Classification and Form of Government Accounts

Session Overview

It is helpful to know the purposes for which the accounting information is required in the Government so that the system of accounting is understood and its usefulness and its limitations known. The first purpose of accounting in government is to know the revenues, tax revenues or non-tax revenues, collected during a year. This information must be in sufficient detail so that it may be easy to estimate revenues in future years, and also to decide what increase or decrease in revenue is practicable or desirable. This information on revenues is segregated in government accounts in detail. If these were lumped together, it will not be possible to know the details of each of the revenues. The second purpose is to know the expenditure on different items. The Parliament and the State Legislatures having authorized the respective Governments to spend different amounts on different activities, they have a right to know what is the actual expenditure on each of the activities. The third essential purpose is to ascertain how much loans and deposits Government has to pay to its creditors and how much of these Government has to receive from its debtors. Governments also resort to borrowings on the security of its Consolidated Fund. These borrowings have an unprecedented impact on the national economy, national wealth, and availability of money supply in economy and employment and inflation. Both the Government and economists need to have a close watch on Government's borrowings and its impact on economy. Since the impact of borrowings is visible over a long period of time, detailed data on borrowings need to be available in intelligible and usable format. Government borrows heavy sums and it must know how much is outstanding at a given time. Similar is the case for its lending. In day-to-day management, the most important factor is to know how much cash is available and what are the likely receipts and expenditure in the near future. For this purpose it is essential to reconcile Government's bank account with its bankers.

This is made possible by adoption of a systematic classification of transactions, their consolidation and their presentation in a useful manner.

In this session we will discuss the main divisions of government accounts and main features of how the government transactions are exhibited in final accounts.

Learning Objective

By the end of the session, the learner will be able to state the basic structure and form of accounts, the main divisions of Government Accounts and main features of classification of transactions in Government Account

Basic structure of accounts

Period of Accounts

The annual accounts of the Central Government, the State Governments and of Union Territories shall record transactions, which take place during a financial year running from 1st April to 31st March of the following year.
The Government Accounts of a year may be kept open for a certain period in the following year, i.e. beyond 31st March, for completion of various accounting processes *iner-alia* in respect of the transactions of March, for carrying out certain interdepartmental adjustments

and for closing the accounts of several provident funds, and suspense heads. Adjustments may also be made after the close of the year for the rectification of mispostings and misclassifications coming to notice after 31st March. An actual cash transaction taking place after 31st March should not, however, be treated as pertaining to previous financial year even though the accounts for that year may be open for the purposes mentioned above.

Cash basis of accounts

The transactions in Government Account shall represent actual cash receipts and disbursements during a financial year as distinguished from amounts due to or by the Government during the same period. Some book adjustments, as may be authorized by rules by any general or special orders issued by the Central Government on the advice of the Comptroller and Auditor General of India are, however, allowed to be carried out in the accounts.

Currency in which accounts are kept

The Accounts of the Government shall be maintained in Indian currency, i.e. in rupees. All transactions of the Central and State Government taking place in other countries shall be passed on monthly by the Indian Embassies/Mission to India and brought to account finally in the Indian books after they have been converted into Indian rupees.

Main Divisions of Accounts

Part XII of the Constitution of India (Articles 266 and 267) provide for the establishment of:

a) The Consolidated Fund of India and the Consolidated Fund of each State;
b) The Public Account of India and the Public Account of each State; and
c) The Contingency Fund of India and Contingency Fund of each State.

Consolidated Fund of India and of the States

Subject to the provisions of Article 267 of the Constitution (relating to Contingency Fund) and also subject to the provisions of the Constitution relating to the assignment of the whole or part of the net proceeds of certain taxes and duties to States, all revenue received by the Government of India, all loans raised by that Government by issue of treasury bills, loans or ways and means advances and all moneys received by that Government in repayment of loans shall form one consolidated fund to be entitled 'The Consolidated Fund of India'. Similarly all revenues raised by the Government of a State, all loans raised by that Government by issue of treasury bills, loans or ways and means advances and all moneys received by that Government in repayment of loans shall form one consolidated fund to be entitled 'The Consolidated Fund of the State'. (Refer to Article 266(1) of the Constitution).

No money out of the Consolidated Fund of India or the Consolidated Fund of a State shall be appropriated except in accordance with the law and for the purposes and in the manner provided in the Constitution.

Public Account of India and of the States

Apart from the money creditable to the Consolidated Fund of India or to the Consolidated Fund of a State, all other public moneys received by or on behalf of the Government of India or the Government of a State shall be credited to the Public Account of India or the

Public Account of the State, as the case may be.

Contingency Fund

Under article 267 of the Constitution, Parliament may by law establish a Contingency Fund in the nature of an imprest to be entitled 'The Contingency Fund of India' into which shall be paid from time to time sums (from Consolidated Fund of India) as may be determined by law, and such Fund shall be placed at the disposal of the President to enable advances to be made by him out of such fund for the purposes of meeting unforeseen expenditure pending authorization of such expenditure by Parliament by law under relevant articles of the Constitution (under Article 115 or under Article 116).

Similarly, the Legislature of a State may by law establish a contingency fund in the nature of imprest into which shall be paid from time to time such sums as may be determined by such law, and the said Fund shall be placed at the disposal of the Governor of the State to enable advances to be made by him out of such fund for the purposes of meeting unforeseen expenditure pending authorization of such expenditure by the Legislature of the State by law under Article 205 or Article 206 of the Constitution.

Based on the constitutional requirement, the Government Accounts are kept in these three main divisions, viz.:

1. Consolidated Fund;
2. Contingency Fund; and
3. Public Account.

These funds and accounts exist separately for the Government of India, for each State and for each Union Territory having a Legislative Assembly. There being no separate Public Account in the case of Union Territory Governments, the transactions pertaining to this account shall be booked in the Public account of the Central Government.

The Accounts of Union Territories of Delhi, Andaman and Nicobar Island, Dadra and Nagar Haveli, Lakshadweep, Chandigarh and Daman and Diu which do not have Legislative Assemblies, form part of the Accounts of the Government of India.

Further Classification of transactions in Accounts
(MSO (A&E) Vol-I Para 4.3)

Broad features of classification of transactions in Government accounts are:

(1) Under Article 150 of the Constitution, the accounts of the Union and States shall be kept in such form as the President may on the advice of the Comptroller and Auditor General, prescribe. The word 'Form' used in Article 150 has a comprehensive meaning so as to include the prescription not only of the broad form in which the accounts are to be kept but also the basis for selecting appropriate heads under which the transactions are to be classified.

(2) The estimates of receipts and expenditure framed by Government or in any order of Appropriation shall indicate provisions, ordinarily against heads opened in conformity with the prescribed rules. Where there is divergence, the corresponding receipt or expenditure shall be brought to account under the appropriate major head or minor head or other unit of classification as determined by

the President on the advice of the Comptroller and Auditor General of India.

(3) In Part-I, namely the Consolidated Fund, there are two main sub-divisions, namely
(i) Revenue: consisting of sections for 'Receipt Heads (Revenue Account)', and 'Expenditure Heads (Revenue Account)'.
(ii) Capital, Public Debt, Loans consisting of sections for 'Receipt Heads (Capital Account)' 'Expenditure Heads (Capital Account)' and 'Public Debt', 'Loans', and Advances'.

The first division comprising the section Receipts Heads (Revenue Account) dealing with the proceeds of taxation and other receipts classed as revenue and the section; 'Expenditure Heads (Revenue Account)' dealing with expenditure met there from.

The second sub-division comprises the following sections:

(a) The Section 'Receipts Heads (Capital Account)' which deals with receipts of capital nature, which cannot be applied as a set off to Capital Expenditure.

(b) The section 'Expenditure Heads (Capital Account)' which deals with expenditure met usually from borrowed funds with the object either of increasing concrete assets of a material and permanent character or reducing recurring liabilities. It also includes receipts of a capital nature intended to be applied as set off to capital expenditure.

(c) The Sections 'Public Debt' and 'Loans and Advances' which comprise of loans raised and their repayments by Government such as, Internal Debt. External Debt of the Central Government, and Loans and Advances made by Governments, and their recoveries.

The sources of inputs into the Consolidated Fund are clearly defined. These are:
(a) Revenues;
(b) Loans and ways means advances; and
(c) Recoveries of loans granted by Government.

The Constitution of India does not mention whether grants form part of revenue.

There are two kinds of grants: One is grant to States whose revenues are inadequate to meet their normal expenditure of running the Government and these grants are as per the provisions of the Constitution. Obviously, these can be considered revenues of the receiving State. Then there are grants which the Government of India gives for Centrally Sponsored Schemes; these are also considered revenues. Similar is the case of foreign aid in form of grants received by the Government of India.

(4) In Part II, namely Contingency Fund, of the Accounts are recorded the transactions connected with the Contingency Fund set up by the Government of India or by a State Government or by a Union Territory Government under Article 267 of the Constitution/ Section 48 of the Union Territory Act, 1963.

The Contingency Fund is at the disposal of President/Governor; therefore, only Government can issue authority for use of its moneys. No subordinate authority can of itself, authorise its use.

(5) In Part III, namely Public Account, of the Account, the transactions relating to Debt (Other than those included in Part-I), 'Deposits', 'Advances', 'Remittances' and 'Suspense' are recorded. The transactions under Debt, Deposit and Advances in this part are such in respect of which Government incurs a liability to repay the moneys received or has a claim to recover the amounts paid, together with the repayments of the former (Debt and Deposits) and the recoveries of the latter (advances). The transactions relating to 'Remittances' and 'Suspense' in this part embrace all merely adjusting heads under which shall appear such transactions as Remittances of cash between treasuries and currency chests and transfers between different accounting circles. The initial debits or credits to these heads will be cleared eventually by corresponding receipts or payments either within the same circle of account or in another account circle.

For payments out of the Public Account, approval of the Parliament or State Legislature is not required.

Rule 19 of the Form of Accounts of the Union and States (Basic) Rules 1983 elaborates the concept of the Public Account. It says that in the Public Account the transactions relating to Debt (other than those included in the Consolidated Fund), deposits, Advances, Remittances and Suspense shall be recorded. The transactions under Debt, Deposit and Advances in the Public Account are such in respect of which Government incurs a liability to repay the moneys with the repayments of the former (Debt and Deposits) and recoveries of the latter (Advances).

The transaction under the head Remittances and Suspense in the Public Account are booked only for a temporary period until these are transferred to the correct accounts in the Consolidated Fund or the Public Accounts.

(6) As already discussed in previous session, the transactions in the Consolidated Fund are classified into:
(i) Charged and Voted expenditure;
(ii) (ii) Plan and Non-Plan expenditure; and
(iii) Revenue and Capital Account.

The concepts of voted expenditure and charged expenditure and of Plan expenditure and non-Plan expenditure have been explained in Session 2 on Introduction to Government Accounting. The concepts and classification of expenditure between revenue and capital account is explained subsequently in this session.

Sectors and Sub-sectors of Accounts

(a) Within each of the Divisions and sub-divisions of the Consolidated Fund referred to above, the transactions are grouped into Sectors and sub-sectors as under:

Revenue Receipts

Sector	Sub-sector
A. Tax Revenue	(a) Taxes on Income and Expenditure
	(b) Taxes on Property and Capital transactions
	(c) Taxes on commodities and Services
B. Non-Tax Revenue	(a) Fiscal Services
	(b) Interest Receipts, Dividends and Profits
	(c) Non-Tax revenue
	(i) General services
	(ii) Social Services
	(iii)Economic Services
C. Grants –in –Aid and Contributions	Grants –in –Aid and Contributions

Expenditure Head (Revenue Account)

Sector	Sub-sector
A. General Services	(a) Organs of State
	(b) Fiscal services
	(i) Collection of Taxes on Income and Expenditure
	(ii) Collection of Taxes on Property and Capital Transactions
	(iii) Collection of Taxes on commodities and Services
	(iv) Other Fiscal Services
	(c) Interest payments and servicing of debt
	(d) Administrative Services
	(e) Pensions and Miscellaneous General Services
	(f) Defence Services
B. Social Services	(a) Education, sports, Art and Culture
	(b) Health and Family welfare
	(c) Water supply, sanitation, Housing and Urban development
	(d) Information and Broadcasting
	(e) Welfare of Scheduled castes, Scheduled Tribes and Other Backward Casts
	(f) Labour and Labour Welfare
	(g) Social Welfare and Nutrition
	(h) Others
C. Economic Services	(a) Agriculture and allied Services
	(b) Rural Development
	(c) Special Areas Programme
	(d) Irrigation and Flood Control
	(e) Energy
	(f) Industry and Minerals
	(g) Transport
	(h) Communication
	(i) Science Technology and Environment
	(j) General Economic Services
D. Grants-in –Aid and Contribution	

(b) Similar segregation of transactions into Sectors and Sub-sectors, depending on the type of transaction is made in respect of Capital Receipts Head.

The transactions are further classified into different Major Heads of Account. The Sectors/ Sub-Sectors will be distinguished by letter of the alphabet.

(b) In Part-II- Contingency Fund, there is a single Major Head and all

the transactions met out of the Contingency Fund are recorded under it.

(c) In the case of Part-III- Public Account, the transactions are grouped into the Sectors and Sub-sectors, as under:

Sector	Sub-sector
I. Small Savings, provident Funds, etc.	(a) Small savings
	(b) Provident Funds
	(c) Other Accounts
J. Reserve Fund	(a) Reserve Funds Bearing Interest
	(b) Reserve Funds not Bearing Interest
K. Deposits and Advances	(a) Deposits bearing Interest
	(b) Deposits not bearing Interest
	(c) Advances
L. Suspense and Miscellaneous	(a) Coinage Accounts
	(b) Suspense
	(c) Other Accounts
	(d) Accounts with Governments of Foreign Countries
	(e) Miscellaneous
M. Remittances	(a) Money Orders and Other Transactions
	(b) Inter Government Adjusting account
	(c) Exchange Accounts
N. Cash Balances	

The transactions are further classified into Major Heads of Account. The Sectors/ Sub-Sectors will be distinguished by letter of the alphabet.

Allotment of Code to each Major Head and range of code numbers

A four-digit code has been allotted to the Major Head, the first digit indicating whether the Major Head is a Receipt Head or Revenue Expenditure Head, or Capital Expenditure Head or Loans and Advances Head or it pertains to Public Account. The allocation of first digit on numeric code for different sections is as under:

First Digit of Major Head	Represents
'0' or '1'	Revenue Receipts
'2' or '3'	Revenue Expenditure
4000 (exception)	Capital Receipt
'4' or '5'	Capital Expenditure
'6' or '7'	Loans and Advances Head
'8'	Public Account
8000 (exception)	Contingency Fund

Adding 2 to the first digit of the Revenue Receipt will give the Code Number allotted to corresponding Revenue Expenditure Head; adding another 2- the Capital Expenditure Head and another 2- the Loans and Advances Head of Accounts; e.g.

0401 represents the Receipt Head for Crop Husbandry 2401 represents the Revenue Expenditures Head for Crop Husbandry 4401 represents the Capital Outlay on Crop Husbandry 6401 represents Loans for Crop Husbandry.

Such a pattern is however, not relevant for those departments, which are not, operating Capital/Loan Head of Accounts e.g. Department of Supply. In a few cases, however, where receipt/expenditure is not heavy, certain Major Heads have been combined under and single number, the Major Heads themselves forming sub –major heads under that number. The range of code numbers allotted under the scheme of codification is shown below: -

Part I- Consolidated Fund	
Section I Receipt Heads (Revenue Account)	0020-1999
Expenditure Heads (Revenue Account)	2011-3999
Section II- Receipt Head (Capital Account)	4000
Expenditure Heads (Capital Account)	4046-5999
Section III Public Debt, loans and Advances	6001-7999
Part II-Contingency Fund	8000
Part III-Public Account	8001-8995

Major, Minor and Detailed Heads

(a) The main unit classification in accounts is the major head, which is divided into minor heads, each of which has a number of sub-ordinate heads, generally known as sub-heads. The sub-heads are further divided into detailed heads. Sometimes major heads may be divided into sub-major heads before their further divisions, into minor heads.

(b) Major Heads of accounts falling within the Consolidated Fund generally correspond to 'Functions' of Government such as different services like 'Agriculture' 'Defence' provided by Government, while minor heads subordinate to them identify the Programme undertaken to achieve the objectives of the function represented by the major head.

(c) A 'detailed head', is termed as an object classification. On the expenditure side of the accounts particularly in respect of heads of accounts within the Consolidated Fund, detailed heads are primarily meant for itemised control over expenditure and indicate the object or nature of expenditure on a scheme or activity or organization in terms of inputs such as 'Salaries', 'Office Expenses', 'Grants-in-Aid', 'Loans', 'Investments'.

(d) Accounts and the Order in which the Major and Minor Heads shall appear in all account records shall be such as are prescribed by the Central Government from time to time on the advice of the Comptroller and Auditor General of India. The 'List of Major and Minor Heads of Account of Central and States-Receipts and Disbursements' contain the classification prescribed in this regard. The classification prescribed (including the code No. assigned up to the major heads and minor heads there under) are strictly followed.

(e) In certain cases, especially in regard to non-developmental expenditure or expenditure of an administrative nature, the sub-heads may denote the components of a programme, such as Organisations or the different Wings of Administration.

Summing up, the classification of transactions in Government account follows a coding pattern as below:

Major Head:	4-Digit Code
Sub-Major Head:	2-digit Code
Minor Head	3-digit Code
Sub-Minor Head	2-digit Code
Detailed Head	2-digit Code
Object Head	2-digit Code

This may be graphically represented as under:

Activity Level	Accounts Classification	Numerical code Structure

Function	Major Head	XXXX (4 digit)
Sub-Function	Sub-Major Head	XXXX-XX (2 digit)
Programme	Minor Head	XXXX-XX-XXX (3 digit)
Scheme	Sub-Minor Head	XXXX-XX-XXX-XX (2 digit)
Sub Scheme	Detailed Head	XXXX-XX-XXX-XX-XX (2 digit)
Object of Expenditure	Object Head	XXXX-XX-XXX-XX-XX-XX (2 digit)

Example:

Pay of Rs. 5000 drawn for an allopathic doctor employed in an urban dispensary will be classified as under:
Major Head: 2210 Medical and Public Health
Sub-Major Head: (a) Urban Health Scheme – Allopathy
Minor Head: 110-Hospitals and Dispensaries
Sub-Minor Head: XX-Dispensaries
Object Head: XX-pay

Basis of Classification

1 Expenditure, which under the provisions of the Constitution is subjected to the vote of the Legislature, shall be shown in the accounts separately from expenditure, which is 'charged' on the Consolidated Fund of India or of a State or Union Territory Government. The expression 'Charged' or 'Voted' shall be appended to the heads concerned to distinguish the two categories of expenditure.

2. Under Article 150 of the Constitution, the accounts of the Union and of the States shall be kept in such form as the President may on the advice of the Comptroller and Auditor General, prescribe. The word from used in Article 150 has a comprehensive meaning so as to include the prescription not only of the broad form in which the accounts are to be kept but also the basis for selecting appropriate heads under which transactions are to be classified.

3. The estimates of receipts and expenditure framed by Government or in any order of Appropriation shall indicate provisions, ordinarily against heads opened in conformity with the rules. Where there is divergence, the corresponding receipt or expenditure shall be brought to account under the appropriate major head or minor head or other unit of classification as determined by the President on the advice of the comptroller and Auditor General.

4. As general rule, the classification of transactions in Government accounts shall have closer reference to the functions, programme and activity of the Government and the object of the revenue or expenditure, rather than the department in which the revenue or expenditure occurs. This principle is however, subjected to such exceptions as may be authorised specially in any individual case or class of cases

e.g. receipts representing 'Interest' are shown under "0049-Interest Receipts" and expenditure on the maintenance and repairs of the non-Residential buildings under the administrative control of the Public Works Department are shown under the major head "2059-Public works" irrespective of the functions to which they relate.

Criteria for determining whether expenditure should be classified under heads of Capital Section or Revenue Section of the Consolidate Fund

(I) Expenditure of a capital nature to be classified in the Capital Section shall broadly be defined as expenditure incurred with the object either of increasing concrete assets of a material and permanent character or of reducing recurring liabilities

(II) Expenditure of a Capital nature shall be distinguished from Revenue expenditure both in the budget Estimates and in Government Accounts.

(III) Expenditure of a Capital nature as defined above shall not be classed as Capital expenditure in the Government accounts unless the classification has been expressly authorised by general or special orders of Government.

(IV) The allocation of expenditure between capital and revenue expenditure on a Capital Scheme for which separate capital and revenue accounts are to be kept shall be determined in accordance with such general or special orders as may be prescribed by the Government on the advice of the Comptroller and Auditor General.

(V) The following are the main principles governing the allocation of expenditure on a Capital Scheme between Capital and Revenue accounts: -
(MSO (A&E) Vol-I Para 4.8)

a) Capital account shall bear all charges for the first construction and equipment of a project as well as charges for intermediate maintenance of the work while not yet opened for service. It would also bear charges for such further additions and improvements as may be sanctioned under rules made by competent authority.

b) Subject to (c) below, revenue account shall bear all subsequent charges for maintenance and all working expenses. These embrace all expenditure on the working and upkeep of the project and also on such renewals and replacements and such additions, improvements or extensions as prescribed by Government.

c) In the case of works of renewal and replacement which partake both of a capital and revenue nature, the allocation of expenditure should be regulated by the broad principle that revenue should pay or provide a fund for the adequate replacement of all wastage or depreciation of property originally provided out of capital grants and that only the cost of genuine improvements, whether determined by prescribed rules or formulae or under special orders of Government, should be debited to Capital account. Where under special orders of Government, a Depreciation or Renewals Reserve Fund is established for renewing

assets of any commercial department or undertaking, the distribution of expenditure on renewals, and replacements between Capital Account and the Fund should be so regulated as to guard against over capitalisation on the one hand and excessive withdrawals from the Fund on the other.

d) Expenditure on account of reparation of damage caused by extraordinary calamities such as flood, fire, earthquake, and enemy action should be charged to Capital account or to Revenue account or divided between them in such a way as may be determined by Government according to the circumstance of each case.

e) Capital receipts in so far as they relate to expenditure previously debited to Capital heads, accruing during the process of construction of a project, should be utilised in reduction of capital expenditure. Thereafter, their treatment in the accounts will depend on circumstances but except under a special rule or order of Government, they should not be credited to the revenue account of the department or undertaking.

Accounts closing to balance and accounts closing to Government

One important classification of accounts is Closing Accounts and Balancing Accounts. Closing Accounts are those, which are closed to Consolidated Fund of India or State or Union Territory having Legislature. They close to Government that is no balance in these accounts is carried from year to year. Balancing Accounts are those where Government is to recover money from others or it has to return money to others, and these are carried forward from year to year until settled.

Generally speaking the consolidated impact of transactions that is the balances under Part-I (Consolidated Fund) of the Accounts excluding Public Debt and Loans and Advances are closed to Government Accounts. The year-end balances in these heads are not carried forward and close to the Government.

Balances appearing under Major Heads in Public Debt, Loans and Advances under Part I, Part II-Contingency Fund and Part III-Public Accounts do not close to Government. Theses balances close to these head and are carried forward from year-to-year.