संख्या LA/SS-I(Hqr)/Misc.Corres/Vol-VII/03/1732
No.
भारतीय लेखा तथा लेखा परीक्षा विभाग
कार्यालय प्रधान महालेखाकार (लेखापरीक्षा) बिहार
वीरचन्द पटेल मार्ग, पटना-800 001
Indian Audit & Accounts Department
Office of the Principal Accountant General (Audit) Bihar
Birchand Patel Marg, Patna-800 001

सत्यमेव जयते

दिनांक/Date : 24-02-2021

To,

Deputy Secretary & Secretary,
Committee on Public & Government financial Management (CP&GFM)
The Institute of Chartered Accountants of India, Post Box No. 7100,
ICAI Bhawan, Indraprastha Marg, New Delhi 110002

Subject:- Exposure draft of the 'Guideline Note on Accounting for Investments' for Local Bodies for comments- regarding.

Sir,

With reference to the subject cited above, please find enclosed herewith comments of this office on the exposure draft of the 'Guideline Note on Accounting for Investments' for Local Bodies for further necessary action at your end.

This issues with the approval of the AG (Audit) Bihar.

Yours Sincerely,

23/2/2021

Deputy Accountant General,
AMG-V

Enclosure:- As above

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Comments/Remarks on Exposure Draft Guidance Note on 'Accounting for investments' for Local Bodies

Serial No.	Topics of Exposure Draft	Comments/Remarks (may be included in Guidance note.)	Source
1.	Objective	No Comments	
2.	Scope	No Comments	
3.	Definitions	No Comments	
4.	Classification of Investments	1. A Separate account code has to be assigned for each type of investments made by the LBs.	Bihar Municipal Accounting Manual 2014 (para 17.4)
5.	Initial Measurement	No Comments	
6.	Subsequent Measurements	No Comments	
7.	Short term investments	No Comments	
8.	Long-term Investments	No Comments	
9.	Fair value Measurement	No Comments	
10.	Disposal of Investments	No Comments	
11.	Re-classification of Investments	No Comments	
12.	Guidance in case investments are made from specific funds	1- Special funds shall be treated as a liability. on their Creation.	Bihar Municipal Accounting Manual 2014 (para 3.18)
13.	Presentation and Disclosure in Financial Statements	No Comments	

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Rakesh kumar 16/02/2024 Sr. AO

Chapter Seventeen

17. Investments

This chapter on Investments is aimed at...

- Making you aware of the basic accounting princi
  for recording transactions relating to Investments
- Familiarizing you with accounting for Investments.

By the end of this chapter, you should...

- Be aware of accounting system for recor
  transaction relating to Investments and,
- Appreciate the concepts and underlying principles

17.1. Introduction

17.1 This chapter contains the recommended accounting
investment transactions, i.e., transactions dealing with sur

17.2 The Municipalities may invest surplus funds available w
prescribed by the Government. Investments mean a
operational purposes or for rendering services and c
assets resulting from investments of Cash surpluses (e.
debentures, etc.).

17.3 Investments shall be classified based on the maturity prof
term and long-term. According to the Accounting Stand
the Institute of Chartered Accountants of India, 'short t
those which are readily realizable, and are intended to
than twelve months from the date of investment. Investme
ambit of short term investments are treated as 'long term' i

17.4 A separate account code has to be assigned for each typ
made by the Municipalities.

17.2. Accounting Principles

17.5 The following Accounting Principles shall govern the recor
treatment of transactions relating to Investments:

a. Investment shall be recognized at
investment. The cost of investment is
incurred in acquiring investment and
expenditures incurred for its acquisition;

related to non-depreciable assets are credited to capital reserve under this method, as there is usually no charge to income in respect of such assets. However, if a grant related to a non-depreciable asset requires the fulfillment of certain obligations, the grant is credited to income over the same period over which the cost of meeting such obligations is charged to income. The deferred income is suitably disclosed in the balance sheet pending its apportionment to Income & Expenditure account.

f. Grants in the form of non-monetary assets (such as fixed assets given at a concessional rate) shall be accounted for on the basis of the acquisition cost. In case a non-monetary asset is received free of cost, it shall be recorded at a nominal value (e.g. Rupee One).

g. Income on investments made from 'Specific Grants received in advance' shall be recognized and credited to the Specific Grant, whenever accrued. Profit/loss, if any, arising on disposal of investments made from the 'Specific Grant received in advance' shall also be recognized and credited/debited to the Specific Grant.

3.17 Borrowings

a. Interest expenditure on loan shall be recognized on accrual basis.

b. Interest on borrowings directly attributable to acquisition or construction of qualifying fixed assets up to the date of commissioning of the assets shall be capitalized.

c. A provision shall be made for the interest accrued between the date of last payment of interest and the date of financial statements and shall be charged to the current period's Income and Expenditure Statement.

d. The expenditures incurred while issuing debentures or bonds (Issue Expenditures) shall be deferred and amortized in equal installments over a period of 5 years or the tenure of the loan whichever is earlier. In case, the debentures and bonds are prematurely redeemed, the amount of issue expenditures outstanding during the year shall be written-off and charged to the Income and Expenditure Statement as expenditure of the year when this happens. However, all other expenditures in respect of raising loans other than those considered, as issue expenditures shall be expensed off in the year in which they are incurred.

3.18 Special Funds

a. Special Funds shall be treated as a liability on their creation.

b. Income on investments made from Special Fund shall be recognized and credited to Special Fund, whenever accrued. Profit/loss, if any, arising on disposal of investments made from the

Special Fund shall be recognized and credited/debited to Special Fund Account.

c. Any expenditure of a revenue nature, which is incurred specifically on scheme/project for which a Special Fund has been created, shall be charged to that Special Fund.

d. On completion of the construction of a fixed asset and/or on acquisition of a fixed asset out of a Special Fund, the amount equivalent to the cost of such fixed asset shall be transferred from the respective Special Fund to the Special Fund (Utilized).

3.19 Investments

a. Investment shall be recognized at cost of investment. The cost of investment is to include cost incurred in acquiring investment and oth incidental expenditures incurred for its acquisition.

b. All long-term investments shall be carried / stated in the books accounts at their cost. However in the event of any permaner diminution in their value as on the date of Balance Sheet, these shall be provided for.

c. Short-term investments shall be carried at their cost or market in turn would allow them to take correct decisions. For example, the Accounting Principles that have been followed for preparation of the Financial Statements should be disclosed along with the Financial Statements for proper understanding and interpretation of the same.

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2.1.11 Convention of Materiality

2.20 An item should be regarded as material, if there is a sufficient reason to believe that knowledge of it would influence the decision of informed creditors, lenders, investors, citizen and other stakeholders. The accounts and the Financial Statements should impart importance to all material information so that true and fair view of the state of affairs of the entity is given to its beneficiaries. Hence, keeping the convention of materiality in view, unimportant items are not disclosed separately and are merged with other items. For example, the expenditure incurred on repairs and maintenance of a certain asset of the Municipalities, which are small, may not be disclosed separately in respect of each such small item but may be grouped together and shown as a single item of expenditure.

2.1.12 Convention of Consistency

2.21 The convention of consistency facilitates comparison of financial performance of an entity from one accounting period to another. This means that the accounting principles followed by an entity should be consistently applied by it over the years. For example, a Municipality should not change its method of depreciation every year, i.e., from Straight Line Method to Written down Value Method or vice-versa. Similarly, the method adopted for valuation of stocks, viz., First in First out (FIFO) or Weighted Average should be consistently followed. In case a change is made, it should be disclosed.

2.1.13 Convention of Conservatism

2.22 As per this convention, the anticipated profits should be ignored but all anticipated losses should be provided for in the books of accounts of an entity. This means that all prospective losses are taken into consideration, however, no doubtful income is taken into consideration in recording of transactions by an entity. For example, while provision for doubtful debts and discount is made on debtors or Accounts Receivable, no provision is made for likely discount receivable from creditors or Accounts Payable. Similarly, provision is made for

diminution in value of investments; however, no provision is made for any appreciation in value of investments.

Accrual System of Accounting

2.23 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.

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