

**PROCEDURE FOR MAINTENANCE OF FINANCE & ACCOUNTS (P/FNAC/01/00)****OBJECTIVES:**

Scientific Management is a movement which has grown in importance with the evolution of financial institutions. The art of management can be practised effectively only if periodical, timely and reliable information is available with the management. Management Information System is now an important discipline and subject of study. Basic information, however, is mainly supplied by the Accounting System which is directly based upon "Accounting Manual".

**1. ACCOUNTING ACTIVITIES - TIME SCHEDULE**

	ACTIVITY	TIME LIMIT	RESPONSIBILITY & AUTHORITY
I	Writing of Vouchers	Alongwith Transaction	Dealing Official
ii	Checking & passing of vouchers	Within one day - date of writing of voucher	Authorised officer
iii	Writing & checking of cash book	Writing same day and checking next day	Cashier & authorised officer
iv	Preparation of check list & journal	First week of subsequent month	Dealing official
v	Preparation of general ledger & subsidiary ledger	In the month of August, October, January & April	Dealing official
vi	Reconciliation of general/subsidiary ledger	Sept., Nov., Feb. & June	Dealing official & authorised officer
vii	Pay roll register and pay slips	Before last working day of the month	Dealing official/officer
viii	Demand Notice & due list	10 days before due date	Dealing official/officer
ix	Default/Receipt list	10 <sup>th</sup> of subsequent month	Dealing official/officer
x	Updation of loan ledger	Within 4 days from the date of transaction	Dealing official/officer
xi	Finalization of annual account	30 <sup>th</sup> June every year	Head of Accounts Wing & Managers
Xii	Finalization of Annual Report	30 <sup>th</sup> Sept., every year	Head of Accounts Wing & Managers
xiii	Deposit of TDS	Within 15 days of date of deduction.	Dealing official/officer/Head of Accounts

	ACTIVITY	TIME LIMIT	RESPONSIBILITY & AUTHORITY
Xiv	Filing of TDS returns	As per statutory requirement	Dealing official/officer/Head of Accounts
xv	Issue of Form No.16	30 <sup>th</sup> April every year	Dealing official/officer/Head of Accounts
Xvi	Deposit of fringe benefit tax	As per statutory requirement	Dealing official/officer/Head of Accounts
xvii	Payment of service tax	Every quarter or as per statutory requirement	Dealing official/officer/Head of Accounts
Xviii	Payment of advance income tax	15 <sup>th</sup> of June, Oct., Dec., and March or as per statutory requirement	Dealing official/officer/Head of Accounts
xix	Filing of income tax returns.	As per statutory requirement	Dealing official/officer/Head of Accounts.

## 2. **ACCOUNTING MANUAL:**

Accounting Manual has been prepared covering the following:-

- (a) Financial Accounting Procedure.
- (b) System of Accounting.
- (c) Principal Books.
- (d) Subsidiary Books.
- (e) Memorandum Books.

## 3. **ACTIVITIES COVERED:**

Accounting Mannual covers the following activities of the Corporation:

- (a) Project Financing.
- (b) Project Promotion.
- (c) Infrastructure Development.

## 4. **BASIC CONCEPTS OF ACCOUNTS:**

Accounts are the backbone of any Organisation as every transaction has to be reflected in the accounts. It is from the books of accounts that the entire information, as per the requirements of the organisation, is generated. The quality of records and the classified information that is derived from these records, therefore, has a direct impact on the quality of decision making and formulation of policy in an organisation.

## 5. ACCOUNTING PROCEDURE:

With specific reference of the activities of the H.P. State Industrial Development Corporation Limited (HPSIDC), the accounting procedures require all the more specialisation keeping in view its areas of operation, nature of activities and objectives of extending financial assistance to the entrepreneurs for the industrialisation in the State of Himachal Pradesh.

## 6. SYSTEM OF ACCOUNTING:

6.1 The accounts of the Corporation were maintained on Accrual basis upto 31-03-1988. The Corporation switched over to cash system of Accounting with effect from 1-4-1988 subject to certain exceptions.

6.2 Prior to 1-4-1988, the Income and Expenditure were accounted for on accrual basis. This system was not considered to be transparent more particularly because it did not reflect the true health of the organisation as the interest or other income accrued in a particular period was not fully recovered during that period and sometimes in a number of cases the unrecovered income had ultimately to be written off as bad debt. As a natural corollary, the profits of the Corporation were unduly inflated, resulting in higher tax liabilities. Hence cash system of accounting was introduced w.e.f. 1.4.1988. However, the following were the exceptions:-

- (a) Depreciation of Assets.
- (b) Adjustment related to balances of accounts receivable or payable as on 31-03-1988 upto which the system of accounting maintained on accrual basis.
- (c) Amount spent by employees in excess of advance drawn.
- (d) Provisions/reserves created.
- (e) Charging of supervision charges on deposit work on the basis of quantum of work executed.

6.3 HP SIDC has adopted the centralised system of accounts. In other words, no site-wise accounts are being maintained at site offices. However, the transactions taking place at site offices are passed on to head office for incorporation in the accounts.

6.4 The annual accounts i.e. Balance Sheet and Profit & Loss Account and related schedules were prepared upto 31-3-2001 under that cash system of accounts wherein only cash transactions were recorded in the principal books.

However, to fulfil other statutory requirements, disclosure of information on accrual basis is provided and for other general requirements of the management, memorandum books are also maintained.

#### 7. **CHANGE OF SYSTEM OF ACCOUNTING:**

The HP SIDC switched over to maintain accounts w.e.f.1.4.2001 as per the exemption granted by the Govt. of India under Section 620 of the Companies Act, 1956 vide Notification No GSR 550(E) dated 16.05.1989 wherein Interest income on term loan is accounted for on cash basis and the other income and expenditure are accounted for on accrual basis. However, Memorandum loan accounts on accrual basis are continued to be maintained for the purpose of Management Information System.

#### 8. **SIGNIFICANT ACCOUNTING POLICIES:**

##### 8.1 Accounting Concept

The Corporation maintains its accounts on accrual basis following the historical cost convention, except for interest income on loans & Advances to Industrial units, in view of the exemption granted by the Govt. of India under section 620 of the Companies Act, 1956 vide its notification No.G.S.R 550 (E) dated 16.05.1989. Memorandum loan accounts on mercantile basis are, however, maintained for the purpose of management Information System.

##### 8.2. Revenue Recognition:

- a) Interest on loans, Up-front fees, appraisal fees and other financial services are to be accounted for on Cash basis.
- b) Dividend income is recognised on realisation basis.
- c) Supervision charges on the deposit work are to be charged on the basis of quantum of work executed, measured and bill raised by the contractors.
- d) Realisations from borrowing units including the units approaching the Corporation for One Time Settlement(OTS)are to be firstly appropriated towards miscellaneous expenses, interest accrued and due up to 31.03.1988 then towards interest

accrued and due including penal interest, if any, and thereafter towards principal.

- e) In case of sale of taken-over assets of the borrowing units, the realisations are to be appropriated firstly towards miscellaneous expenses, interest accrued and due up to 31.03.1988 then towards principal and thereafter towards interest accrued and due.
- f) The cheque deposited in the bank at the end of the year, the necessary adjustment entries are to be made in the books of accounts up to the date of finalisation of accounts in case of dishonoured cheques.
- g) Revenue in respect of Annual Maintenance Charges and Water Charges of plots under Self Financing Scheme (SFS) is recognised on accrual basis subject to reasonable certainty of ultimate collection.
- h) Interest on Loans & Advances to staff is accounted for on mercantile basis.
- i) Deferred Revenue Expenditure on Voluntary Retirement of employees is written off in five years in equal instalment.
- i) Realisation against written off accounts is accounted for on cash basis.

### 8.3 Sale of Plot/Resumption/Extension

- a) Industrial plots (saleable in auction) at SFS are to be treated to be sold if the entire price of the plots received before the date of finalisation of accounts, irrespective of execution of sale/conveyance deed and handing over of possession.
- b) The estimated liability incurred/to be incurred in the next year has been accounted for, as the plots are shown as sold. The additional liability, if any, occurs afterwards, will be accounted for in the year when the demand arises.
- c) (i) In case of transfer of plots, the Corporation is entitled to 50% of unearned increase (i.e. the difference between the final price paid and market value) or 10% of the original cost of plot whichever is higher which is to be taken to income at the time of realisation of transfer fee.

(ii) In case the transfer of plots which are taken over by HPFC/HPSIDC under Section 29 of SFC's Act and sold, unearned increase @ 50% is not levied, but processing fee of Rs.15,000/- in such cases and is accounted for at the time of realisation.

- d) On resumption of plots due to non-fulfilment of terms & conditions of allotment, 25% of the allotment price is to be deducted and treated as administrative charges and recognised as income.
- e) Extension charges on SFS plots are to be accounted for on realisation.

#### 8.4. **Investment**

##### a) **Valuation**

Investments (quoted & unquoted) are to be valued at cost and provision for diminution in realisable value is provided for wherever considered necessary.

##### b) **Sale of Investment**

- i. Surplus/ Deficit on buy back of shares is credited/debited to the revenue accounts.
- ii. Accounting of dis-investments of shares in assisted units is done after the receipt of full consideration amount against each trench of shares.

#### 8.5. **Fixed Assets**

Fixed assets are to be taken at the cost of acquisition inclusive of freight, taxes and incidental expenses.

#### 8.6. **Depreciation**

Depreciation is to be provided for on written down value method (WDV) at the rates and in the manner specified in schedule XIV of the Companies Act, 1956.

### 8.7. Inventories

- a) Stores and spares- Valued at cost.
- b) Industrial and other Plots- Valued at cost.

### 8.8. Bad debts/classification of assets and provisioning

- a) 100% provision is to be made for short fall in respect of units taken over and disposed off till date.
- b) Other Loans are to be classified in to performing and non- performing categories based on age of default as prescribed by SIDBI prudential norms and provisions are to be calculated as per following existing provisioning norms:
 

i	Standard	0.25%
ii	Sub-Standard	10%
iii	Doubtful upto	
	One year	20%
	Three years	30%
	More then three years	50%
	Unsecured portion	100%
iv	Loss Assets	100%

### 8.9 Retirement Benefits

#### a) Gratuity

Liability towards Gratuity is to be paid to a fund maintained by the Life Insurance Corporation of India (LIC) under Gratuity Linked Insurance Scheme and administered through a separate trust created by the Corporation. The premium is to be paid to LIC so as to cover the liability of all the employees at the end of their future anticipated services to the Corporation. In the event of an employee leaving the services earlier, the Corporation will have to bear a certain portion of the amount of gratuity, which is to be charged to the Profit & Loss Account in the year of actual payment.

b) **Provident Fund:**

Contribution to Provident Fund is to be made to HPMIDC Ltd. CPF Trust having members of PSIDC and Ex-employees of HPSIDC Ltd. Transferred to HPGIC Limited on 01.04.1988. Contribution to providentfund as per Provident Fund Act, 1952 is charged to revenue account. Any deficit(excessof expenditure over income) of the Trust in any financial year is borne by HPSIDC Limited and HPGIC Limited according to the ratio of total interest paid to the members working in both the Corporations.

c) **Leave Encashment**

Liability towards leave encashment is paid to a fund maintained by the Life Insurance corporation of India (LIC) under Leave Encashment Scheme and administered through a separate Trust created by the Corporation. The premium is to be paid to LIC so as to cover the liability of all the employees at the end of the year.

8.10 **Prior Period Adjustments**

The Corporation follows the practice of making adjustments through "Expenses/Income related to earlier years" in respect of prior period/extra ordinary items related to earlier years.

8.11 **Contingent Liability**

Contingent Liabilities are not provided for and are to be disclosed separately by way of notes.

9. **PRINCIPAL BOOKS:**

Following are the principal books which are required to be maintained:

- 1) Cash book: To record daily transactions of cash/cheques/drafts received and payments by way of cash/cheques/drafts.
- (2) Journal (Engg.Wing & Others): To record transactions, other than cash and bank, requiring adjustments and transfers etc.;



(3) General Ledger( Engg Wing & Others): To post transactions under relevant heads according to their nature and classifications.

#### 10. Subsidiary Books:

To post transactions relating to various Control Accounts of general ledger(s) according to their classifications, the following subsidiary books are to be maintained:

- i) Advance ledger (individual -wise).
- ii) Borrowers' imprest ledger( party-wise).
- iii) IDBI/SIDBI ledgers.
- iv) Sundry parties ledgers ( civil & others).
- v) Earnest money and security (civil & others) ledgers.
- vi) Contributory provident fund ledger (General & Individual).
- vii) Such other ledgers as may be required from time to time.

#### 11. MEMORANDUM BOOKS:

- (i) Loan Ledgers: to record all transactions of individual loanees, both on cash and accrual basis as also to provide for periodical interest;
- (ii) Daily scroll book: to record transactions affecting loan accounts and investment accounts;
  - Loan sanction register: to keep record of sanctions of loan;
  - Loan Security register: to keep record of securities obtained against loans;
  - Insurance Register: to keep record of insurance covers of assets created.
- (iii) Statistical books containing classified information in respect of sanctions and disbursement of loans.
- (iv) Such other books as are required to be maintained as per guidelines of Companies Act/IDBI/SIDBI/Govt.

## 12.ACCOUNTING OF TRANSACTIONS AND POSTING IN PRINCIPAL BOOKS:

### 12.1 Vouching

The moment a transaction whether of receipt or payment takes-place, it has to be routed through cash book.

12.2 When a transaction of receipt takes place, a proper receipt in the prescribed form is to be issued. Receipt voucher giving sufficient details of the receipt is to be prepared and entered in the cash book if it is by cash/cheque/draft. Similarly, in case of payment or disbursement, the payment voucher giving sufficient details thereof is to be prepared and entered in the cash book if payment is made by cash/cheque/draft.

12.3 No payment or disbursement is made unless the voucher is supported by the bills duly passed for payment or disbursement order is issued by the competent authority. Where, however, a payment has been authorised by the managing director or by any other competent authority on the file, a precise reference of the order, file no, noting no and date must invariably be given in the voucher.

12.4 In case of both receipt and payment, the voucher must clearly indicate the classified heads to which the transaction is credited/debited so as to ensure that the transaction is not booked under wrong head.

12.5 In cases, where adjustments have to be carried out to rectify mis-classifications in head of accounts, to make provisions for depreciation etc. or to make inter head transfers, rectification of entries etc., such adjustments shall be routed through adjustment vouchers which will contain all material particulars of the same and entries are to be recorded in Journal.

12.6 The vouchers in respect of all types of transactions as discussed above should invariably contain the following information:

- (i) Voucher type:/ Cash and Journal.
- (ii) Nature of voucher (debit/credit).
- (iii) Voucher number.
- (iv) Voucher date (accounting date)
- (v) Effective date ("as of" date)
- (vi) Narration of voucher (cheque/D.D.no,  
Banker's cheque no., bank  
name etc.)
- (vii) Type of transaction (principal, interest,  
borrowers imprest, Adjustment/payment relating to  
construction works and payment to others etc.

12.7 The vouchers shall be given continuous numbers for each type of transaction recorded in the cash book and Journal.

12.8 The two types of vouchers shall be got printed in different distinct colours.

13. **Cash Receipt Book:**

13.1 Immediately on receipt of cash/draft/cheques, a cash receipt in the prescribed form containing all particulars necessary to identify the nature and classification thereof shall be prepared in duplicate, first copy for being issued to the depositor and second copy for use in office. The receipts at head office shall be signed and issued by the cashiers and Financial Adviser/Manager ( Finance & Accounts)

13.2 The receipt books shall be got printed in duplicate and serially numbered. Each book shall contain 100 receipts: Proper record of receipt books and their issue to cashier at head office and site offices indicating the serial numbers of books issued shall be maintained by store keeper which will be subject to audit verification. The issue of receipt books shall be made, on the basis of requisitions, strictly in their serial order so as to avoid their possible misuse.

14. **CASH BOOK:**

14.1 All receipts and payments by cash/draft/cheques shall be entered in the cash book immediately after the transaction takes place on the basis of voucher prepared by the cashier/concerned officer or official and approved by the competent authority. The cash book shall be closed and balanced daily at the end of the day. The closing balance of previous day shall be taken as opening balance on the next day.

14.2 The entries in the cash book shall be checked daily with reference to the receipts issued and payment vouchers duly passed for payment by the competent authority/by an officer authorised for the purpose. He will also initial cash entry in the cash book simultaneously with the voucher, in token of the correctness of the entries in the cash book and vouchers.

14.3 At the close of the month or at such intervals as may be deemed appropriate, the cash balance in the chest shall be counted by the authorised officer and a certificate to this effect recorded in the cash book indicating the discrepancy, if any, for taking appropriate action.

14.4 The cashier shall deposit the cheques/drafts with the bank on the same day or, if received beyond banking hours, the next working day.

14.5 In order to ensure that bank charges for purchase of drafts are simultaneously debited to the party, the cashier shall obtain details of such charges from the bank immediately. After the cheques/draft deposited with the bank for clearance, the bank charges are to be enquired from the bank and to be debited in the relevant head of accounts.

14.6 Immediately on receipt of a dishonoured cheques from the bank, reverse entry is to be passed in the books of accounts for the financial year in which the cheque is related.

14.7 Payment or disbursements required to be made by cheques or by bank draft/ transfers shall be recorded in the cash book by the cashier on the basis of payment voucher. The payment vouchers shall be signed by dealing hand and by the officer authorised for the purpose.

14.8 The balances with the books as per bank ledger and as per bank statements shall be reconciled periodically, preferably monthly, and invariably at the close of the financial year.

## 15 **JOURNAL:**

15.1 Apart from cash and bank transactions, there may still be certain transactions which are not capable of being recorded through cash book. For example, rectification of mis classification in accounts, transfer from one head to another, appropriation of certain receipts and expenditure, making provisions for depreciation and taxation etc., are the transactions. Therefore, to record such type of transactions, another book of original entries, named Journal, is essentially required.

15.2 Whenever necessity arises to make adjustments in account, a journal voucher giving sufficient details of the nature of adjustments shall be prepared mutatis-mutandis in the manner as other vouchers are prepared. Such vouchers shall be routed through the journal. These adjustments shall only be made after obtaining proper approval of the

controlling authority which will satisfy itself about the necessity of such adjustment. A reference of such approval shall be recorded in the voucher.

16. **LOAN WING**

After receipt of amount from borrower/assisted companies in the shape of cash/cheque/draft/pay order, the same is to be entered in the Day Book and thereafter pass on the cash voucher to Finance & Accounts Branch mentioning the references of approval by the competent authority.

17. **GENERAL LEDGER**

The general ledger is the basic classified record of transactions as recorded in the books of original entries as discussed above. It is on the basis of the final balances of general ledger that the accounts of the organisation for the particular accounting period i.e. profit and loss account and balance sheet are prepared.

17.1 At the beginning of the financial year, the final closing balances of previous year in respect of heads pertaining to balance sheet are taken as opening balances in the general ledger.

17.2 The balances of general ledger shall be prepared on monthly basis. However, sometimes, due to time taken in the finalisation of accounts of previous year, the final closing balances may not be available immediately before the close of first quarter. In such a situation, the general ledger may be brought out with zero opening balances. This will avoid delay as also facilitate the process of reconciliation. As soon as the opening balances are available, the same shall be updated.

17.3 The quarterly balances of general ledger so generated shall also serve the purpose of preparing Trial Balance. In other words, the total debits and credits upto a particular quarter/month must be equal. In case there is any difference, it may be either due to opening balances having not been taken correctly or due to mistakes while posting in ledger from cash book or journal and totalling of accounting head of ledger. Sometimes there is mistake by the bank and the same is to be verified as per the bank reconciliation statement. Any such discrepancy shall be located and rectified immediately before getting the final print out the trial balance.

17.4 The classification of accounts in general ledger is done broadly under four major groups, namely Assets, Liabilities, Expenditure and Income.

**18. SUBSIDIARY LEDGERS:**

The general ledger depicts the overall position of each classified head of accounts. It, however, does not indicate the detailed position of individual accounts which is monitored through subsidiary ledgers. These subsidiary ledgers, in fact, supplement the general ledger. In other words, the total of closing balances of various account in the subsidiary ledgers pertaining to a particular head in the general ledger must tally. In case of any difference, the discrepancy must be located, reconciled and rectified.

**19. TERM LOAN/EQUITY INVESTMENT LEDGER:****Term Loan ledgers**

The details of individual transactions on cash basis pertaining to these accounts i.e. disbursements and receipts against principal, interest are recorded in the loan/equity investment ledgers. As this is the basic record of individual loanees/assisted units, it is of paramount importance that each account is meticulously maintained not only to satisfy the parties of account of their remittances but also to ensure that appropriation of receipts as per policy of the Corporation has correctly been done. However, Ledgers as per Memoranda basis are to be maintained wherein the details of term loan sanctioned, term loan disbursed, equity sanctioned, equity disbursed, interest due on quarterly/half yearly basis, remittances of dues by the borrower/assisted units are to be recorded.

**20. Procedure for releasing payments:**

The bills for making payments are firstly dealt by the concerned Division after completing all formalities including approval/sanction by the competent authorities and verification of the bills raised for work done/services rendered. The bills are forwarded to Finance & Accounts Division for making payment. In the Finance & Accounts Division, again the bills are checked/vetted on accounting point of view as well as sanction/approval of the same and thereafter a cash voucher is prepared by the concerned Assistant and given to the Cashier for making payment through cash or cheque after verifying the same by the Dy.Manager(F&A)/ Manager (F&A) and passed by the Financial Adviser. The cheques/drafts so prepared are sent to the concerned Division for onward transmission to the supplier/beneficiary. The concerned Assistant make posting of the amount of expenses by entering the same into the cash book/ journal ledger and theafer the same posted in the Journal Ledger under the relevant head of account.

**21. Procedure for Monitoring and Control of funds to meet the expenses:**

Usually the Corporation availed refinance facility from IDBI and SIDBI to meet the amount for the disbursement of term loan to the various entrepreneurs who intent to establish their units in the State of Himachal Pradesh. At present, there is no outstanding term loan and interest payable to IDBI and SIDBI as the Corporation has pre-paid its liabilities by January, 2006. However, at present the Corporation is meeting its liabilities towards release of term loan and other expenditure out of its own resources.

Before the beginning of the financial year, Budget Estimates (Revenue Budget and Capital Budget) are prepared on the datas supplied by various Division of the Corporation. The same is perused by the Managing Director before placing the same before the Audit Committee/Board. After the approval of the Audit Committee/Board, a copy of the budget estimates is sent to the respective Division of the Corporation. Quarterly financial statements prepared showing the income and expenditure relating to the Head Office and Engineering Wing are reviewed by the Managing Director and submitted to Audit Committee for review. The minutes of the Audit Committee are also placed before the Board of Directors. Besides above, the data relating to sanction of term loan, disbursement of term loan and sanction of other loans to employees, receipt of funds from various agencies to meet construction activities, repayment of term loan and interest by borrowers, other miscellaneous receipts are placed in the shape of Business Plan & Resources Forecast (BPRF) is invariably placed before the other meeting of the Board. The recommendations of the Audit Committee are implemented by concerned Division of the Corporation. In every year material relates to BPRF consists of the following information: Actuals (previous year), target for the whole year, achievements during the period for current year, achievements during same period for the previous year, percentage of achievements/shortfall, if any, showing the reasons thereof is reported to the Board of Directors in every meeting.