Chapter - X
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PROPOSED ACCOUNTING SYSTEM BASED ON DOUBLE ENTRY SYSTEM OF BOOK-KEEPING

Introduction

In the chapter VIII, we have made detail discussion about the present accounting system of Panchayats. We have also conducted a survey to collect opinions from selected respondents about the present accounting system of Panchayats. The information collected from the survey has been discussed in the previous chapter. It transpires from the discussion on the survey results in the previous chapter is that the accounting system of Panchayats is at present suffering from a number of deficiencies and infested with critical problems. But, a sound system of accounting at all the levels of Panchayat is indispensable for proper recording and controlling of Panchayat activities. However, three seminars on “Financial Discipline and Streamlining of Accounts of Panchayat Organisations” have already been arranged by the Panchayat Department in three Divisions of West Bengal.(1) In those seminars, the areas of present crisis and deficiencies of financial management have been pointed out and some important suggestions have also been made for improvement of the prevailing system of accounting. The problems of Panchayat administration are many and varied. But, in this chapter, we shall not discuss all the problems of Panchayati Raj rather we focus only those issues which are related to the accounting system followed by the Panchayat institutions. We shall try to give a model of recording transactions based on double entry book-keeping for the Panchayat institutions with some suggestions to overcome the problems relating with accounting.

Going through the present accounting system of Panchayats and on the basis of results of the survey made, we have come to know the problems of present accounting system of Panchayats. First of all, the present system of Panchayat accounting follows cash basis of accounting. When cash is received by a GP, the same is deposited into the treasury or bank nearest to the office. The same is credited in the Personal Ledger Account (P/L Account) of the GP concerned. Thus, in recording the GP transactions, the most important book is cash book. As the cash basis of
accounting is followed, expenditure of outstanding and accrued nature are not considered. Thus, information provided by the present accounting is often incomplete or misleading which goes against the basic principles of accounting. In this way, the accounting is totally based on treasury in which the only function of the Panchayat is to expend the money sanctioned by the Central or State Government or any other local authority. Again, the GP accounting is designed on the principle of Single Entry System. We know, this system is not a scientific one. Besides, errors and frauds, committed in the accounts, cannot be easily detected under the Single Entry System of accounting. Moreover, the GP prepares only the Receipts and Expenditure Account as for showing the actual receipts and disbursement during the relevant accounting year. If the GP takes participation in executing a project of particular nature, different books and registers such as Allotment Register, Project Register, Works Register, Measurement Book, Muster Roll, Appropriation Register are maintained. No account is prepared to present the current financial position of the Panchayats.

We have made our survey on the basis of questionnaire. Our aim has been to know, to what extent, the present accounting system of Panchayats is able to fulfill the recording, controlling and information aspects of accounting. That is why, we divided our questionnaire into three categories mentioned above. But, from the opinions gathered from the office-bearers of different Panchayat bodies (ZP, PS and GP), it may be said that the present system does not fulfill the needs of the Panchayat leaders or the common people as the present system does not follow those techniques which help to make the accounting system perfect in terms of recording, controlling and informing. It is just like a personal book to provide certain information only.

Before designing an accounting system, its objectives and purpose should be clearly identified. Next the nature of the organization and its activities are also to be taken into consideration. What types of problems are to be dealt with is another important question. Who are the beneficiaries, what information they want, their level of knowledge and understanding should also be considered. On the other hand, the level of academic and professional qualifications of the persons who maintain and prepare the accounts and the scope of enhancing their knowledge and understanding is also very important. At present, frauds and misuse of funds in case of Panchayat administration are widespread. In this situation, some sorts of responsibility-focused
accounting are necessary. Again, Panchayats are generally involved in social welfare activities. As such, in the long run, social cost-benefits analysis would be introduced so that one can judge that the public funds spent by their representatives are worthy for the benefits of the village people. Long-term plans should be taken up for the development of accounting personnel working in Panchayat institution. One point should be mentioned here that some concept of cost should be inculcated among both Panchayat leaders as well as the staff so that they can make best use of the available funds. It should always keep in mind that in a developing country like India, availability of fund is the basic constraint. Accordingly, whatever fund is available, Panchayat should make best possible use of it. In case of selection of welfare projects, the decision criteria should be guided by the principle that helps maximization of welfare with available funds. In this connection, we think performance budgeting system should be strictly followed for Panchayat activities. Some ethical norms should also be developed and followed in Panchayat accounting. More and more concepts of financial management should be introduced in Panchayat accounting system. Accounting in Panchayats should be developed into a system of financial control and a source of pertinent information for planning. In view of increasing allotment of funds in Panchayat activities, it seems indispensable to develop some kind of internal check and control in the system.

Keeping in mind all the limitations of present Panchayat accounting, we think that the present single entry system has many shortcomings and that should, therefore, be replaced by double entry system of accounting. Most of the problems of accounting can be solved by introducing double entry system in Panchayat accounting. This system is better than other systems as it provides for proof. As the action-reaction or debit-credit principle is followed in every case without exception, a Trial Balance may be prepared to test the arithmetic accuracy. Moreover, reliable Profit and Loss Account or Income and Expenditure Account and Balance Sheet may be prepared from the Books of Accounts maintained on the basis of Double Entry principle. Besides, because of the rigorous system complete list of expenses and incomes is available from the account books. Similarly, detailed list of assets and liabilities is also available. Surplus or deficit can be determined in analytical fashion. That is why, this system may also be termed as Analytical Accounting as opposed to Synthetical Accounting which denotes other types of accounting.(2) Now, we are
going to propose an accounting system of Panchayat, which is based on complete Double Entry System of Book-keeping. Since Double Entry System is the best and only scientific method of accounting, which is accepted by all belong to the accounting, we are trying to introduce this method in Panchayat accounting.

Now, what is Double Entry System of Book-keeping?

Double Entry System of book-keeping is the system which is almost universally used in modern business. It is simple, yet all-embracing and efficient.(3) Moreover, this system has been proved to be systematic and has been found of great use for recording the financial affairs of all business concerns. The first book on this subject was published in 1494 at Venice in Italy written by Luca Pacioli, a Franciscan monk of Italy.(4)

This is a system of recording transactions in money or money’s worth having two fundamental aspects, first, one involving in receiving of benefit by an account or accounts and the other yielding by that benefit by an account or has accounts, in the same set of books at the same time. Since the system believes that every transaction got twofold aspects and they are recorded in the same set of books, it is called Double Entry System of Book-keeping.

All transactions involve transference or exchange of values. All exchanges have two aspects—the aspect of receiving (value in) and the aspect of imparting (value out). The Double Entry System merely recognizes this two-fold aspect of every transaction and it records both aspects from the viewpoint of each party. Double entry does not mean doing the work twice. It simply implies a record of double aspects of every transaction. Thus, each and every transaction is recorded twice in the ledger—one as a debit (value in) and the other as a credit (value out). The principle of double entry states that for every debit entry, there is an equal and corresponding credit entry.

The system of double entry may be well compared to a scale, which must have equal weight on both the sides in order that the scale is balanced. Thus, if the weight on one side of the scale is increased or decreased, the same weight must be correspondingly added to, or removed from, the other side. A more common expression of double entry book-keeping is the accounting equation.
The total assets of a firm are always equal to the total equities. This reflects the fundamental accounting equation of:

\[ A = E \]

Where \( A \) denotes Assets and \( E \) denotes Equities.

Assets are the goods and properties, which the firm owns as well as claims against outsiders, which the firm has not yet collected. The chief characteristic of assets is that, they are things of value, which have future service potential for a firm.

Equities are the claims against the assets and indicate the source of the assets. The source may be the owners themselves or outsiders, e.g., owners invest funds in business and creditors lend money to the business. Due to the difference in the nature of these claims, equities are divided into the claims of creditors and claims of owners. Hence, the fundamental equation can be expanded to:

\[ A = L + C \]

Where \( L \) denotes creditors' claims (i.e. liabilities) and \( C \) denotes owners' claims (i.e. capital). In other words, \( L \) denotes creditors' equity and \( C \) denotes owners' equity.

Before advocating double entry book-keeping for Panchayat accounting, we must have a knowledge of the system in respect of its features, benefits and limitations.

Features

- It maintains a complete record of each and every transaction.
- It recognizes the two-fold aspect of every transaction viz., the aspect of receiving (value in) and the aspect of imparting (value out).
- It records both aspects from the viewpoint of each party.
- Every account prepared under the double entry principle is divided into two sides viz., the left-hand side and the right-hand side. Left-hand side is called the debit side and right-hand side is called the credit side.
Each and every transaction is recorded twice in the ledger—one as a debit (value in) and the other as a credit (value out).

For every debit entry, there is an equal and opposite credit entry.

The total of all debits is always equal to the total of all credits.

Benefits

- It enables a trader to have a complete record of all transactions. It records both the aspects—personal and impersonal of every transaction.
- It provides correct and ready information regarding the amounts due from debtors and the amounts due to creditors on any particular day.
- It facilitates reference. Any information regarding any transaction can be had at any time.
- It enables a trader to prove the arithmetical accuracy of the books of accounts by means of a Trial Balance.
- It facilitates the preparation of final accounts with a view to finding out the net profit or loss for a period.
- It provides full particulars regarding the various assets and liabilities of a trader so as to ascertain his financial position as on a particular date by means of a Balance Sheet.
- It affords facility of comparison of purchases, sales and other items of different periods and thus helps the trader to study the progress of his business.
- It furnishes necessary information to the management for decision-making.
- Because of the presence of the various checks, which are obtained in double entry, it prevents and minimizes frauds and errors, and makes their detection easier.
- When books of accounts are maintained under the double entry system, it becomes easier for a trader to satisfy the sales-tax and income-tax authorities about the accuracy of business transactions.

Limitations

- It is a very laborious, time-consuming and expensive system.
- Under this system, many books of accounts are to be maintained. So, it requires many hands to do that. It results in more expenses.
- It is rather more complicated method of keeping the records of transactions.
✓ A layman cannot maintain books of accounts under this system. A person having a specialized knowledge and experience can do the job. It requires more expenses.

✓ Since the system itself is a complex one, there is every possibility of making mistakes or errors in recording the transactions.

Despite of the above defects or limitations, this system has been universally accepted by the people belonging to the profession of accounting. It is both simple and systematic in application. It may be said that if proper and complete record of business transactions is aimed at, the system of double entry must be applied. It may be applied with equal success to one’s domestic accounts, to the varied and voluminous transactions of the largest business, as also to the vast records of the National Exchequer.

Keeping in mind all the benefits of Double Entry Book-keeping, it may be recommended that Panchayat accounting should be based on this system. If the accounting system of Panchayats follows the Double Entry System of recording, almost all the books of accounts which are required to be maintained under the commercial system are to be kept for Panchayat accounting—the forms of practice may differ here and there. The main object of the commercial accounting system is to know how much profit is earned during a particular period of time, whereas the modus operandi of the Panchayat’s activities is to extend the best possible service to its beneficiaries. Thus, the Panchayat is a non-profit concern and therefore, this objective is also reflected in the keeping of accounts. The books of records to be maintained by the Panchayats may be classified in the following manner:
The above-mentioned model of recording transactions may be followed in Panchayat accounting. This type of recording system is followed in double entry system of book-keeping. At first, books of records should be divided in two sets—Books of Prime Entry and Books of Final Entry. In the books of prime entry, all the transactions are to be recorded primarily. In these books, the transactions should be recorded with detail narration. It will help to know all about the transaction. Since most of the transactions are made in cash, the cash transactions should be recorded separately in a book and this book is known as cash book. There may be two columns in cash book—cash and bank. Cash transactions should be recorded in cash column and the transactions made in cheques should be recorded in bank column of the cash book. All other transactions should be primarily recorded in General Journal. Cash transactions should be posted directly from cash book to the respective ledger. The other transactions should be posted from general journal to the Ledger. The cash book should be balanced every day and it should be verified with the cash-in-hand and the balance shown in the Pass book. In this way, any disparity will be rectified immediately.

The final part of recording transactions should be made in the books of final entry i.e. Ledger. It is not possible to record all the transactions in a single ledger. Moreover, to get the advantage of division of labour, ledger should be sub-divided. Since there are three types of sources of income—tax revenue, non-tax revenue and grant-in-aid from government and other higher authority, at least three types of
ledgers should be maintained along with a General ledger. All accounts other than sources of income should be entered in General ledger. These may include the accounts of day-to-day expenditure, assets, advances, personal accounts of members and the accounts of individual scheme separately.

At the end of a particular period, all the accounts of the ledger should be balanced. Then, a trial balance should be prepared by dividing the balances into two groups—debit and credit. A trial balance may be prepared at any time, say, at the end of every month, every quarter, every half-year or every year. It is drawn up as a test of the arithmetical accuracy of the ledger accounts.

One of the fundamental principles of accounting is the correct distinction between capital and revenue with respect to both receipts and expenditure. In all cases, this distinction must be clearly drawn and strictly observed. Failure to discriminate between capital and revenue will throw out the whole of accounting and produce entirely false results. For example, purchase of furniture may be charged to expenses account, repairs to building may be charged to premises account or some machinery may be sold and the proceeds may be treated as income. In each of the above cases, the Income and Expenditure account and the Balance Sheet will give inaccurate and misleading information. Capital expenditure consists of expenditure, the benefit of which is not fully consumed in one accounting period, but spreads over several periods. On the other hand, revenue expenditure consists of expenditure incurred in one accounting period and the full benefit of which is also consumed in the same period. Again, a capital receipt is a receipt which creates a liability or which results from sale of a fixed asset. On the other hand, a revenue receipt is a receipt which represents a gain and which is not repayable.

Now, an income and expenditure account should be prepared by taking all revenue receipts and revenue expenditures. Net balance of income and expenditure account will show surplus or deficit, depending on its credit or debit balances respectively. The remaining accounts of the trial balance should be considered as assets or liabilities on the basis of their balances. A statement showing the assets and liabilities, popularly known as Balance Sheet, should be prepared. In this way, the
efficiency of the Panchayat body will be examined by the Income and Expenditure Account and the position of it will be shown by the Balance Sheet.

If the Panchayat accounting follows the above-mentioned technique of double entry, the accounts will give detail information about the workings of the Panchayats at any time. The occurrence of errors and frauds will be minimized to a great extent. The performance of the Panchayats can be measured properly. At present, the main aim of the Panchayats is just to expend the money on the scheme for which it is granted. There is no technique to measure the performance of the Panchayats. So, performance budgeting should be introduced instead of general budgeting. It means that the workings of Panchayats should be measured not in terms of money only, but in terms of actual performance also. Moreover, proper costing techniques should be introduced to control the expenses incurred by the Panchayats. Marginal costing, Standard costing, Budgetary control are the techniques that should be followed in practice.

Now, the Central Government is deciding to allow every GP a computer set to do their day-to-day works. In this situation, a common software should be made for GP and it should be followed by all. It will make the accounting system easy and errorless. In order to get these benefits of modern techniques, double entry system must be introduced in Panchayat accounting and a person having a knowledge of computer accounting, preferably, commerce graduate should be appointed in every GP. In future, all these computers should be interlinked with satellite. It will make the information system very easy among the Panchayat bodies and the government (central and state) also.

Now, it should be mentioned here that mere introduction of double entry system of book-keeping can not solve all the problems relating to Panchayat accounting. There are many other irregularities which are not directly related to the system of accounting but are responsible for financial mismanagement. Different steps should be taken into consideration to overcome such harmful activities. Some of them are explained below along with the suggestions for solving the problems.
Audit Report

It has been seen that Panchayat Samiti and Zilla Parishad do not send the answer of Audit Report to the appropriate authority. Sometimes, the answers to the Audit Paras seem inappropriate and are, therefore, not accepted by the authority. As a result, the Examiner of Local Accounts often refers the matter to the Public Accounts Committee. On the other hand, the Director of Panchayat seldom gets the Audit Report from Gram Panchayats within due date. Again, no necessary action is taken by the said authority as pointed out and recommended in audit report. As a result, the total system of audit has become a farce.

To overcome the above problems, some suggestions may be given by which the total system of audit can be made fruitful.

1. Most of the Audit Paras can be settled during the audit if Panchayat Bodies are very much careful of it.
2. Necessary legal actions should be taken against the Panchayat Bodies violating the rules and regulations of the act.
3. The meeting for considering the Audit Report and providing remedial measures against any defect or irregularity, pointed out in the said report, must be constituted within the statutory time limit.
4. A standing committee may be formed which would deal only with audit reports and audit paras.

Mobilisation of resources

The Panchayat Act gives powers to Zilla Parishad, Panchayat Samiti and Gram Panchayat to increase their own income by imposing tax on land & buildings, proceeds of road cess and public works cess, levy of tolls, fees and rates etc. But, in most of the cases, no step has yet taken to increase the income by exercising these provisions of the Act. Again, none of those organizations did make any bye-laws according to the Section 223 of the said Act which may facilitate increase of the potential incomes.
In order to solve the above shortcomings, the following steps may be followed.

i. The Markets, Hats of private ownership should be taken over by the Gram Panchayat.

ii. The potential source of income is to be searched for.

iii. Drive should be taken for realizing dues in full.

iv. Government should clearly prescribe the possible sources of income of Panchayat Body.

v. In case of all Government revenue, royalty and tax earning matters, Panchayat Bodies should be involved jointly for better collection and a percentage of collection should be given to them.

vi. Panchayat Bodies should frame bye-laws to realize their resources u/s 223 of the Act.

vii. A portion of Road Tax may be apportioned to Panchayat Bodies.

**Budget**

In most of the cases, the Zilla Parishad as well as Panchayat Samiti and Gram Panchayat do not prepare and sanction their annual budgets accordingly. As a result, the expenses incurred by the Panchayat Bodies may be treated as illegal. The following steps may be suggested for the improvement of budget preparation.

i. Budget may be prepared in two parts—plan and non-plan.

ii. The last date for submission of Budget to proper authority for approval may be increased from 15th October to 31st December preceding to the financial year to which budget relates.

iii. Each of three tier Panchayat should sanction their respective budgets by the proper authority within 31st March.

iv. Panchayat Department may issue a circular to all Departments asking them to inform all levels of Panchayat Bodies within July of the preceding year about their allocation of funds for the schemes to be executed by respective Panchayat Bodies so that they can prepare budget in time.
Fund Diversification

A common increasing trend of Panchayat Bodies is to expend money of one head on another without the permission of appropriate authority. Besides, the balance, if any, in an account is not transferred to the concerning head of account. Moreover, after drawing a particular bill in a head of account, the balance of that account cannot be ascertained from that bill.

The following are the suggestions for improvement of the above problem.

i. Expenditure without allotment should never be incurred unless it is permitted by the appropriate authority. The unspent amount of a head of account should be brought to the notice of the authority as early as possible.

ii. Appropriation of balances should be shown in each bill of relevant account.

Advance

The Advance Register kept in Gram Panchayat and Panchayat Samiti is not like the Advance Register in accounting system. Therefore, it cannot be easily known that how much amount of money and materials is given as advance to a party. Again, advances are frequently made to Panchayat members, officers and other office staff regarding implementation of different programmes. But, without producing the Certificate of Utilisation of money and materials of last instalment in statutory form, they get the advance of next instalment. Thus, a huge amount is accumulated in 'Advance' account year after year. On the other hand, as per legal provisions, advance made to a party cannot be recorded as an expense in the relevant head of account. So, it is not possible to find out how much expenditure is incurred in a particular head.

The following steps may be followed to solve the problems relating to advance.

i. The Government may fix the maximum limit of advance to be made to a party and also the time limit of its adjustment.

ii. No advance should be made to an elected member in any case.
iii. No advance is to be made to purchase materials of a work. The payment is to be made to the concerning party directly, by cheque.

iv. List of outstanding advances with amount and date should be placed before Annual General Meeting of the respective Panchayat Bodies for discussion and necessary direction.

**Internal Audit**

The internal auditing is suffering from a number of irregularities as because the guidelines for conducting of internal audit is not based on practical approach. During the post-audit session, no drive has generally been taken to correct the errors pointed out by the auditors in course of internal audit. So, the same types of errors are repeated.

The following are the corrective measures that may be taken into consideration.

i. Vacant posts of the officers of Internal Audit should be filled up immediately.

ii. It should be re-examined the duties and functions of Internal Audit officers on the basis of practical point of view. A clear guideline should be issued from the Department so that they can submit the report in a proper way.

iii. A copy of the report of internal audit may be sent to the higher authority.

iv. Reports of the Internal Audit should be discussed in the meeting of the Panchayat Bodies.

**Shortage of Staff**

The problem of shortage of staff is acute in Panchayats. The number of staff remains more or less same as it was before thirty years or more. But the volume of work under the Panchayat system has been increasing rapidly. As a result, deficiency is found at various stages of accounting, such as, keeping of proper books of records, timely preparation of Utilisation Certificate of money allotted, compilation of other accounting statements and reports etc. Moreover, the total volume of transactions in terms of money value is very much in Zilla Parishad. But, there is no Accounts
Officer to make supervision and control over such an enormous amount of money. Besides, the accounting system of Zilla Parishad is much more complicated as compared with the accounting system of Gram Panchayat or Panchayat Samiti. So, Zilla Parishads often feel the lack of a specialist Accounts Officer.

The steps to be taken for solving the above problem are summarized below:

i. An Accounts Officer from the West Bengal Audit and Accounts Service should be posted at Zilla Parishad to supervise the accounts work, to prepare budget properly and timely, and to act as Drawing and Disbursing Officer of the Zilla Parishad.

ii. The staff requirement at all levels of Panchayats should be assessed immediately.

iii. The number of staff may be reduced by re-shuffling the present staff pattern.

Lack of keeping Registers

Some important registers like Fund Appropriation Register, Stock Register, Adjustment Register etc., are not kept by Gram Panchayat and Panchayat Samiti. As a result, how much amount is received in the account of particular head cannot be ascertained easily. Lack of keeping appropriate Registers also creates some problems in the course of auditing of accounts. Again, most of the Panchayat Bodies do not maintain the Register of Properties. Thus, it is quite impossible to know the actual value of Fixed Assets of a Panchayat Body at the end of the year. Moreover, there are cases where cash book is not written timely and maintained accordingly. Efforts are not taken to reconcile the balance of cash book and that of Personal Ledger Account. The Panchayat Bodies are very slow in compilation of their annual accounts. It creates problems for statutory audit.

The following steps may be taken for improvement of the present situation.

i. Physical verification of stock and materials should be made at regular intervals.
ii. The Registers should be maintained as per the pro-forma given in Account Rules.

iii. Accounts should be compiled monthly, quarterly, annually and regularly.

iv. Cash book should be reconciled, closed and signed regularly.

Lack of Training

The efficiency and productivity of Panchayat staff is much lower than the staff of other Government Units. The main reason for this is that there is no provision of systematic and regular course of training for technical, non-technical and other types of staff of Panchayat. Again, the Prodhan of Gram Panchayat is also the Drawing and Disbursing officer, and hence it is necessary to arrange some formal training of accounting and budgeting for him.

The following are some suggestions for improving the above situation.

i. A training centre should be opened in each district for training of staff related directly or indirectly with the activities of Panchayats.

ii. An intensive job-oriented training programme should be arranged in the functional areas at all levels.

iii. Prodhan, Nirman Sahayak and Secretary of Gram Panchayat should be trained regularly at district level regarding their functions and responsibilities.

Problems in allotment of money

The various departments of Government, at the time of allotment of money to Zilla Parishad/Panchayat Samiti, give order of allotment considering the posts of District Magistrate and Executive Officer or Block Development Officer and E.O. are the same and equal. Thus, it is often found that the two different bills are produced to Treasury to withdraw the same allotment money. In particular, the inclusion of money of Panchayat Samiti in the office of B.D.O. is a common practice. Besides, a huge amount of money of Panchayat Samiti is spent without passing through P.L.Account. It creates problems in the area of both accounting and auditing. In many cases, it is
found that the Pass Book of Panchayat Samiti/Zilla Parishad has not made up-to-date. It also hampers the accounting work to some extent.

The followings are some suggestions that may be taken into consideration to improve the above-noted situation.

i. The disbursing money of Panchayat Samiti should be allotted in the name of Executive Officer and not in the name of the B.D.O.

ii. All the receipts should be deposited in P.L.Account of the concerned Panchayat Samiti.

iii. A reconciliation should be made each month between the balances of cash book and P.L.Account.

iv. The Panchayat Samiti should be paid by Bank Draft/Account Payee cheque instead of cash.

v. A separate cell may be opened in Treasury to deal with P.LAccounts of Zilla Parishad/Panchayat Samiti.
Reference: