

## Part-I BALANCE SHEET

1 What are the points to be considered while preparing the Balance Sheet?

While preparing the Balance Sheet, the following points are to be kept in mind:

- (a) The assets appearing in the previous years' Balance sheet are to be adjusted for any sale during the year, any purchase during the year, any write-off/ loss/theft and Depreciation. Only the adjusted amount will appear in the final Balance Sheet. Please note that if during the year, an asset is sold, then the book value of the asset should be deducted from the concerned asset account and the difference between the book value and the actual sale proceeds should be treated as profit or loss and entered in the Income & Expenditure Account
- (b) If new assets have been purchased, the payment would be shown on the payment side of the R&P Account. This amount would appear in the Asset side of the Balance sheet under the specific asset class.
- (c) Similarly, if any loan has been raised, it would be found on the receipts side of the R&P Account. This amount, less any repayments (which will appear on the payment side), should be shown on the liability side of the Balance Sheet.
- (d) In the same manner, if any advance has been given to a person, the amount will appear on the payment side of the R&P Account and any recovery from him will appear on the receipts side. The net amount will be shown in the Balance Sheet – on the asset side under current assets, if the amount is due from the person to the Institute/unit/ICAR.
- (e) The adjustments made to expenses before they are shown in Income & Expenditure Account will also appear in the Balance Sheet. Expenses outstanding at the end of the year will be a liability and, on the contrary, those prepaid will be an asset.

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- (f) In the same manner, adjustments for Incomes in the Income & Expenditure Account will be shown in the Balance sheet. Income accrued but not yet received will be an asset whereas income received in advance will be a liability. Of course, for items specifically declared to be taken on cash basis as per the SAP of ICAR, this need not be done. Watch out for accrued interest on loans & advances to employees – this will have to be accounted for as follows:
  - (i) The amount calculated to be accrued during the year is to be shown in I&E Account.

- (ii) Take the figure of accrued interest shown in the last year's Balance Sheet. Add to it the accrued interest figure in I&E account (i.e. the calculated figure of accrued interest during the year). Thereafter, deduct the amount actually received during the year as shown in R&P Account. The resultant figure is the accrued interest as at the end of the current year and would appear in the Balance sheet as current asset.

2 How do I ensure that my balance sheet at year-end tallies and is free from errors?

- (i) The starting point is last year's Balance sheet. Check & confirm that the total of Assets and liabilities in the last year's Balance sheet are same.
- (ii) The closing balance of each & every item in the last year's Balance sheet forms the opening balance for the current year. Check & confirm this thoroughly for all items under fixed assets, current assets, Capital, Capital Reserve, Current assets & loans & advances.

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- (iii) In case of assets, add the payments made towards that item and deduct the receipts under that item as shown in the R&P Account. In case of liabilities, add the receipts and deduct the payments for the item as shown in R&P Account.
- (iv) The resultant balance would be shown on the relevant side in the Balance sheet as at the end of the year.
- (v) For eg. Outstanding advances (current asset) as on 1.4.2008 was Rs. 123,45,000/- and further advances paid during the year as per R&P A/c was Rs. 98,50,000/-. An amount of Rs. 115,23,000/- was shown to have been 'adjusted' (i.e. value/goods received and taken to expenditure/asset). The closing balance under Outstanding Advances (Current Asset) would be (123,45,000/- Plus 98,50,000/- Minus 115,23,000/-)=Rs. 106,72,000/-, which would be taken to the balance sheet (under current assets) as at the end of the year(i.e. as at 31.3.2009)..
- (vi) Certain items like depreciation on fixed assets, opening/closing stock, surplus/deficit etc. taken into account for the purpose of Balance sheet should tally exactly with the corresponding figures shown in the Income & Expenditure Account.
- (vii) In case you are using a software that automatically generates the I&E Account and the Balance sheet, be sure to take a print of the 'working sheets'

from the software itself and check it thoroughly based on the principles given above to validate the accuracy & effectiveness of the software and the data entry. Take suitable corrective actions for any errors of omission/commission discovered as a result of this test.

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## Part II            Income & Expenditure Account

### 1. Why I & E Account is to be prepared?

I & E Account is prepared for comparing the current incomes and the current Expenditure. It serves the same purpose as a Profit & Loss Account for a business concern. The Income & Expenditure Account is a nominal Account.

### 2. What are the salient features of I & E Account?

The salient features of Income & Expenditure Account are as follows:

- (i) It records nominal accounts, expenses & losses on debit side and Incomes & gains on the credit side.
- (ii) Capital item is NOT entered in this account. If some amount has been received by sale of property, the sale proceeds are NOT credited to the I & E Account – the amount is deducted from the book value of the concerned asset. Similarly, if some property has been purchased, it is NOT debited to this account – The amount is added to the book value of the asset concerned. This means that in the I & E Account, only the revenue items are entered.
- (iii) No item, either Income or expenditure, relating to the past period or the future period is entered into this account in the normal course. If, for eg., the account is being prepared for the financial year 2008-09, no item for the year 2007-08 or 2009-10 will be entered in this account.
- (iv) If for the current period any expense remains unpaid, it must be brought into account like an outstanding expense. Suppose salary for the month of march 2009 has not been paid, the amount concerned should be added to the salary already paid (for April 2008 to Feb 2009) and the total amount will be shown as an expense.

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- (v) Needless to say, in case the salary already paid during 2008-09 includes the salary of march 2008, the same has to be deducted, so that the salary expense charged to the I & E Account includes only the salary for the 12 months April 2008 to March 2009.
  - (vi) In the normal course, if some income has been earned (accrued) but not yet been actually received, it is brought to books by adding to the income actually received. Similarly, if income of next/previous years has been received, it needs to be excluded. However, the Significant Accounting Policy of ICAR lays down that sale of farm produce, third party insurance premium, license fee recovery and certain other income would be accounted for on cash basis. Refer the appropriate section of the significant accounting policy of ICAR.
  - (vii) If any fixed asset has been sold during the current year, profit or loss on sale of such asset will also be shown in the Income & Expenditure Account.
  - (viii) Depreciation is debited to the I&E Account. Any provisions are also debited to the I&E Account.
3. What is the concept of Fund based and Non-Fund based Accounting?

Generally, organizations such as ICAR (and its constituent units) establish Funds for some specific purpose say, Prize Fund, Welfare Fund, Revolving Fund, General Provident Fund, etc. The payments or expenses incurred for the purposes of the Fund are to be debited to that specific Fund. Similarly, Incomes earned on the investment of the Fund are credited to it. The accounting of Incomes and expenses for which specific Fund exists is termed as “Fund based Accounting (FBA)”. FBA is an exception to the general rule that all items of revenue or income and expenses are transferred to Income & Expenditure Account.

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However, there are certain incomes and expenses for which no specific Fund exists. The accounting for such income & expenses is termed as non-fund based accounting. These items are credited or debited to the Income & Expenditure Account.

4. What are the steps to prepare the Income & Expenditure Account?
- When it is desired to prepare Income & Expenditure Account from Receipts & Payments Account, the following steps are to be followed:
- (i) Do NOT consider the opening and closing balance of cash and bank given in the Receipts & Payments Account.
  - (ii) Opening Stock of consumable items should be debited to the I&E Account and the closing stock is to be credited as per prescribed format. Take care to ensure

that the opening stock figure is the same as shown under closing stock of previous years' Balance Sheet.

- (iii) Capital Receipts and Payments should NOT be considered.
- (iv) Expenses & incomes of the previous year and following year should be adjusted so that the I&E Account for the current year is not affected. It means that Income of previous year and following year is to be deducted from the figure appearing in the R&P Account and the expenses of the previous year and following year is to be deducted. Take care NOT to do this for items that are to be considered on cash basis only as per SAP of ICAR, such as sale of farm produce, recovery of license fee, Expenditure on retirement benefits etc.
- (v) Expenses for the current year are calculated by adding outstanding expenses to the actual expenses paid, as shown below:

Amount paid during the current year as per R&P Account of 2008-09  
Rs.96,00,000/-

Add outstanding expns at the end of the current year (eg. Mar '10 sal)Rs.  
7,09,000/-

Less outstanding expns at the beginning of the year (eg. Mar '09 sal)Rs.  
6,79,000/-

Amount to be debited to I&E Account on account of salaries                      Rs.  
96,30,000/-

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- (vi) The following items do NOT appear in Receipts & Payments Account but are shown in Income & Expenditure Account:
  - (a) Depreciation on Fixed Assets, on the debit side
  - (b) Loss on sale of Fixed Assets, on the debit side
  - (c) Profit on sale of fixed assets, if any, on the credit side.
- (vii) Surplus or deficit: After making the adjustments, the difference between the two sides is determined. If credit side exceeds debit side, it is surplus (or excess of income over expenditure) or vice versa deficit (excess of expenditure over income), which is transferred to the capital fund shown in the Balance Sheet.

- 10 Given the opening stock, closing stock and the amount of payment made for the purchases made during the year as per R&P Account, how do I work out the balance/amount to be debited to the I & E Account?

Such a situation arises in cases of Stationery, chemicals and other consumables. The amount of consumption of consumable goods during the year to be shown in the I&E Account is calculated as follows:

Opening stock of consumable goods                      Rs. 7,45,000/-

Add purchases during the year	Rs. 12,35,000/-
Less Closing stock	Rs. 2,25,000/-
Value of Consumed items (to be debited to I&E Account)	Rs. 17,55,000/-

It needs to be ensured that the opening stock figure is same as shown in the Balance Sheet as on 31<sup>st</sup> march of the previous financial year. The figure of purchases during the year should be same as shown in the R&P A/c of current financial year. The figure of closing stock should be same as shown in the Balance Sheet as at 31<sup>st</sup> march of current financial year.

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### Part-III Receipts & Payments Account

#### 1. What is R & P Account?

It is a summary of the transactions appearing in the Cash Book. All the Receipts and Payments during an accounting period are included in it under suitable headings.

#### 2. What are the salient features of R & P Account?

The salient features of R & P Account are as follows:

- (i) The account begins with the opening balance of cash in hand and the balance at bank.
- (ii) It deals with Receipts and payments of cash only and it is like a real (asset) account.
- (iii) All receipts are entered in the account whether they are of capital nature or of revenue nature. Further, no distinction is made between receipts relating to one period or the other.
- (iv) All payments of whatever nature and to whatever period they may belong are entered in the account.
- (v) The closing balance of cash in hand and cash at bank are entered in the account on the credit side.
- (vi) This account does not reveal whether the current incomes are in excess of the current expenditure or not. It merely shows the balance of cash in hand & cash at bank. For the purpose of comparing income & expenditure, one must prepare the Income & Expenditure Account.

3. How do I show the expenditure – on gross or net basis?

Expenditure is to be booked on gross basis and recoveries are to be shown on receipt side. For eg. Gross salary is to be shown as payment under 'Establishment' and recoveries on account of GPF, Loans, Income tax etc are to be shown as receipts under respective heads.

4. Do I need to disclose details of the amount booked under Establishment charges, research expenses, Administrative expenses, and other payment heads? What about head-wise expenditure for plan/non-plan/schemes etc.?

YES! It would be better to enclose a sub-schedule showing the amount booked under Nonplan, Plan, Plan schemes (scheme-wise details also to be enclosed), Ap Cess etc. For eg. The sub-schedule enclosed to "Establishment charges: should show the break-up between Nonplan, nonplan schemes, Plan, Plan schemes, AP Cess etc.

For each source of fund, be sure to enclose a head-wise details of RE, opening balance, remittance received, expenditure incurred and closing balance. Ensure that the closing balance equals (opening balance plus remittance received minus expenditure incurred).

5. What are the various check points that will tell me the R & P Account is accurate?

The various check points/ controls to ensure accuracy of R & P Account are as follows:

- (i) Opening balance of this year wrt cash in hand, cash at bank (for each bank account), Short term deposits etc. should be exactly same as the closing balance of the pervious year.
- (ii) Each of the schedule/sub-schedules should support the figures shown in the main abstract.

- (iii) The figures shown in each of the schedules/sub-schedules should be supported by the supplementary records such as classified abstract, various registers/ledgers, cash book, bank statements, vouchers etc.

- (iv) The closing balances shown in the R & P Account should tally with the closing balances arrived at in the respective Cash books. The closing balance of the cash book/ R&P Account should be reconciled with the Bank balance shown in the Bank statement as on the last day of the financial year through a bank reconciliation statement as prescribed.