the second level and the States shall have the discretion to add the 3 rd and the 4 th levels.	<table border="1" style="display: inline-table; vertical-align: middle;"> <tr> <td>X</td><td>X</td> <td>X</td><td>X</td> <td>X</td><td>X</td> <td>X</td><td>X</td> </tr> </table>	X	X	X	X	X	X	X	X
X	X	X	X	X	X	X	X			

Component	Description of the Coding Structure	Coding Structure
Functionary	NMAM does not recommend a coding logic for Functionary. Functionary code is created more for internal control purposes. The sub level in this code normally represents the organization structure of the ULB.	
Field	To be used to capture Zones and Electoral Wards. Coding Logic to be decided by State Government. Specific Codes to be assigned by each ULB as per their requirement, using the Coding Logic prescribed by the State Government.	X X X X X
Account Head Primary Account Code	This is of three levels; The First level of 3 digits represent the Major Head, the next level represents the Minor Head and the last level of two digits represent the Detailed Head.	X X X X X X X
Account Head Secondary Account Code	Used to capture Sub-Ledgers (Party-wise accounts). Left to the discretion of the ULB.	X X X X

4.26 An overview of the suggested structure for mandatory information and overall structure is provided in the Exhibit 4.1 given below.

Exhibit 4.1



4.27 Each of the two mandatory and the three optional categories can be placed in any sequence for the sake of MIS reports /Budget reports. These groups are mutually exclusive and can be operated individually or in a combined way.

4.28 In some local bodies, accounts are maintained in a decentralised set up. Each of the locations in which accounts are maintained is called Accounting Unit. For example in some big local bodies, accounts are maintained at Zones. In this case each Zone and the Head Office are called Accounting units. Each accounting unit will maintain accounts in the same way. All transactions are identified under the groups mentioned above at the Accounting Unit level. Then it is consolidated at Head Office level to present the information at the ULB level.

4.29 If the accounting unit is lower than that say circles, then accounts are prepared Circle wise and can be consolidated Zone wise as well at the ULB level. The same process can be continued at any lower level. The intention here is to facilitate decentralisation.

EXERCISE

1. The following transactions had taken place in your corporation during the year. You are required to identify the Function, Functionary for the following list of transactions.
 - a. Salaries paid to town planning staff (Permanent) amounted to Rs.12,50,000
 - b. Electricity charges of circle health office amounted to Rs.20,000.
 - c. Repairs of road amounted to Rs.15,00,000.
 - d. Depreciation on administrative building amounted to Rs.4,50,000.
 - e. Refund of excess property tax collected amounted to Rs.50,000
 - f. Security deposit paid to Electricity board for electrification of staff quarters amounted to Rs.2,00,000.
 - g. Advertisement tax collected at various counters amounted to Rs.8,00,000.
 - h. Rent from town hall amounted to Rs.1,50,000
 - i. Registration fee collected at Private Hospital & Paramedical Institutions amounted to Rs.11,50,000.
 - j. Collections of License fee for dangerous & offensive trades at counters amounted to Rs.17,00,000.
 - k. Collection of License fee at various counters under P.P.P Act amounted to Rs.7,50,000.
 - l. Collection of fees for construction of building amounted to Rs.2,50,000.
 - m. Collection of fines imposed by court under Prevention of Food adulteration Act amounted to Rs.75,000.
 - n. Collection of Bus stand fees at various counters amounted to Rs.1,25,000.
 - o. Road cutting charges collected for the month of September 2007 at various counter amounted to Rs.50,000.
 - p. Leave salary paid to Council section staff amounts Rs.50,000.
 - q. Salary paid to sanitary workers (temporary workers) of Municipal Health department amounted to Rs.5,00,000.
 - r. Travelling allowance paid to Chief engineer amounted to Rs.5,000.

CHAPTER 5

UNDERSTANDING FINANCIAL STATEMENTS

INTRODUCTION

5.1 Financial Statements refers to a balance sheet, income statement (income and expenditure), receipts & payment statement or any other supporting statement or other presentation of financial data derived from accounting records.

5.2 A typical set of financial statements will include

- Balance Sheet
- Income and Expenditure Statement
- Statement of Cash flows (a summary of an enterprise's cash flow over a given period of time)
- Receipts and Payments Account (detailed as per the account heads)
- Notes to Accounts and
- Financial Performance Indicators

5.3 This section discusses above components of the financial statements.

Balance Sheet

5.4 The ULB shall prepare a Balance Sheet at the end of each accounting period. The Balance Sheet is a statement, which reflects the financial position of the ULB as on a particular date.

5.5 The Balance Sheet is drawn up from the balances of those ledger accounts which remain open after the accounts relating to revenue and expenses have been closed by transfer to Income & Expenditure accounts.

5.6 The Balance Sheet may be regarded as a statement which sets out, on the one hand, the sources from which the funds of an ULB have been obtained and on the other, the ways in which these funds are used.

5.7 A Balance Sheet will broadly have the following components

- Assets that includes Fixed Assets, Investments, Cash and Bank Balances, Receivables, Advance to Employees etc.
- Liabilities shall include Loans taken by the ULB, Payables to Contactors / Suppliers, Government dues like TDS, Sales Tax etc.

5.8 Usefulness of preparing a Balance Sheet are:

- Provides a record of the assets (amount owned) and Liabilities (amount owed) by the ULB.
- Provides information on the categories in which various assets are being invested.
- Allows follow up and better management on the amounts receivable and payable by the ULB.
- Allows the financial strength of the ULB to be assessed, based on analysis of assets and liabilities;
- Allows comparability and analysis of financial position over different years.

5.9 A typical balance sheet is given in Exhibit 5.1.

Exhibit 5.1
Balance sheet of _____ as on _____

Code No	Description of items	Schedule No.	Current Year Amount	Previous Year Amount	What it Represents?
			(Rs.)	(Rs.)	
	<u>LIABILITIES</u>				
	Reserve & Surplus				
3-10	Municipal (General) Fund	B-1			Municipal fund, excess of income over expenditure
3-11	Earmarked Funds	B-2			Pension fund, gratuity, Provident fund etc
3-12	Reserves	B-3			Capital contribution, statutory reserve etc
	Total Reserves & Surplus				
3-20	Grants, Contributions for specific purposes	B-4			Grant from central & state government received for any specific purpose.
	Loans				
3-30	Secured Loans	B-5			Loan from central, state government, financial institutions, funding agencies etc
3-31	Unsecured Loans	B-6			Loan from central, state government, financial institutions, bonds, debentures, funding agencies etc
	Total Loans				
	Current Liabilities and Provisions				
3-40	Deposits Received	B-7			Deposits received from contractors, staff etc.
3-41	Deposit works	B-8			Deposits received for Civil works, electrical works etc
3-50	Other Liabilities (Sundry Creditors)	B-9			Creditors, employee liabilities, recoveries payables etc
3-60	Provisions	B-10			Provisions for expenses, etc

Code No	Description of items	Schedule No.	Current Year Amount	Previous Year Amount	What it Represents?
			(Rs.)	(Rs.)	
	Total Current Liabilities and Provisions				
	TOTAL LIABILITIES				
	<u>ASSETS</u>				
	Fixed Assets	B-11			Includes Land, Building, Plant & Machinery etc
4-10	Gross Block				The cost of acquisition
4-11	Less: Accumulated Depreciation				Accumulated depreciation on above assets
	Net Block				
4-12	Capital Work-in-Progress				
	Total Fixed Assets				
	Investments				
4-20	Investment – General Fund	B-12			Investment of general funds in central & state government securities, preference shares etc
4-21	Investments – Other Funds	B-13			Investment of non general funds in securities
	Total Investments				
	Current Assets, Loans and Advances				
4-30	Stock in Hand (Inventories)	B-14			Stores, tools etc
	Sundry Debtors (Receivables)				Property tax, user charges receivable
4-31	Gross amount outstanding	B-15			
4-32	Less: Accumulated provision against bad and doubtful Receivables				Provision made on doubtful receivables till the date of balance sheet
	<i>Net amount outstanding</i>				
4-40	Prepaid Expenses	B-16			Expenses actually paid in one period, the benefit of which is expected to be realized in future.
4-50	Cash and Bank Balances	B-17			Closing Balance of Cash and Bank
4-60	Loans, advances and deposits	B-18			Loans and advances to employees, provident fund loan, Advances to suppliers etc
4-61	Less: Accumulated provision against Loans				Provision made on doubtful advances till the balance sheet date
	<i>Net Amount outstanding</i>				

Code No	Description of items	Schedule No.	Current Year Amount	Previous Year Amount	What it Represents?
			(Rs.)	(Rs.)	
	Total Current Assets, Loans & Advances				
4-70	Other Assets	B-19			Deposits given etc
4-80	Miscellaneous Expenditure (to the extent not written off)	B-20			Loan issue expense deferred, discount on issue of loan
	TOTAL ASSETS				

Income and Expenditure

5.10 The Income and Expenditure Statement discloses the results of the working of the ULB during the period covered by the statement. It shows incomes and expenditures of the ULB for an accounting period and the excess of income over expenditure or vice-versa for that period.

5.11 Since the Financial Statements are prepared under accrual basis, the Income and Expenditure Statement shall include all the income earned during the year whether actually received or not and all the expenditure incurred whether actually paid or not.

5.12 The Income & Expenditure contains the following components

- Income – The tax revenue, non tax revenue, revenue grants, income from investments and any other income shall form part of this component.
- Expenditure – This component of Income & Expenditure Statement shall include revenue expenditures like Salaries, Administration Expenses, Maintenance expenses etc.
- Prior Period Items – This component shall include the income or expenditure relating to previous years.
- Transfer to Reserves – The ULB may be required to transfer a fixed portion of their surplus for any specific purpose prescribed by any legislation. The last component of the Income & Expenditure statement has these details.

5.13 Usefulness of preparing Income and Expenditure account

- The Income and Expenditure Statement discloses the results of the working of the ULB during the period covered by the statement.
- It helps to analyse the income pattern and contribution of difference source of income to the surplus (Excess of income over expenditure) of the ULB.
- Helps to analyse the expenditures incurred by the ULB thereby enabling the management to take better decisions.
- Allows comparability and analysis of performance of ULB over different years.
- Helps in financial analysis.

5.14 A typical Income & Expenditure Statement is given in Exhibit 5.2.

Exhibit 5.2
Income & Expenditure Statement for the period _____ to _____

Code No.	Item/ Head of Account	Schedule No	Current Year	Previous Year	What it Represents?
			Amount (Rs.)	Amount (Rs.)	
1	2	3	4	5	
	INCOME				
1-10	Tax Revenue	I-1			Property tax, Water tax, Octroi, Cess etc
1-20	Assigned Revenues & Compensation	I-2			Tax and duties shared by State/Central Government
1-30	Rental Income from Municipal Properties	I-3			Rental income from office buildings, guest house, amenities
1-40	Fees & User Charges	I-4			Empanelment charges, license fees, user charges
1-50	Sale & Hire Charges	I-5			Sale of products, forms & publications, stores & scraps etc.
1-60	Revenue Grants, Contributions & Subsidies	I-6			Revenue grant, reimbursement of expenses
1-70	Income from Investments	I-7			Interest on investment, dividend, profit on sale of investment
1-71	Interest Earned	I-8			Interest on bank account, interest on loans to employees
1-80	Other Income	I-9			Lapsed deposits, insurance claims recovery, profit on disposal of asset
A	Total – INCOME				
	EXPENDITURE				
2-10	Establishment Expenses	I-10			Salary, wages, pension etc
2-20	Administrative Expenses	I-11			Rent, rates, taxes, office maintenance etc.
2-30	Operations & Maintenance	I-12			Power & fuel, consumption of stores, repairs & maintenance etc
2-40	Interest & Finance Expenses	I-13			Interest on loans from state & central government and from financial institutions
2-50	Programme Expenses	I-14			Election expenses, own programme

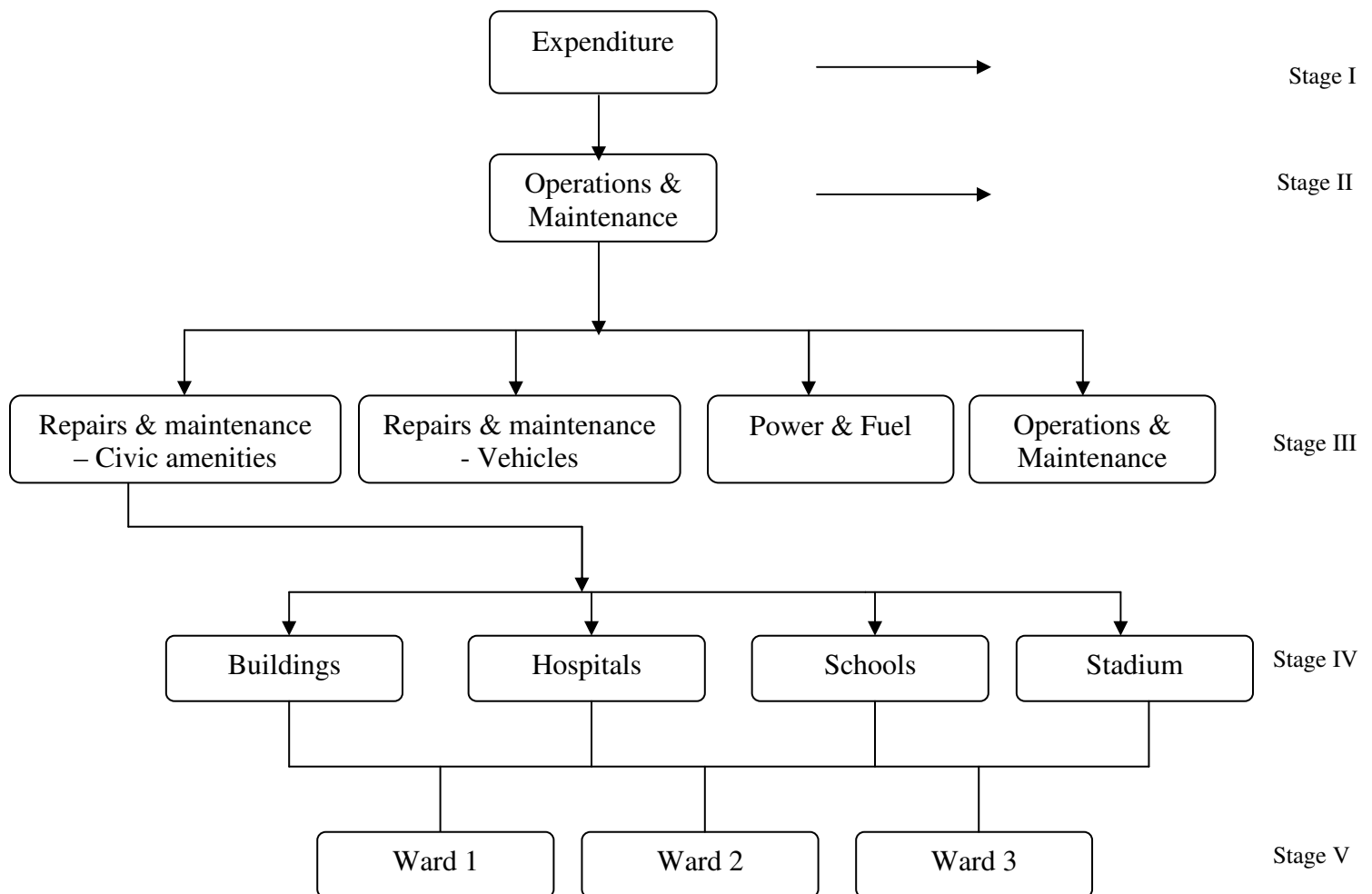
Code No.	Item/ Head of Account	Schedule No	Current Year	Previous Year	What it Represents?
			Amount (Rs.)	Amount (Rs.)	
1	2	3	4	5	
2-60	Revenue Grants, Contributions & subsidies	I-15			Grants, contribution, subsidies
2-70	Provisions & Write off	I-16			Provision for doubtful receivables, provision for other assets, assets written off etc
2-71	Miscellaneous Expenses	I-17			Loss on disposal of asset, investment etc.
2-72	Depreciation				Depreciation on assets
B	Total – EXPENDITURE				
<i>A-B</i>	<i>Gross surplus/ (deficit) of income over expenditure before Prior Period Items</i>				
2-80	Add: Prior period Items (Net)	I-18			For e.g. prior year income from property and other taxes due to revision
	<i>Gross surplus/ (deficit) of income over expenditure after Prior Period Items</i>				
2-90	Less: Transfer to Reserve Funds				
	Net balance being surplus/ deficit carried over to Municipal Fund				

5.15 The Income and Expenditure Statement is drawn from the Trial Balance. The various heads of incomes and expenditures shall be posted from the Trial Balance to the Income and Expenditure Statement.

5.16 Any income or expenditure under a particular individual head, which is more than 1% of the total gross income of the ULB or Rs. 1,00,000 whichever is higher, shall be shown separately in the Schedules annexed to the Income and Expenditure Statement.

5.17 If detailed information required to be given under any of the items or sub items cannot be conveniently shown in the format of the Income and Expenditure Statement or the Balance Sheet itself, as the case may be, such information can be furnished in a separate schedule or schedules to be annexed to and forming part of the Income and Expenditure Statement and the Balance Sheet. An illustration of how expenditure can be drilled down to the lowest level is given in Exhibit 5.3. Hence the top management or the political representatives can demand such information once the accrual accounting system is implemented with the level of detail presented in this manual.

Exhibit 5.3
Level up to which the expenditure can be drilled down



Cash Flow Statement

5.18 Cash Flow statement is prepared in order to have information about the cash flows of an enterprise useful in providing users of financial statements with a basis to assess the ability of the enterprise to generate cash and cash equivalents and the need of the enterprise to utilise those cash flows.

5.19 A Cash Flow Statement, when used in conjunction with the other Financial Statements, provides information that enables users to evaluate the changes in assets and liabilities of an ULB, its financial status and the actual performance in terms of cash inflows and outflows.

5.20 The cash flow statement shall report cash flows during the period classified by operating, investing and financing activities. An ULB presents its cash flows from operating, investing and financing activities in a manner, which is most appropriate to its activities. Classification by activity provides information that allows users to assess the impact of those activities on the financial position of the enterprise and the amount of its cash and cash equivalents. This information may also be used to evaluate the relationships among those activities.

Cash flows from operating activities

5.21 **Operating activities** are the principal activities contributing to or utilising the cash resources of the ULB and other activities that are not investing or financing activities. Identification of transactions into operating or other activities primarily depends on whether the result of the activity is captured in Income and Expenditure statement and is not related to Investing or Financing activities. .

Cash flows from investing activities

5.22 **Investing activities** generally involves acquisition and disposal of long-term assets and investments not included in cash equivalents.

Cash flows from financing activities

5.23 **Financing activities** are activities that result in changes in the size and composition Loans received by the ULBs.

Usefulness of Cash Flow Statement

5.24 The following are the usefulness of preparation of Cash flow statement.

- ❖ **Highlights cash flow from recurring activities:** A cash flow statement aims at highlighting the cash generated from recurring activities or cash deficit sustained. A cash surplus/deficit is arrived by adjusting non cash items like depreciation, profit/loss on sale of assets etc. Hence cash generated from operation can arrived only after excluding non cash items.
- ❖ **Cash flow helps planning:** Cash is the centre of all financial decisions. Once the amount of internally generated cash becomes know it becomes easy to plan how much of cash should be raised from outside sources to meet various expenditures of the ULB.
- ❖ **Cash flow helps to understand liquidity:** Liquidity is the ability of ULB to pay current liabilities as and when they become due. Quarterly or monthly cash flow statement helps to ascertain the liquidity in a better manner.
- ❖ **Comparison with budget:** A comparison of the cash flow of the previous year with the budget for the year would indicate to what extent the resources of the ULB were generated and applied according to the plan. This is especially useful in preparing cash budgets.

5.25 A typical cash flow statement is given in Exhibit 5.4.

Exhibit 5.4
Statement of Cash Flow for the year ended

Particulars	Current Year (Rs.)		Previous Year (Rs.)	
	Amount (Rs)	Amount (Rs)	Amount (Rs)	Amount (Rs)
a. Cash flows from operating activities				
Gross surplus/ (deficit) over expenditure				
<u>Adjustments for</u>				
Add:				
Depreciation				
Interest & finance expenses				
Provision for doubtful debts				
Less:				
Profit on disposal of assets				
Interest income				
Investment income				
Adjusted income over expenditure before effecting changes in current assets and current liabilities and extra ordinary items.				
<u>Changes in current assets and current liabilities</u>				
(Increase) / decrease in Sundry debtors				
(Increase) / decrease in Stock in hand				
(Increase) / decrease in prepaid expenses				
(Increase) / decrease in other current assets				
(Decrease)/ increase in Deposits received				
(Decrease)/ increase in other current liabilities				
(Decrease)/ increase in provisions				
Extra ordinary items (Specify)				
Net cash generated from/ (used in) operating activities (a)				
b. Cash flows from investing activities				
(Purchase) of fixed assets				
(Purchase) of CWIP				
(Increase) / Decrease in Special funds/grants				
(Decrease) / Increase in Earmarked funds				
(Purchase) of Investments				
Add:				
Proceeds from disposal of assets				
Proceeds from disposal of investments				
Interest income received				
Recovery of Loan				
- Loan advanced to employee				
- Loan advanced to MTU2				
Net cash generated from/ (used in) investing activities (b)				

Particulars	Current Year (Rs.)		Previous Year (Rs.)	
c. Cash flows from financing activities				
Add:				
Loans from banks/others received				
Less:				
Loan repaid				
Finance expenses				
Net cash generated from (used in) financing activities (c)				
Net increase/ (decrease) in cash and cash equivalents (a + b + c)				
Cash and cash equivalents at beginning of period				
Cash and cash equivalents at end of period				
Cash and Cash equivalents at the end of the year comprises of the following account balances at the end of the year:				
i. Cash Balances				
ii. Bank Balances				
iii. Scheduled co-operative banks				
iv. Balances with Post offices				
v. Balances with other banks				
Total				

Receipts & Payments Account

5.26 The Receipts and Payments Account shows the sources of funds and the applications of funds during the accounting reporting periods.

5.27 The Receipts and Payments Account shall be prepared from the Balance Sheet, Income and Expenditure Statement, Ledgers and Cash Book.

5.28 A format in which receipts and payments are prepared is given in Exhibit 5.5.

Exhibit 5.5
Receipts & Payments Account for the period from _____ to _____

Code No.	Head of Account	Current Period Amount (Rs.)	Corresponding Previous Period Amount (Rs.)	Code No.	Head of Account	Current Period Amount (Rs.)	Corresponding Previous Period Amount (Rs.)
	Opening Balances# Cash balances including Imprest Balances with Banks/Treasury (including balances in designated bank accounts)						
	Operating Receipts				Operating Payments		
1-10	Tax Revenue			2-10	Establishment Expenses		
1-20	Assigned Revenues & Compensations			2-20	Administrative Expenses		
1-30	Rental income from Municipal Properties			2-30	Operations and Maintenance		
1-40	Fees & User Charges			2-40	Interest & Finance Charges		
1-50	Sale & Hire Charges			2-50	Programme Expenses		
1-60	Revenue Grants, Contributions & Subsidies			2-60	Revenue Grants, Contributions & Subsidies		
1-70	Income from Investments						
1-71	Interest Earned			4-30	Purchase of Stores		
1-80	Other Income				Other Collections on behalf of State and Central Government		
	Non-Operating Receipts				Non-Operating Payments		
3-30/31	Loans Received			3-50	Other Payables		
3-40	Deposits Received			3-50	Refunds Payable		
3-20	Grants and contribution for specific purposes			**	Repayment of Loans		
3-50	Sale proceeds from Assets			**	Refund of Deposits		
4-20	Realisation of Investment – General Fund			4-10	Acquisition / Purchase of Fixed Assets		

Code No.	Head of Account	Current Period Amount (Rs.)	Corresponding Previous Period Amount (Rs.)	Code No.	Head of Account	Current Period Amount (Rs.)	Corresponding Previous Period Amount (Rs.)
4-21	Realisation of Investment – Other Funds			4-12	Capital Work – in – Progress		
3-41	Deposit works			3-41	Deposit works		
	Revenue Collected in Advance			4-20	Investments – General Fund		
4-60	Loans & Advances to Employees (recovery)			4-21	Investments – Other Funds		
	Other Loans & Advances (recovery)			4-60	Loans & Advances to Employees		
	Deposits with External Agencies (recovery)			4-40	Prepaid Expenses		
	Other Receipts			4-60	Other Loans & Advances - MTU2		
3-50	Unclaimed salaries			4-60	Deposits with External Agencies		
3-50	Sale proceeds of stores			4-60	Advance to contractors & others		
3-50	Recovery from Contractors			4-80	Loan issue expense deferred		
				4-60	Employee provident fund Loan		
					Closing Balances #		
					Cash balances including Imprest		
					Balances with Banks/Treasury (including balances in designated bank accounts)		
	GRAND TOTAL				GRAND TOTAL		

Financial Ratios

5.29 A ratio is an arithmetical relationship between two figures. Ratios are indicators of performance of the ULB/Department. Financial Ratio Analysis is a study of ratios between various items or groups of items in the Financial Statements of the ULB.

5.30 Some of the key ratios that help in ascertaining the financial health of an ULB are given in Table 5.1 below.

Table 5.1
Analysis of financial indicators

Sr. No.	Financial Ratio	Method of Computation	Interpretation
	Income Ratios		
1.	Tax Revenue to Total Income Ratio... (%)	$\frac{\text{Tax Revenue}}{\text{Total Income}} \times 100$	These Ratios depict the share of each income in the Total Income of the ULB. Higher share of an individual income in the total income shows a high dependability on that source and therefore a high risk. The ULB should try and develop other sources of income to reduce this risk.
2.	Property & Other Taxes to Total Income Ratio... (%)	$\frac{\text{Property \& Other Taxes}}{\text{Total Income}} \times 100$	
3.	Rental Income from Municipal Properties to Total Income Ratio... (%)	$\frac{\text{Rental Income from Municipal Properties}}{\text{Total Income}} \times 100$	
4.	Fees & User Charges to Total Income Ratio... (%)	$\frac{\text{Fees \& User Charges}}{\text{Total Income}} \times 100$	
	Expense Ratios		
5.	Establishment Expenses to Total Income Ratio... (%)	$\frac{\text{Establishment Expenses}}{\text{Total Income}} \times 100$	These Ratios depict the share of each expense in the total income of the ULB. The ULB should try and keep these ratios as low as possible so that a higher surplus can be earned. However, this should not be at the sacrifice of service to the citizens. Normally ULB may aim for establishment expenses not to exceed a certain % of income so that more resources are available for citizen centric services.
6.	Administrative Expenses to Total Income Ratio... (%)	$\frac{\text{Administrative Expenses}}{\text{Total Income}} \times 100$	
7.	Operations & Maintenance to Total Income Ratio... (%)	$\frac{\text{Operations \& Maintenance}}{\text{Total Income}} \times 100$	
	Efficiency Ratios		
8.	Gross Property Tax Receivables Ratio... (No. of Days)	$\frac{\text{Average Gross Property Tax Receivable} \times 365}{\text{Demand for property tax raised during the year}}$ <p>Where Average Gross Property Tax (P.T.) Receivable = (Opening P.T. Receivable + Closing P.T. Receivable)/2</p>	These ratios indicate the average number of days for which the receivables are outstanding on an average. The ULB should try and keep these days very low.

Sr. No.	Financial Ratio	Method of Computation	Interpretation
9.	Operations & Maintenance to Gross Fixed Assets Ratio... (%)	$\frac{\text{Operations \& Maintenance}}{\text{Gross Block of Fixed Assets (as at the end of the year)}} \times 100$	This ratio indicates expenses incurred towards repairs & maintenance as a percentage of gross block of fixed assets. Although this is an essential expense to keep the assets in good working condition, higher ratio could indicate either bad maintenance or inefficient usage of the asset or frequent repairs to the same asset, both of which needs to be investigated.
10.	Interest Expense to Loans Ratio... (%)	Indicate range (highest & lowest) of interest percentage and nature of loan (for highest & lowest) in respect of loans outstanding at the end of the year	This ratio indicates the range of interest expenditure on loans availed by the ULB. The ULB should compare this with other ULB and Government Bodies to ensure that loans are availed at competitive rates.
Leverage Ratios			
11.	Interest Coverage Ratio... (times)	$\frac{\text{Surplus + Depreciation + Interest (incl. interest capitalised)}}{\text{Interest (incl. interest capitalised)}}$	This ratio indicates the comfort level with which the ULB can meet its interest burden. This ratio is very important from the lender's point of view also.
12.	Debt Service Coverage Ratio... (times)	$\frac{\text{Surplus + Depreciation + Interest (incl. interest capitalised)}}{\text{Debt instalments to be serviced (paid) during the next year + Interest (including interest to be capitalised)}}$	This ratio indicates the comfort level with which the ULB can service (pay) its debt instalments and meets its interest burden. This ratio is very important from the lender's point of view also.
Investment Ratios			
13.	Interest on Investments Ratio... (%)	Indicate range (highest & lowest) of interest percentage and nature of investment (for highest & lowest) in respect of investments outstanding at the end of the year	This ratio indicates the range of interest earned on investments made by the ULB. The ULB should compare this with other ULB and Government Bodies to ensure that investments are made at best rates.
Liquidity Ratio			
14.	Current Assets to Current Liabilities Ratio... (times)	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	This ratio indicates the ability of the ULB to meet its obligations in the short run, usually one year.

ILLUSTRATION OF FINANCIAL STATEMENTS AND RATIOS

5.31 The financial statements of "Model Municipal Corporation" is given in Exhibit 5.6 to Exhibit 5.9 and the financial ratios and their interpretation (Exhibit 5.9) is given at the end of the illustration.

Note: Only those schedules that are relevant for ratio analysis are provided.

Exhibit 5.6
Model Municipal Corporation (MMC)
Income & Expenditure Statement for the period 01.04.06 to 31.03.07

Code No.	Item/ Head of Account	Schedule No	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
			Illustrative	Illustrative
1	2	3	4	5
	INCOME			
1-10	Tax Revenue	I-1	3390000000	2760000000
1-20	Assigned Revenues & Compensation		500000000	455000000
1-30	Rental Income from Municipal Properties		355000000	295000000
1-40	Fees & User Charges		500000000	325000000
1-50	Sale & Hire Charges		-	
1-60	Revenue Grants, Contributions & Subsidies		125000000	95000000
1-70	Income from Investments		23250000	1900150
1-71	Interest Earned		11350000	1000250
1-80	Other Income		10000000	650000
A	Total – INCOME		4914600000	3933550400
	EXPENDITURE			
2-10	Establishment Expenses		485000000	245000000
2-20	Administrative Expenses		97000000	64000000
2-30	Operations & Maintenance		253000000	195000000
2-40	Interest & Finance Expenses		155000000	87,000,000
2-50	Programme Expenses		-	
2-60	Revenue Grants, Contributions & subsidies		75000000	67000000
2-70	Provisions & Write off		233000000	133000000
2-71	Miscellaneous Expenses		20000000	18000000
2-72	Depreciation		188750000	163600000
B	Total – EXPENDITURE		1506750000	972600000
A-B	<i>Gross surplus/ (deficit) of income over expenditure before Prior Period Items</i>		3,407,850,000	2960950400
2-80	Add: Prior period Items (Net)	I-18	30000000	22000000
	<i>Gross surplus/ (deficit) of income over expenditure after Prior Period Items</i>		3437850000	2938950400
2-90	Less: Transfer to Reserve Funds			
	Net balance being surplus/ deficit carried over to Municipal Fund		3437850000	2938950400

SCHEDULES FORMING PART OF THE INCOME & EXPENDITURE ACCOUNT**Schedule I-1: Tax Revenue [Code No 110]**

Minor Code No	Particulars	Current year	Previous year
		(Rs.)	(Rs.)
1	2	3	4
110-01	Property tax	2880000000	1700000000
110-02	Water tax	385000000	495000000
110-03	Sewerage Tax	15000000	25000000
110-51	Octroi & Toll	4000000	6500000
110-52	Cess	100000000	455000000
110-80	Other taxes		
	Sub-total	3420000000	2740,000,000
	Less		
110-90	Tax Remissions and Refund	30000000	20000000
	Sub-total		
	Total tax revenue	3390000000	2760000000

Exhibit 5.7**Model Municipal Corporation (MMC)****Balance sheet of Model Municipal Corporation as on 31st March 2007**

Code No	Description of items	Schedule No.	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
			Illustrative	Illustrative
	LIABILITIES			
	Reserve & Surplus			
3-10	Municipal (General) Fund		5392850000	1955000000
3-11	Earmarked Funds		1249250000	1140000000
3-12	Reserves		2967000000	967000000
	Total Reserves & Surplus		9609100000	4062000000
3-20	Grants, Contributions for specific purposes		78600000	
	Loans			
3-30	Secured Loans		-	
3-31	Unsecured Loans		1437000000	-
	Total Loans		1437000000	-
	Current Liabilities and Provisions			
3-40	Deposits Received		465000000	350000000
3-41	Deposit works		-	
3-50	Other Liabilities (Sundry Creditors)		815000000	750000000
3-60	Provisions		380500000	340500000
	Total Current Liabilities and Provisions		1660500000	1440500000

Code No	Description of items	Schedule No.	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
			Illustrative	Illustrative
	TOTAL LIABILITIES		12785200000	5502500000
	ASSETS			
	Fixed Assets			
4-10	Gross Block		5780000000	3275000000
4-11	Less: Accumulated Depreciation		683750000	525000000
	Net Block			
4-12	Capital Work-in-Progress		265000000	240000000
	Total Fixed Assets		5361250000	2990000000
	Investments			
4-20	Investment – General Fund		50000000	-
4-21	Investments – Other Funds		110000000	-
	Total Investments		160000000	
	Current Assets, Loans and Advances			
4-30	Stock in Hand (Inventories)		208000000	380000000
	Sundry Debtors (Receivables)			
4-31	Gross amount outstanding	B-15	981550000	695000000
4-32	Less: Accumulated provision against bad and doubtful Receivables		(262500000)	(132500000)
	<i>Net amount outstanding</i>			
4-40	Prepaid Expenses		18000000	-
4-50	Cash and Bank Balances		6053900000	1440000000
4-60	Loans, advances and deposits		298000000	180000000
4-61	Less: Accumulated provision against Loans		(60000000)	(50000000)
	<i>Net Amount outstanding</i>			
	Total Current Assets, Loans & Advances		7236950000	2512500000
4-70	Other Assets			
4-80	Miscellaneous Expenditure (to the extent not written off)		27000000	-
	TOTAL ASSETS		12785200000	5502500000

Schedule B-15: Sundry Debtors (Receivables) [Code No 431]

Code No.	Particulars	Gross Amount (Rs.)	Provision for Outstanding revenues (Rs.)	Net Amount (Rs.)	Previous year Net amount (Rs.)
1	2	3	4 (Code No 432)	5 = 3 - 4	6
431-10	<u>Receivables for Property Taxes</u> Less than 5 years * More than 5 years*	270000000	82500000	187500000	350000000
	Sub – total	270000000	82500000	187500000	350000000
431-91	Less: State Government Cesses/Levies in Taxes – Control Accounts				
	Net Receivables of Property Taxes	270000000	82500000	187500000	350000000
431-19	<u>Receivable of Other Taxes</u> Less than 3 years* More than 3 years*	30000000		30000000	50000000
431-99	Sub- total Less: State Government Cesses/Levies in Taxes – Control Accounts				
	Net Receivables of Other Taxes	30000000		30000000	50000000
431-20	<u>Receivables of Cess Income</u> Less than 3 years* More than 3 years*	85000000 60000000	80000000	5000000 60000000	60000000
	Sub- total	145000000	80000000	65000000	
431-30	<u>Receivables for Fees and User Charges</u> Less than 3 years* More than 3 years*	280000000	100000000	180000000	100000000
	Sub – total	280000000	100000000	180000000	100000000
431-40	Receivables from Other Sources Less than 3 years* More than 3 years*	6550000		6550000	1000000
	Sub – total	6550000		6550000	1000000
431-50	Receivables from Government	250000000		250000000	1500000
	Total of Sundry Debtors (Receivables)	981550000	262500000	719050000	562500000

Exhibit 5.8
Model Municipal Corporation (MMC)
Statement of Cash Flow for the year ended 31st March, 2007

Particulars	Current Year (Rs.)		Previous Year (Rs.)	
a. Cash flows from operating activities				
Gross surplus/ (deficit) over expenditure		3437850000		2982950400
<u>Adjustments for</u>				
Add:				
Depreciation	188750000		163600000	
Interest & finance expenses	155000000		87000000	
Provision for doubtful debts	233000000		133000000	
Less:				
Profit on disposal of assets	(10000000)		1000000	
Interest income	(19600000)		1900000	
Investment income	(15000000)		650000	
Adjusted income over expenditure before effecting changes in current assets and current liabilities and extra ordinary items.		3967000000		3363000400
<u>Changes in current assets and current liabilities</u>				
(Increase) / decrease in Sundry debtors	(262450000)		(248450000)	
(Increase) / decrease in Stock in hand	172000000		(166700400)	
(Increase) / decrease in prepaid expenses	(18000000)			
(Increase) / decrease in other current assets	(14500000)		(17500000)	
(Decrease)/ increase in Deposits received	115000000		(235000000)	
(Decrease)/ increase in other current liabilities	65000000		(85000000)	
(Decrease)/ increase in provisions	(50000000)			
Extra ordinary items (Specify)				
Net cash generated from/ (used in) operating activities (a)		3954050000		2610350000
b. Cash flows from investing activities				
(Purchase) of fixed assets	(555000000)		(920000000)	
(Purchase) of CWIP	(25000000)		(440000000)	
(Increase) / Decrease in Special funds/grants				
(Decrease) / Increase in Earmarked funds	187850000		(111650000)	
(Purchase) of Investments	(210000000)			
Add:				
Proceeds from disposal of assets	30000000		21000000	
Proceeds from disposal of investments	65000000			
Interest income received	15500000		2300000	
Recovery of Loan	19500000		(20000000)	
- Loan advanced to employee	(50000000)		(30000000)	
- Loan advanced to MTU2	(100000000)		(132000000)	
Net cash generated from/ (used in) investing activities (b)		(622150000)		(1590350000)

Particulars	Current Year (Rs.)		Previous Year (Rs.)	
c. Cash flows from financing activities				
Add:				
Loans from banks/others received	1500000000			
Less:				
Loan repaid	(630000000)			
Finance expenses	(1550000000)			
Net cash generated from (used in) financing activities (c)		1282000000		Nil
Net increase/ (decrease) in cash and cash equivalents (a + b + c)		4613900000		1020000000
Cash and cash equivalents at beginning of period		1440000000		420000000
Cash and cash equivalents at end of period		6053900000		1440000000
Cash and Cash equivalents at the end of the year comprises of the following account balances at the end of the year:				
i. Cash Balances		10000000		10000000
ii. Bank Balances		6043900000		1430000000
iii. Scheduled co-operative banks				
iv. Balances with Post offices				
v. Balances with other banks				
Total		6053900000		1440000000

Cash Flow Ratios

Cash flow from operations / Cash & Cash equivalents ratio = 65.31%
 Cash flow from financing activities / Cash & Cash equivalents ratio = 21.8%
 Cash flow from investing activities / Cash & Cash equivalents ratio = -10.28 %

Interpretation of Cash flow statement

1. MMC has generated around 65 % of its cash flow from its operations and over 21% from borrowings.
2. Investment in fixed assets, investments, advances given to other undertakings is to the extent of 10%.
3. Investment in fixed assets and capital work in progress amounts to over 93% of net cash used in investing activities.

Exhibit 5.9
Model Municipal Corporation (MMC)
Receipt and Payments accounts for the period from 01.04.2006 to 31.03.07

Code No.	Head of Account	Current Period Amount (Rs.)	Corresponding Previous Period Amount (Rs.)	Code No.	Head of Account	Current Period Amount (Rs.)	Corresponding Previous Period Amount (Rs.)
	Opening Balances#	1440000000	420000000				
	Cash balances including Imprest	10000000	20000000				
	Balances with Banks/Treasury (including balances in designated bank accounts)	1430000000	400000000				
	Operating Receipts	4622900000	3932950000		Operating Payments	716500000	747500000
1-10	Tax Revenue	3390000000	2760000000	2-10	Establishment Expenses	263500000	245000000
1-20	Assigned Revenues & Compensations	500000000	455000000	2-20	Administrative Expenses	2000000	64000000
1-30	Rental income from Municipal Properties	285000000	295000000	2-30	Operations and Maintenance	151000000	195000000
1-40	Fees & User Charges	300000000	325000000	2-40	Interest & Finance Charges	155000000	87000000
1-50	Sale & Hire Charges			2-50	Programme Expenses		
1-60	Revenue Grants, Contributions & Subsidies	125000000	95000000	2-60	Revenue Grants, Contributions & Subsidies	75000000	67000000
1-70	Income from Investments	12900000	2300000				
1-71	Interest Earned	10000000		4-30	Purchase of Stores	50000000	72000000
1-80	Other Income		650000		Other Collections on behalf of State and Central Government	20000000	17500000
	Non-Operating Receipts	2851500000	341000000		Non-Operating Payments	2144000000	2506450000

Code No.	Head of Account	Current Period Amount (Rs.)	Corresponding Previous Period Amount (Rs.)	Code No.	Head of Account	Current Period Amount (Rs.)	Corresponding Previous Period Amount (Rs.)
3-30/31	Loans Received	1500000000		3-50	Other Payables	543000000	522450000
3-40	Deposits Received	435000000	300000000	3-50	Refunds Payable	105000000	240000000
3-20	Grants and contribution for specific purposes	250000000		**	Repayment of Loans	63000000	
3-50	Sale proceeds from Assets	30000000	21000000	**	Refund of Deposits	290000000	6500000
4-20	Realisation of Investment – General Fund	65000000		4-10	Acquisition / Purchase of Fixed Assets	300000000	920000000
4-21	Realisation of Investment – Other Funds			4-12	Capital Work – in – Progress		44000000
3-41	Deposit works	500000000		3-41	Deposit works	280000000	
	Revenue Collected in Advance			4-20	Investments – General Fund	100000000	
	Loans & Advances to Employees (recovery)			4-21	Investments – Other Funds	110000000	
4-60	Other Loans & Advances (recovery)	21500000	20000000	4-60	Loans & Advances to Employees	50000000	30000000
	Deposits with External Agencies (recovery)			4-40	Prepaid Expenses	18000000	
	Other Receipts			4-60	Other Loans & Advances - MTU2	100000000	132000000
3-50	Unclaimed salaries	10000000		4-60	Deposits with External Agencies		
3-50	Sale proceeds of stores	20000000		4-60	Advance to contractors & others	130000000	215500000
3-50	Recovery from Contractors	20000000		4-80	Loan issue expense deferred	30000000	
				4-60	Employee provident fund Loan	25000000	

Code No.	Head of Account	Current Period Amount (Rs.)	Corresponding Previous Period Amount (Rs.)	Code No.	Head of Account	Current Period Amount (Rs.)	Corresponding Previous Period Amount (Rs.)
					Closing Balances #	6053900000	1440000000
					Cash balances including Imprest	10000000	10000000
					Balances with Banks/Treasury (including balances in designated bank accounts)	6043900000	1430000000
	GRAND TOTAL	8914400000	4693950000		GRAND TOTAL	8914400000	4693950000

Financial Ratios

5.32 Financial ratios of Model Municipal Corporation for the period ended 31st March 2007 computed from the financial statements given above would be as given in Exhibit 5.10 below.

Exhibit 5.10
Financial Ratios of Model Municipal Corporation

Sr. No.	Particulars	Ratios	Interpretation
	Income Ratios		
1	Tax Revenue to Total Income Ratio... (%)	69	Tax revenues contribute almost 70% revenue of MMC.
2	Property & Other Taxes to Total Income Ratio... (%)	67	The contribution of property tax to total income is under 67% and ratio of property tax to total tax income is around 84%. Property tax constitutes the major source of revenue and this ratio is an indicator of the contribution of property tax to the total revenue of MMC.
4	Rental Income from Municipal Properties to Total Income Ratio... (%)	7.23	
5	Fees & User Charges to Total Income Ratio... (%)	10.17	
	Expense Ratios		
6	Establishment Expenses to Total Income Ratio... (%)	32.18	Expense ratio of MMC is within the normal limit.
7	Administrative Expenses to Total Income Ratio... (%)	6.44	
8	Operations & Maintenance to Total Income Ratio... (%)	16.80	
	Efficiency Ratios		
9	Gross Property Tax Receivables Ratio... (No. of Days)	482	The average collection period of Property tax is very high. This means around 16 months of property tax dues are outstanding. The management has to take steps to speed up the collections. This high recovery period has lead to higher current ratio.
10	Operations & Maintenance to Gross Fixed Assets Ratio... (%)	4.37	Keeping this ratio low is good for the ULB. But the management has to analyse whether frequent overhauling and maintenance is done to keep the assets in good condition.

Sr. No.	Particulars	Ratios	Interpretation
11	Interest Expense to Loans Ratio... (%)	10.79	MMC has to review its funding pattern and look for low cost borrowings.
	Leverage Ratios		
12	Loans to Reserves Ratio or Debt-Equity Ratio... (times)	0.15	MMC has a very low debt equity ratio. It shows that majority of the activity of MMC is funded by its own funds.
13	Interest Coverage Ratio... (times)	24.40	MMC has a comfortable interest coverage ratio. This ratio is important from lenders point of view. This could also point to the borrowing capacity of MMC.
	Liquidity Ratio		
14	Current Assets to Current Liabilities Ratio... (times)	4.36	Current ratio of 2 is ideal. A higher current ratio implies that the management is not utilizing its idle assets effectively

5.33 The above indicators also help the ULB to compare their performance with other ULB.

EXERCISE

Answer the following questions:

1. What do financial statements comprise off?
2. What is the purpose of preparing “Income & Expenditure” and “Balance Sheet”
3. Why is Prior period items shown as a separate line item in the Income & Expenditure account?
4. How is “Accumulated depreciation” disclosed in the Balance Sheet.
5. How is “Excess of expenses over income” disclosed in the balance sheet.
6. Why is “Prepaid expense” disclosed on the asset side of the balance sheet.
7. Under which side and under which head is “Unpaid salary” shown in the Balance sheet.
8. By analyzing the “Income & Expenditure” and “Balance sheet” of Model Municipal Corporation given in chapter 5 of this manual, what do you feel about the financial position of the ULB.
9. What is the purpose of Cash flow statement?
10. State any five differences between “Receipts and Payments account” and “Cash flow statement”?
11. In a Cash flow statement what do “Cash flow from investing activities” mean?
12. What do negative balance in “Cash flow from Operating activities” signifies?
13. Could there be a situation where a ULB has “Excess of expense over income” but have a positive cash flows and vice versa?
14. Why is “Notes to Accounts”. Is it mandatory?
15. What do the following ratios signify and how it is computed?
 - a. Gross property tax receivable ratio.
 - b. Operations and maintenance to gross fixed asset ratio.
 - c. Debt service coverage ratio
 - d. Current asset to current liabilities ratio.
 - e. Tax revenue to total income ratio

CHAPTER 6 MANAGEMENT INFORMATION SYSTEM REPORTS

Introduction

6.1 A Management Information System (MIS) refers to a system that is designed to help users to plan and direct the organizational operations. The MIS reports support the decision makers. MIS reports are prepared from the accounting and other records maintained for the conduct of the ULB activities.

6.2 MIS reports can be broadly classified as statistical MIS reports and analytical MIS reports based on their content. Analytical MIS reports are qualitative and contain an analysis of the data collected rather than a mere presentation of data in a user defined format. A daily collection report will be a statistical MIS report whereas a report that shows trends in collection for various types of revenue for a period will be an analytical MIS report.

6.3 Management Information System reports are necessary in ULB for measuring its activities in a more meaningful and transparent manner. MIS not only provides information on accounting & financial aspects but also covers non-financial aspects / information in an integrated mode. The objective of development of MIS reports is to provide the performance details/statistical data of the activities of the ULB in various forms. MIS reports serve as critical inputs for any decision making of the ULB.

6.4 MIS reports are prepared from the accounting and other records maintained for the conduct of the ULB activities. These basic data are to be maintained properly in order that the MIS reports prepared based on the records are correct and accurate. Therefore, establishment and ensuring of maintenance of proper accounting & other records is a key for effective MIS reports.

6.5 As explained earlier, MIS covers non-financial aspects of the activities also. For example, the data on education: number of schools under ULB, number of teachers, number of students, and the pass percentage form part of such data. If these data are used integrally with financial aspects, it results in preparation of various analytical reports like cost of service delivery.

6.6 MIS reports prepared in ULB could cover the following key areas:

6.7 Financial Performance (Balance Sheet, Income and Expenditure, Cash Flow Statements, etc)

- Departmental Performance (Departmental collection summary, etc)
- Recovery of Cost / Subsidy Report (Water Supply cost sheet, etc)
- Key Performance Indicators (Financial ratio analysis, etc)
- Ward Level MIS (Ward level revenue, expenses etc)

6.8 An illustrative list of MIS reports and the suggested frequency of preparation is given in Table 6.1. A well implemented accounting system will not only be able to aid in decision making but also give the top management the information about the way finances are generated and utilized. (These are illustrative only). The top management and the political representatives should understand the budgeting system and the extent of detail at which budgets are prepared

and the operations of the accounting system and the extent of detail captured for each transaction. Once this is known the management and political representatives can demand the available information in the way they want. For e.g. for any expenditure incurred is the function, functionary, field and account heads are captured, the ward is captured etc. It is also important to understand what is captured in the accounting system and what is captured in other systems like revenue so that appropriate MIS can be demanded). Once this is known the council can decide what information should be compulsorily placed in the council or committee meetings and in what periodicity and what information can be demanded on an as and when basis.

Table 6.1
MIS Reports and Frequency of Preparation

Name of MIS Report	Frequency of Preparation	Usefulness
Daily Collection Report	Daily	Provides information about daily collection of income like property tax income, user charges, collections of receivables etc.
Daily Bank Position	Daily	Presents information about daily collections and payments made from various bank accounts of the ULB and closing balances in the bank accounts.
Daily Cash Position	Daily	This statement provides summary of daily collections and payments of cash and closing balance of cash which can be verified with physical cash balance.
Performance Statement	Monthly	Compares the income & expenditure of the ULB on monthly, quarterly and yearly basis with the corresponding previous year's figures. This will enable the ULB to analyse the performance of the current year by comparing it with the corresponding month of the previous year, the previous month(s) of the current year. This comparison can also be made against the budget.
Statement of Receivables	Monthly	This statement provides head wise information about outstanding receivables. This may not be readily available from the accounting system but from the revenue system.
Debtors' ageing	Monthly	This statement gives the period(s) for which the receivables are outstanding. An extremely important report that will help in better financial management.
Report on Outstanding Advances to Employees	Monthly	This report provides details about outstanding employee advances, which will enable the ULB to know whether the advances are recovered as per the rules.
Report on Unsettled Advances to Suppliers	Monthly	This report will enable the ULB to analyse the reason for long outstanding payables and help them resolve the issues if any.

Name of MIS Report	Frequency of Preparation	Usefulness
Statement of Statutory Deduction	Monthly	This statement reports whether all the statutory remittances like Provident fund, ESI etc are deducted and remitted as per the Act.
Statement of Payables	Monthly	This statement provides income head wise information about payables like creditors, refunds, recoveries etc on a monthly basis.
Revenue Trend Analysis	Monthly	This statement compares revenues received from various heads like Tax, Rental income etc on a monthly basis. This information would help the ULB to analyse the income trend for the entire year.
Investment Report	Monthly	This report provides information about investments of funds of ULB in various securities.
Ward wise Works Liability Statement	Quarterly	This statement provides information about ward wise bills outstanding and the amount settled during the quarter.
Function wise Budget Utilisation Report – Revenue Expenditure	Quarterly	This statement provides function wise information about actual revenue expenditure incurred against budget. This would help in analyzing the actuals vis a vis the budget for each function. This can be at the overall ULB level or drilled down to ward or zonal level depending upon the extent of data being captured in the system.
Function wise Budget Utilisation Report – Capital Expenditure	Quarterly	This statement provides function wise information about actual capital expenditure incurred against budget. This would help in analyzing the actuals vis a vis the budget for each function. This can be at the overall ULB level or drilled down to ward or zonal level depending on the extent of data being captured in the system.

6.9 The Revenue Trend Analysis Report of Model Municipal Corporation would be as given under Exhibit 6.1.

Exhibit 6.1
Model Municipal Corporation (MMC)
Revenue Trend Analysis for the year ending 31st March 2007

Code	Revenue	April	May	June	July	August	September	October	November	December	January	February	March	Total of the current year	Total of the previous year	Absolute increase or decrease	% increase or decrease
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17(15-16)	18
	Tax Revenue	455200000	406750000	348963000	283612000	356543000	204588000	293455000	190936000	234414000	222434000	183373000	209732000	3390000000	2760000000	630000000	22.83
	Assigned Revenues & Compensation	82545000	69613000	51478000	49625000	43690000	32587900	31244800	29963000	27564500	22515460	25597000	33576340	500000000	455000000	45000000	9.89
	Rental Income from Municipal Properties	48523450	43645000	36688000	32344000	29815000	22476000	29678000	20864000	20124000	21356000	24435000	25051550	355000000	295000000	60000000	20.34
	Fees & User Charges	85544360	77724000	75564000	53319000	46512000	39599000	34591000	22563000	29481000	21000000	9500000	4602640	500000000	325000000	175000000	53.85
	Sale & Hire Charges																
	Revenue Grants, Contributions & Subsidies	23456000	19466000	13489000	12433000	8944000	9675000	7322000	6899000	5198000	6221000	5955000	5942000	125000000	95000000	30000000	31.58
	Income from Investments	5933000	3789000	2423000	2212000	1945000	1425600	1244320	897000	989000	823450	799000	769630	23250000	1900150	21349850	1123.59
	Interest Earned	1933365	2155000	1367000	1144500	899450	923460	678360	576890	471270	445870	398210	356625	11350000	1000250	10349750	1034.72
	Other Income	1222400	987210	977650	999600	834000	793560	756670	699850	501340	656780	744321	826619	10000000	6500000	9350000	1438.46
	Total – INCOME	704357575	624129210	530949650	435689100	489182450	312068520	398970150	273398740	318743110	295452560	250801531	280857404	4914600000	3933550400		

6.10 The Performance report of the Model Municipal Corporation for the period ended 31st December 2006 would be as in Exhibit 6.2.

Exhibit 6.2
Model Municipal Corporation
Performance Statement for the Month Ended 31st December 2006

	Current Year 2006-07			Previous Year 2005-06		
	For the Month	For the Quarter	Year to date	For the Month	For the Quarter	Year to date
INCOME						
Tax revenues	282500000	847500000	2542500000	216470588	649411764	2110588235
Assigned Revenue & Compensations	41666666	125000000	375000000	35686274	107058823	347941176
Rental income from municipal properties	29583333	88750000	266250000	23137254	69411764	225588235
Fees & User charges	41666666	125000000	375000000	25490196	76470588	248529411
Sale & Hire Charges						
Revenue grants & contribution	10416666	31250000	93750000	7450980	22352941	72647058
Income from Investments	1937500	5812500	17437500	149031	447094	1453055
Interest Earned	945833	2837500	8512500	78450	235352	764897
Other Income	833333	2500000	7500000	50980	152941	497058
Total (A)	409550000	1228650000	3685950000	308513757	925541271	3008009129
EXPENDITURE						
Establishment Expenses (B)	40416667	122750000	362250000	20416666	57647059	187352941
Administrative Expenses (C)	8083333	25216250	71848750	5333333	15058824	48941176
Operations and Maintenance (D)	21083333	64250000	189750000	16250000	45882353	149117647
Interest and Finance Charges (E)	12916667	38750000	116250000	7250000	20470588	66529411
Programme Expenses(F)						
Revenue Grants , Contribution and Subsidies (G)	6250000	18750000	56250000	5583333	15764706	51235294
Provisions & Write off (H)	19416667	58250000	174750000	11083333	31294118	101705882
Miscellaneous Expenses Written off	1666667	5000000	15000000	1500000	4235294	13764705
Depreciation (I)	15729167	47187500	141562500	13633333	38494118	125105882
Total	125562500	380153750	1126661250	81050000	228847059	743752941
Net Surplus / (Deficit) of Income over Expenditure (J)	283987500	848496250	2559288750	227463757	696694212	2264256188
Key Financial Ratios						
Net Surplus / (Deficit) of Income over Expenditure to Total Income (J /A)	69.34	69.06	69.43	73.73	75.26	75.27
Finance Expense to Total Income (E /A)						
Personnel Cost to Total Income (B/A)	9.87	10	9.83	6.62	6.23	6.23
Administrative Expenses to Total Income (C/A)	1.98	2.05	1.94	1.73	1.63	1.63

	Current Year 2006-07			Previous Year 2005-06		
	For the Month	For the Quarter	Year to date	For the Month	For the Quarter	Year to date
Operating Expenses to Total Income (D/A)	5.14	5.22	5.12	5.27	4.96	4.96

6.11 Statement of Payables of Model Municipal Corporation for the month of September 2006 would be as given in Exhibit 6.3.

Exhibit 6.3

Model Municipal Corporation
Statement of Payables for the month of September 2006

Code No.	Head of Account / Item	Payables at the start of the month	Bills raised	Actual payments during the month	Payables at the end of the month
1	2	3	4	5	6
	<u>Creditors</u>				
	Suppliers	24565000	12346800	28748000	8163800
	Contractors	32678000	23371000	42831000	13218000
	Payable against Grants	12538000	4532000	12345000	4725000
	Others*	4567000	1356000	4190000	1733000
	Sub-total	74348000	41605800	88114000	27839800
	<u>Employee Liabilities</u>				
	Gross Salary	35678000		29867000	5811000
	Pension	11067000		9989100	1077900
	Others*	4590000		3189000	1401000
	Sub-total	51335000		43045100	8289900
	<u>Recoveries Payable</u>				
	TDS	2345800	3389000	4971230	763570
	Works Tax	4234500	6545800	8768900	2011400
	Others*	1230000	987500	1267800	949700
	Sub-total	7810300	10922300	15007930	3724670
	<u>Refunds Payable</u>				
	Taxes	1244000	1584000	2156000	672000
	Others*	178000	210000	287000	101000
	Sub-total	1422000	1794000	2443000	773000
	<u>Advance Collection Of Revenues</u>				
	Taxes	1438000	1851000	2234500	1054500
	Others*				
	Sub-total	1438000	1851000	2234500	1054500
	Grant total of Payables	136353300	56173100	150844530	41681870

Note: The above MIS reports are indicative and not provided as per NMAM and can be customized as per the requirements.

Annexure I

Illustrative training schedule

This is an illustrative training schedule; the trainer can use this as a basis for preparing their training schedule.

Contents	Duration
Session 1	
- Introduction	30 Minutes
- Urban Local Bodies in India	30 Minutes
- Introduction to Accrual based Double entry system of Accounting	1 hour
- Overview of National Municipal Accounts Manual	1 hour
Session 2	
- Understanding Financial Statements	2 hours
Session 3	
- Management Information System Reports	1 hour
Session 4	
- Exercise	1 hour
Discussions and feedback	