

Accrual Based Double Entry Accounting System (ABDEAS)

A tool, to achieve
operational goals

BASED ON CASE STUDY OF URBAN LOCAL BODIES

- The 74th Amendment promulgated by the Parliament introduced 3rd Tier of Government, known as "Urban Local Body" (ULB).
- Municipal Corporation (Nagar Nigam) , Municipality (Nagar Palika) , Town committee (Nagar Panchayat) i.e institution of Local Governance.

Sample Size of 110 ULB(s) located
in different parts of the country .

Maharashtra
Chhattisgarh
Uttarakhand
Madhya Pradesh

WHAT
IS
ABDEAS

Single entry based accounts

- Transaction are recorded as Money Received :
 - (1) Grants
 - (2) Loans
 - (3) Revenue Receipts
 - (4) Other receipts

- Transactions are recorded when Money is paid :
 - (1) For operational Expenses
 - (2) For Assets
 - (3) for Advances
 - (4) For other payments

Single entry based accounts

- Single entry system does not recognise any enduring benefit of any money outgo and hence nothing is recognised as an Asset.

- Similarly there is no recording of any obligation and thus the receipt and payment account does not contain any information about how much the entity owes i.e Liabilities

- No distinction between revenue and liability

- No distinction between out go and asset .

- Single entry system of accounting is normally on cash method of accounting .

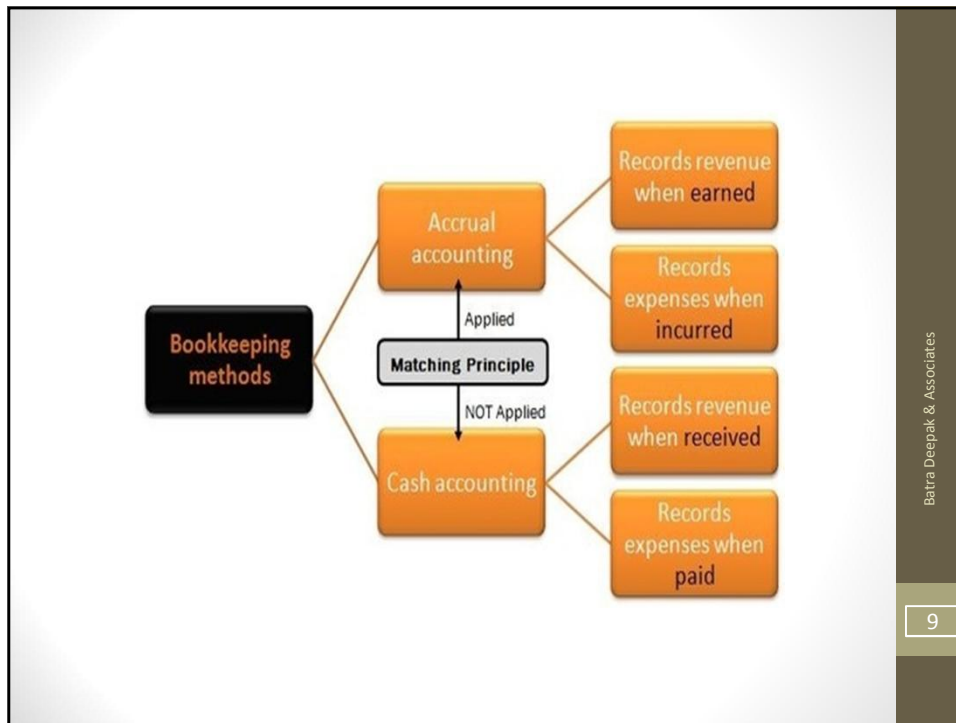
- Budgets are made and actual achievement is measured with respect to such budgets .

Cash method of accounting

- Transactions are recorded when money is received and money is paid .
- Revenues are not recorded until cash is received
- Expenses are not recorded until cash is disbursed.
- Hence if money is not received the income and expenditure account would not have any mention of it .
- Matching of Revenues and Expenditure not possible .
- Similarly a surplus may get reflected , just because payments are not made .
- Financial picture is neither sufficient nor conclusive to take any decision .

ABDEAS

- Each Transactions are having two sides
- Assets and Liabilities gets recognised
- Income and Expenditure statement and Balance sheet gets generated as transaction are Recorded when they occur
- Entries are made on date when revenue or expenses fall due
- Results in assessing correct financial position and performance
- World wide acceptable accounting system.
- Mandatory for all corporates in the Country
- Most of the ULBs have either completed or in the process of completion of ABDEAS.
- Mandatory accounting reforms under AMRUT and Smart City Mission



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9

Single Entry Based Accounts	Double Entry Based Accounts
Only Receipts and Payment	Income –Expenditure Account / Profit & Loss Account & Balance Sheet
Incoming of funds of all nature	Differentiation between income and liability
outgoing of funds of all nature	Difference between expenditure & creation of asset

Cash Based Accounting	Accrual Based Accounts
Recognition of transaction only on (A) Actual payment (B) Actual receipt	Recognition of transaction based on (A) Obligation (arising) to pay (B) Right to recover
Various records and registers	Accounts contain all information
easy to understand	transition period is important
Goes not give information desired for achieving operational goals	Information is available for analysis and for achieving operational goals

Implications & Specificities

Difference Between Single entry cash based accounting system and Accrual Double entry accounting system

BASIS OF DISTINCTION	SINGLE ENTRY CASH BASED ACCOUNTING	ACCRUAL BASED DOUBLE ENTRY ACCOUNTING SYSTEM
FINANCIAL PERFORMANCE	FINANCIAL PERFORMANCE CANNOT BE ASCERTAINED AS INCOME AND EXPENDITURE ACCOUNT AND BALANCE SHEET ARE NOT PREPARED	FINANCIAL PERFORMANCE OF AN ENTITY CAN BE ASCERTAINED AS INCOME AND EXPENDITURE ACCOUNT AND BALANCE SHEET ARE PREPARED
FINANCIAL POSITION	ONLY A RECEIPT AND PAYMENT STATEMENT IS PREPARED WHICH DOES NOT GIVE THE TRUE AND FAIR STATE OF AFFAIRS	A BALANCE SHEET IS PREPARED ON GOING CONCERN BASIS WHICH GIVES A TRUE AND FAIR PICTURE OF FINANCIAL POSITION
AUTHENTICITY	THIS SYSTEM IS NOT CONSIDERED AUTHENTIC BY THE FINANCIAL INSTITUTION, LENDING AGENCIES AND OTHER INVESTORS .	THIS SYSTEM OF ACCOUNTING IS WELL ACCEPTED BY THE FINANCIAL INSTITUTION, LENDING AGENCIES AND OTHER BODIES

Advantages & Challenges

Advantages of ABDEAS

- Tool to Assess the correct financial position and performance of the entity.
- Tool to Evaluate entity's ongoing ability to finance its activities and to meet its commitments.
- Tool to ensure Better expenditure management.
- Modern and globally accepted accounting system.
- Tool to exercise and monitor control over budgets.
- Tool to improve Internal Controls in the areas of cost cutting , management efficiency ,
- Increased level of transparency.

CHALLENGES	MITIGATION
Transition Phase (Opening Balance Sheet ,data conversion, financial statements)	TRAINING AND HANDHOLDING
Availability of Data , Records and information	comprehensive study and planning
Manual Data : different set of records	
Bank reconciliation Statements,	segregation of Bank Balances
fund reconciliation	mission mode working
accounting codes	
language of records	

CHALLENGES	MITIGATION
resistance of personnel	mission mode working
skill set of personnel	accounting cader
availability of personnel	

Decision making & Management control

ORGANISATION AND OPERATIONAL GOALS
Growth (presence , activities)
Enhancement of citizen Services
Self Sustainability
Transparency
End Use of Funds
Revenue Augmentation
Cost Control
Satisfaction of stakeholders , Value creation
Process Control

Content of the Balance Sheet
Fixed Assets
<u>Immovable Property</u>
➤ Land
➤ Building
➤ Roads, streets, lanes and footpaths
➤ Bridges, culverts, flyovers, subways and causeways
➤ Drains including underground drains
➤ Water Works Distribution
➤ Public Lighting System
➤ Lakes and Ponds
➤ Capital Work-in-Progress
<u>Movable Property</u>
➤ Plant and Machinery (including machinery of Water Works and Drainage)
➤ Vehicles
➤ Furniture and Fixtures
➤ Office Equipments
➤ Other Equipments
➤ Live Stock

<u>Investments</u>	
<u>Current Assets</u>	
➤ Cash Balance	
➤ Bank Balance	
➤ Details of Advances paid to suppliers / contractors	
➤ Details of Loans & Advances to employees	
➤ Receivables (including Taxes, Water charges, Rent etc.)	
➤ Grants Receivable	
➤ Department - wise Inventory	
➤ Consolidated Inventory	
➤ Details of Deposits made	
<u>Loans Payable</u>	
<u>Unutilised Grants</u>	
<u>Reserve Funds</u>	
<u>Current Liabilities</u>	
➤ Details of Deposits received	
➤ Bills and other payables details	
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	21

ABDEAS as a tool (case study)
Advertisement rights , Citizen Services
Smart Parking lots
PMAY
Increase in Income : Tax Collection , interest income , action of Ponds , Sand Mines , Rental Income , Commercial real estate ,
Reduction in expenses : Manpower, Consumables
Budget Controls over expenses (fuel for water supply)
Energy audit for reduction in bill
reduction in interest outgo

