

ACCOUNTING PATTERN FOR LOCAL BODIES: A STUDY ON PANCHAYATI RAJ INSTITUTIONS OF INDIA

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ABSTRACT

Local bodies are the institutions of the local self-governance, which look after the organization of an area or small community such as villages, towns or cities. The Local bodies in India are broadly classified into two ways i.e. Rural Local Bodies and Urban Local Bodies. Rural Local Bodies are known as Panchayats and Urban Bodies are popularly renowned as Municipalities. Panchayati Raj is included in the State List of the Seventh Schedule of the Constitution in 1977. 73rd Constitutional Amendment Act is very much important for Rural Local government which is called Panchayati Raj Institution (PRI). Under this amendment act, rural local government has been given power and democracy to act for the local people. The functions of the Panchayati Raj Institutions are increasing day by day apart from its normal activities as stipulated by the act. As a result the accounting patterns of these institutions are also getting complicated. Presently they are recording the transactions as per the prescribed accounting codes under major heads, minor head and sub-heads as enumerated in the Eleventh Schedule of the Constitutions. The main objective of the study is to understand the PRIs and place the present accounting system of the PRIs. Only secondary data have been used to develop the study. From the study, it is observed that Income & Expenditure Account and Statement of Assets and Liabilities by PRIs are recorded as a part of their accounts. The positions and the organisational structure of Panchayat Raj Institutions have been formulated here. Uttar-Pradesh, Maharashtra, Madhya Pradesh and Bihar have obtained 1st, 2nd, 3rd and 4th position chronologically in terms of Village Panchayat (VP), Block Panchayat (BP) and District Panchayat (DP). As a part of suggestion, it is said uniformity in Accounting should be maintained all the 29 states and all central ruled states along with Accounting Standard should be followed in PRIs compulsorily.

KEYWORDS: *Panchayati Raj Institution; Accounting; Village Panchayat; Block Panchayat.*

Introduction

Local bodies are the institutions of the local self-governance, which look after the organization of an area or small community such as villages, towns or cities. The Local bodies in India are broadly classified into two ways i.e. Rural Local Bodies and Urban Local Bodies. Rural Local Bodies are known as Panchayats and Urban Bodies are popularly renowned as Municipalities. The term 'Panchayat Raj' is originated from the British administration and 'Raj' is literary named as governance or government. Panchayat Raj was adopted by the state governments during the middle of twentieth centuries as laws and was passed to establish Panchayats in various states. Panchayati Raj is included in the State List of the Seventh Schedule of the Constitution. In 1977, Ashok Mehta Committee was established to review the working of Panchayats. The committee found that Panchayati Raj was the soul of democracy and it should be more empowered with authority. The system was three levels: Gram Panchayat (village level), Panchayat Samiti (block level), and Zila Parishad (district level). So the Central Government formalized as well as passed the 73rd & 74th Constitution Amendment Act in 1992 and which came into effect on 20th

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April 1993. The functions of the Panchayati Raj include the supply of water; lighting of the road; construction, repair and maintenance of roads; public health, hygiene and sanitation and development of agricultural activities etc. Accounting is an essential part of each Local Government like Panchayati Raj Institution (PRI) for maintaining the organisation smoothly and continuously. So accounting and financial system of PRIs in 2000 and Modern Accounting System for Panchayats 2009 were incorporated. Modern Accounting System for Panchayats which was prepared and approved by the Technical Committee in January 2009 had some effective salient features. The PRIs mostly follow Cash-Based Double Entry Accounting System. The standard 'double entry' accounting system starts a voucher and ends with the financial system. All PRI transactions are to be recorded as per the prescribed accounting codes. Major Heads under Codes are enumerated in the Eleventh Schedule of the Constitutions. Receipts by PRIs as well as payments by it are recorded as a part of their accounts. Receipts and Payments are classified as Revenue and Capital with some subheads. Out of 25 states, the positions and organisational and management structure of Panchayati Raj Institutions have been formulated here. Out of 25 states of India, considering No. of the Panchayati Raj Institutions in comparison with Village Panchayat (VP), Block Panchayat (BP) and District Panchayat (DP), it is found that Uttar Pradesh, Maharashtra, Madhya Pradesh and Behar have obtained 1st, 2nd, 3rd and 4th position chronologically.

Literature Review

I have not found any article relating to Local Bodies/Government. As there is no publication relating to the aforesaid title, so literature survey is not possible to do. But I have to consult with the Report of Ministry of Panchayati Raj, Government of India.

Methodology & Data Sources

The proposed researched work is a descriptive with analytical research work and data have been collected and calculated on the basis of published Government Report. Data have been collected from the following sources:

- Secondary data have been taken from different Books, Journals and Govt. of India Report.
- Latest Annual Report 2016-2017 from Ministry of Rural Development has been consulted.

Objective of the Study

The main objective of the study is to analyse the accounting system of the PRIs in India considering the acts and rules frame out by the central government from time to time. Although, the specific objectives of the Study have been discussed in the following way:

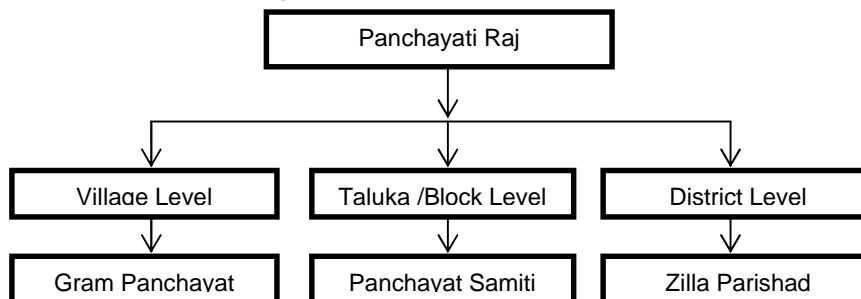
- To understand the structure of Panchayati Raj Institution in India and its distribution all over the states in India.
- To know the Model of Accounting System and Accounting Methods of Double Entry System of Panchayati Raj Institutions in India.

Data Analysis & Discussion

Panchayati Raj Institutions (PRIs)

Panchayati Raj Institutions (PRIs) have three parts. So it consists of three tiers of administrative and organizational set up which is recorded as follows:

Chart 1: The Organizational & Administrative set-up of PRIs



Through Chart-1, Organizational and Administrative set up of PRIs have been shown briefly.

The Administrative set up of Panchayati Raj Institution is discussed under the following three ways. This is popularly known as three tire system of Panchayat:

- **Gram Panchayat / Village Panchayat:** Gram Panchayats are the local government at the village level or rural level in India. A Gram Panchayat can be established in the villages within the minimum population of 300. Gram Panchayats are authorized to charge and collect taxes including property, professional tax and taxes on pilgrimage etc. Beside it, they also collect user charges and implement development schemes which are received from the State and National Government through the Block and Zilla Parishads. A total number of Gram Panchayat in India was 2, 37,539.
- **Panchayat Samiti / Block Panchayat:** The Block Panchayats are the rural local government body at the Block or Taluka level in India. The Panchayat Samiti or Tehsil is the link between Gram Panchayat and Zilla Parishad. There are a number of distinctions of the name of this institution among the various states in India. A total number of Block Panchayat was 6,325.
- **Zilla Parishad:** Zilla Parishads or District Panchayats are the rural local government bodies at the district level in India. It controls the administration of the rural area of the district and its office is considered to be the district headquarters. Zilla Parishad members are directly elected by the Block Panchayats members. Zilla Parishads are the pillars of the rural governments. Most of the grants and funds are distributed through the Zilla Parishad. There were 589 Zilla Parishads in India.

Table 1: State-wise Number of Panchayat Institutions

State	Village Panchayat (VP)	Block Panchayat (BP)	District Panchayat (DP)	% Share of VP	% Share of BP	% Share of DP	Rank 1 For VP (R1)	Rank 2 For BP (R2)	Rank 3 For DP (R3)	Rank Total of (R1+R2+R3)
Andhra Pradesh	21,649	1,098	22	0.091	0.1736	0.0374	4	1	11	16
Arunachal Pradesh	1,734	155	16	0.007	0.0245	0.0272	20	14	18	52
Assam	2,206	191	21	0.009	0.0302	0.0357	19	12	13	44
Bihar	8,474	534	38	0.036	0.0844	0.0645	10	3	3	16
Chhattis-garh	9,777	146	18	0.041	0.0231	0.0306	8	16	16	40
Goa	190	0	2	0.001	0	0.0034	23	23	25	71
Gujarat	13,883	223	26	0.058	0.0353	0.0441	5	11	9	25
Haryana	6,081	124	21	0.026	0.0196	0.0357	13	19	13	45
Himachal Pradesh	3,243	77	12	0.014	0.0122	0.0204	17	21	21	59
Jammu & Kashmir	4,098	143	22	0.017	0.0226	0.0374	16	17	11	44
Jharkhand	4,423	259	24	0.019	0.0409	0.0407	15	9	10	34
Karnataka	5,631	176	30	0.024	0.0278	0.0509	14	13	7	34
Kerala	977	152	14	0.004	0.024	0.0238	21	15	19	55
Madhya Pradesh	23,024	313	50	0.097	0.0495	0.0849	3	8	2	13
Maharashtra	27,935	353	33	0.118	0.0558	0.056	2	5	4	11
Manipur	160	0	4	0.001	0	0.0068	25	23	23	71
Odisha	6,235	314	30	0.026	0.0496	0.0509	12	7	7	26
Punjab	12,430	139	20	0.052	0.022	0.034	7	18	15	40
Rajasthan	9,193	248	33	0.039	0.0392	0.056	9	10	4	23
Sikkim	176	0	4	0.001	0	0.0068	24	23	23	70
Tamil Nadu	12,524	385	31	0.053	0.0609	0.0526	6	4	6	16
Tripura	511	26	8	0.002	0.0041	0.0136	22	22	22	66
Uttar Pradesh	51,972	821	72	0.219	0.1298	0.1222	1	2	1	4
Uttarakhand	7,555	95	13	0.032	0.015	0.0221	11	20	20	51
West Bengal	3,239	333	18	0.014	0.0526	0.0306	18	6	16	40

Source: State-wise No. of Panchayat Institutions (2013), Govt. of India Report.

Table 1 reflects 25 states in India. Out of 29 states and other central ruled states in India, only the afore said 25 state's picture of Panchayati Raj Institutions have been reflected. Numbers of Panchayati Raj Institutions (PRIs) have been analyzed from three parts like Village Panchayat, Block Panchayat or Intermediate Panchayat and also District Panchayat.

Model of Accounting System with codification in Chart of Accounts of PRIs Accounting formats:

- First-tier i.e. Major Head (four-digit)
- Second tier i.e. Minor Head (three-digit)
- The third tier i.e. Sub-heads (two-digit) & Object Head (two-digit)

Major Head	+	Minor Head	+	Sub Head	+	Object Head	=	M Code for Financial Transaction
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The whole structure of the accounting code is 3 tiers with 11 digits.

- **First Tier i.e. Major Head (four-digit):** The first tier classification represents the Major Heads. The Major Heads of terminology of functions has been described in the Eleventh Schedule of the Constitution. The four digit code of Major Heads is Receipt Head, Revenue Expenditure, or Capital Expenditure Head. These are enumerated as follows like Table 2.

Table 2: First Tire Classification: Major Head

Code	Major Heads
Starting "0" or "1"	Revenue Receipt
Starting "2" or "3"	Revenue Expenditure
Starting "4" or "5"	Capital Expenditure
Starting "6" or "7"	Loans and Advances
Starting 4000	Capital Receipt

Table 3: Detailed Discussion of First Tire Classification

Major Head (Function Based)	Code	Corresponding Major Heads		
		Receipts	Revenue Expenditure	Capital Expenditure
Agriculture, including Agricultural Extension	435	0435	2435	4435
Fisheries	405	0405	2405	4405
Rural Housing	216	0216	2216	4216
Water Supply and Sanitation	215	0215	2215	4215
Transportation	054	-	3054	5054
Rural Electrification	801	0801	2801	4801

- **Second Tier i.e. Minor Head (three-digit):** The second tier of Minor Heads with three digit code identifies the programme undertaken to the functions. A major head is divided into minor heads. It has been illustrated in Table 4.

Table 4: Second Tier Classification: Minor Head

Major Head	Function	Minor Heads
0028	Taxes on Profession, Trades etc.	101-Profession Tax 103-Trade License Fees
0045	Taxes on Duties and Commodities	101-Entertainment Tax 102-Advertisement Tax 104-Receipts under Other Acts
2202	Education	101-Primary Education 102-Secondary Education 103-Adult Education
2515	Panchayat Raj	102-Zilla Parishad 102-Block Panchayat 103-Gram Panchayat

- **Third tier i.e. Sub-heads (two-digit):** Under Sub Head, a two-digit categorization of the schemes has been as follows. In order to understand the transactions of the below-specified scheme, the confederation of the structures has been described in Table 5.

Under Third tier Object Head (two-digit), most commonly used items of expenditure with two-digit object head (inputs) have been standardized. The object head under receipts head may be opened as per need. Item wise detailed of the object of expenditures have been enumerated in the next Table 6.

Table 5: Third Tire Classification: Sub-Head

Scheme Description	Code	Scheme of Description	Code
National Rural Employment Guarantee Scheme (NREGS)	11	Total Sanitation Campaign	17
Sampoorna Gramin Rozgar Yojana (SGRY)	12	Mid-Day Meal Scheme	18
Swarnajayanti Gram Swarozgar Yojana (SGSY)	13	Sarva Shiksha Abhiyan	19
Indira Awas Yojana (IAY)	14	Pradhan Mantri Gram Sadak Yojana (PMGSY)	20
National Rural Health Mission (NRHM)	15	Integrated Watershed Management Programme	21
Accelerated Rural Water Supply Program (ARWSP)	16	Integrated Child Development Services (ICDS)	22

Table 6: Third Tire Classification: Object Head

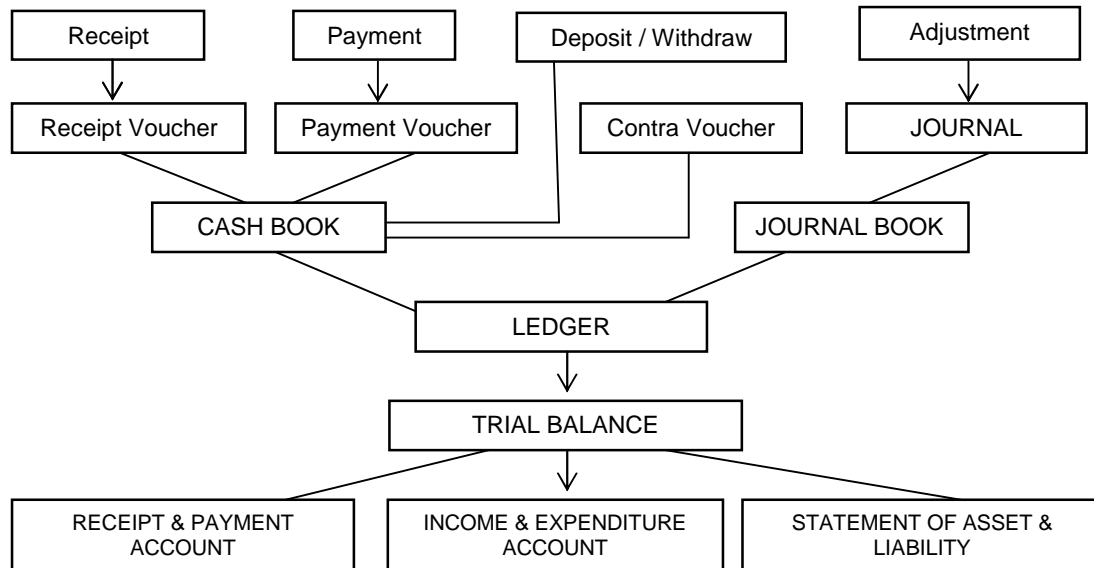
Purpose of Expenditure	Object Code	Purpose of Expenditure	Object of Code
Salaries	01	Suppliers and Materials	13
Wages	02	Petrol/ Diesel	14
Overtime Allowance	03	Grand-in-aid	17
Travelling allowance	07	Share of taxes/duties	20
Administrative Expenses	12	Maintenance	26

Accounting Process under Double Entry Accounting System

Double Entry Accounting System is maintained and followed in Panchayati Raj Institutions (PRIs). This system has a dual effect. There are two sides of every transaction. Under this system, if one account is debited, another account must be credited. According to the system, at first Journal, next Ledger after that Cash Book and Trial Balance are prepared. From Trial Balance, Receipts & Payment A/C, Income & Expenditure A/C lastly Statement of Assets and Liabilities are prepared. It has been shown through the undermentioned Chart 2.

Accounting Process under Double Entry Accounting System

Chart 2: Transactions



Under this system, Trial Balance is prepared to take the Dr. and Cr. Balance of Ledger A/C. The Format of Trial Balance of PRIs has been given in Table 7.

Table 7: The format of the Trial Balance is as follows:

PRIs Trial Balance as at -----

Particulars	Debit (Rs.)	Credit (Rs.)

Under Income & Expenditure A/C, all Revenue Expenditures and Revenue Incomes are taken for the formation of Income & Expenditure A/C of PRI according to Table 8.

Table 8: The format of Income & Expenditure Account is as follows:

PRIs Income & Expenditure Account for the period----- to-----

Expenditure	Amt (Rs.)	Income	Amt. (Rs.)
Balance of 'Expenditure' Account heads under Payment	✓	Balance of 'Income' Account heads under Receipts	✓
Surplus/(Deficit) of Income over Expenditure	✓		✓
Total	✓	Total	✓

The Statement of Assets & Liabilities is prepared to know the actual financial position of the PRI taking all assets and liabilities of the Rural Institution. It has been sketched as Table 9.

Table 9: The format of Statement of Assets & Liabilities is as follows:

PRI Statement of Assets & Liabilities as on --

Liabilities	Amt. (Rs.)	Assets	Amt. (Rs.)
Balance of 'Liabilities' Account heads under Receipts	✓	Balance of 'Asset' Account heads under Payments	✓
Balance of 'Net' type accounts which have closing credit balance		Balance of 'Net' type accounts which have closing debit balance	
Total	✓	Total	✓

Findings, Conclusion & Suggestions

- Out of 25 states of India, considering No. of the Panchayati Raj Institutions in comparison with Village Panchayat (VP), Block Panchayat (BP) and District Panchayat (DP), it is found that
- Uttar Pradesh, Maharashtra, Madhya Pradesh and Bihar have obtained 1st, 2nd, 3rd and 4th position chronologically.
- Most of the states are following Double Entry System of Accounting in PRIs. As a part of this system, Journal, Ledger, Cash Book, Trial Balance, Receipts and Payments A/C, Income & Expenditure A/c and Statement of Assets and Liabilities are followed here.
- As far as the basis of accounting is concerned, Cash Basis of Accounting is popularly followed in PRIs rather than Accounting Basis of Accounting.
- As a part of suggestion, it is said uniformity in Accounting should be maintained all the 29 states and all central ruled states along with Accounting Standard should be followed in PRIs compulsorily.

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