

Loans and Advances Made by Governments

Issued for comment by the

Government Accounting Standards Advisory Board

This Exposure Draft of the Government Accounting Standards Advisory Board (GASAB) has been prepared by its Secretariat. The Board has approved its issue as Exposure Draft. The proposals in this Exposure Draft may be modified in the final Standard in the light of comments received before being recommended by the Comptroller and Auditor General of India for notification by the President of India in the form of Indian Government Accounting Standard.

Comments should be submitted in writing so as to be received by June 30, 2007 or may be sent by e-mail. All comments will be considered as public record. Comments should be addressed to:

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INTRODUCTION

Accounting Standards for the Union Government and the State Governments

The Government Accounting Standards Advisory Board (GASAB) is developing accounting Standards to be followed in the preparation of financial statements for the Union Government and the State Governments in India. GASAB recognizes the significant benefits of achieving consistent and comparable financial information available across governmental accounting framework through implementation of Indian Government Accounting Standards.

It is the firm belief of the Board that implementation of Indian Government Accounting Standards (IGASs) will improve both the quality and comparability of financial information reported by the Union Government and the State Governments.

The Board strongly encourages all stakeholders to engage in the development of its Standards by commenting on the proposals set out in this Exposure Draft. Financial Statements are to be described as complying with IGASs only if they comply with all the requirements of each applicable IGAS. The IGASs are not intended to apply to immaterial items.

Due Process and Timetable

An important part of the process of developing IGASs is the receipt by the Board of comments on the proposals set out in this Exposure Draft from governments, auditors, accountants, research bodies, economists, standard setters, scholars, researchers and other parties with an interest in Government Financial Reporting. Accordingly, each proposed IGAS is first released as an Exposure Draft, inviting the interested parties to furnish their comments. An Exposure Draft usually requires comments to be furnished within 90 days. Upon the closure of the comment period, the Board considers the comments received on the Exposure Draft and may modify the proposed IGAS in the light of the comments received before taking action for issue of the final Standard.

Background

The Union Government has been providing financial assistance to the State Governments, a substantial portion of which is in the form of loans. These loans are advanced to the States both in the form of plan and non-plan assistance intended for both developmental and non-developmental purposes. Loans are provided by the Union Government also to Foreign Governments, Government Corporations, Non-Government institutions, Local bodies, etc. The Union Government also disburses recoverable advances to Government servants.

The State Governments disburse loans to Government Companies, Corporations, Local Bodies, Autonomous Bodies, Cooperative Institutions, Statutory Corporations, quasi-public bodies and other non-Government/private institutions for developmental and socio-economic purposes.

The objective of the Standard is to lay down the norms for Recognition, Measurement, Valuation and Reporting in respect of Loans and Advances made by the Union, State

Governments and Union territories with legislatures in their respective Financial Statements. The emphasis has been on making financial information comparable and consistent across the governmental accounting framework. The exposure draft has been formulated keeping in mind the provisions of the Constitution, the Acts and Rules made there under and the existing accounting principles and standing orders issued by competent authorities. At the same time, international best practices have been examined and incorporated where possible and within limits placed by the unique features of Indian government accounting system.

Purpose of the Exposure Draft

This Exposure Draft proposes principles for recognition, measurement, valuation and reporting of Loans and Advances made by the Union, State Governments and Union Territories with legislatures in their respective Financial Statements. It also seeks to ensure adequate disclosure on Loans and Advances.

Request for Comments

Comments are invited on this Exposure Draft by June 30, 2007. The Board would prefer that respondents express a clear overall opinion on whether the Exposure Draft in general is supported, and that this opinion be supplemented by detailed comments, whether supportive or critical, on the issues in the Exposure Draft. Respondents are also invited to provide detailed comments on any other aspects of the Exposure Draft indicating the specific paragraph number or groups of paragraph to which they relate. It would be helpful if these comments clearly explain the issue and suggest alternative wordings, with supporting reasoning, wherever appropriate.

Specific Matters for Comment

The Board would particularly value comment on:

- a) Capturing and displaying the amount of Write-off of Loans and Advances. Currently write-offs are not being differentiated from repayments. It can be argued that it is inappropriate to depict write-offs as repayments since the former represents a loss to the Government and needs to be accurately captured and indicated.

On the other hand, it can be argued that the difficulties involved in capturing this information would negate whatever little benefits that would follow from capturing and reporting the information relating to amount of Write off of loans and advances separately from repayments. In case this information is to be captured, a new Minor Head would need to be opened under each relevant Major Head.

In light of the above, should information pertaining to write offs be captured and reported distinctly?

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Indian Government Accounting Standard on *Loans and Advances made by Governments*

*The standards, which have been set in **bold italic** type, should be read in the context of the explanatory paragraphs in this Standard, which are in plain type. The Indian Government Accounting Standards are not intended to apply to immaterial items.*

1. Introduction

1.1 The Government of India has been empowered under proviso (2) of Article 293 of the Constitution of India to make loans to the States, subject to such conditions as may be laid down by or under any law made by Parliament, any sums required for the purpose of making such loans being chargeable to the Consolidated Fund of India.

1.2 The Union Government has been providing financial assistance to the State Governments, a substantial portion of which is in the form of loans. These loans are advanced to the States both in the form of plan and non-plan assistance intended for both developmental and non-developmental purposes. Loans are provided by the Union Government also to Foreign Governments, Government Corporations, Non-Government institutions, Local bodies. The Union Government also disburses recoverable advances to Government servants.

1.3 The State Governments disburse loans to Government Companies, Corporations, Local Bodies, Autonomous Bodies, Cooperative Institutions, Statutory Corporations, quasi-public bodies and other non-Government/private institutions for developmental and socio-economic purposes. The State Governments also disburse recoverable advances to Government Servants.

2. Objective

The objective of the Standard is to lay down the norms for Recognition, Measurement, Valuation and Reporting in respect of Loans and Advances made by the Union and the State Governments in their respective Financial Statements to ensure complete, accurate, realistic and uniform accounting practices, and to ensure

adequate disclosure on Loans and Advances made by the Governments consistent with best international practices.

3. Scope

This Standard applies to Loans and Advances given by the Government for incorporation and presentation in the Financial Statements of the Government. Financial Statements will not be considered as giving fair and complete picture of Loans and Advances unless they comply with these standards. This standard will apply only to government accounts being maintained on a cash basis.

4. Definitions

4.1 The following terms used in the Standard have meanings as specified here under, unless the context otherwise requires:

Accounting Authority is the authority which prepares the Financial Statements of the Governments.

Accounting Period means the period covered by the Financial Statements.

Advances are loans made to Government servants.

Carrying Amount is the net amount which the debtor owes the creditor at any point of time. It reflects the historical cost of the loan and subsequent economic flows resulting in either decrease due to deletions/disposals or increase due to additional disbursements.

Cash Basis of accounting is that wherein accounting transactions of an entity represent the actual cash receipts and disbursements during a financial year as distinguished from the amount due to or by the entity during the same period.

'Charged' and 'Voted' Loans and Advances - All loans to State Governments and a part of the same to Union Territory Governments made by the Union Government are 'charged' loans whereas all other loans and advances are 'voted' loans and advances. Charged loans are charged to the Consolidated Fund of India.

Voted loans require authorization for appropriation by the vote of the Parliament or State legislature as the case may be.

Consolidated Fund of India is the fund referred to in clause (1) Article 266 of the Constitution of India.

Consolidated Fund of the State is the fund referred to in clause (1) Article 266 of the Constitution of India

Financial Statements means the Annual Finance Accounts of the respective Governments.

Government means the Union Government or any State Government or Government of any Union Territory with Legislature.

Historical Cost is the original book value of loans and advances.

Loanee Entity is an entity in whose favor a loan or an advance is sanctioned by the Government.

Loanee Group consists of a group of loanee entities of similar nature and characteristics.

Loans are financial assets created by the Governments by providing money, goods or services directly or indirectly to the beneficiary entities which entails a contractual right to receive back the moneys (or equivalents) along with interest thereon, if any, as per terms and conditions of the loan agreements.

Major Heads of account represent the functions of Government as per the 'List of Major and Minor Heads of Account of Union and States'.

Minor Heads of account represent various programmes undertaken by departments of Government to achieve the objectives of the function represented by the major head as per the 'List of Major and Minor Heads of Account of Union and States'.

Nominal Value of a loan is the same as its carrying amount.

'Non-Plan' Loans are loans other than those sanctioned by the Government for plan purposes.

Parliament means the Parliament of India.

'Plan' Loans are sanctioned by the Government for plan purposes.

Planning Commission means the Central Planning Commission set up by the Government through a resolution in 1950.

Sector consists of a grouping of specific functions or services as per the 'List of Major and Minor Heads of Account of Union and States'.

'Secured' Loans – 'Secured' loans are those loans that are backed up by mortgages of any kind held by the lender on the loanee's assets or property.

Un-secured Loans – Any loan which is not a Secured Loan is an 'Unsecured' loan.

Sub-Major Heads of account represent the sub-functions of Government and are under the Major Heads and are as per the 'List of Major and Minor Heads of Account of Union and States'

Write-off is when a competent authority remits or writes off any loan owing to its irrecoverability or otherwise.

4.2 A 'Loan in perpetuity' needs only to be serviced by way of payment of interest wherever the same is enjoined by the covenants of a loan agreement.

4.3 The term 'Advances' has been restricted in its meaning to denoting loans made to Government Servants only.

5. Recognition

5.1 A loan shall be recognized by the disbursing entity as an asset from the date the money is actually disbursed and not from the date of sanction. If a loan is disbursed in installments then each installment shall be treated as a separate loan for the purpose of repayment of principal and payment of interest, except where the competent authority specifically allows consolidation of the installments into a single loan at the end of the concerned financial year.

5.2 Loans converted into equity shall be treated as conversion and shall lead to a reduction in the outstanding loan amount.

5.3. Debt assumption due to invocation of guarantees shall be treated as disbursement of loan.

6 Measurement and Valuation

6.1 Historical Cost measurement shall be the basis for accounting and reporting on loans and advances made by Governments.

6.2 As of the last date of accounting period of Financial Statements the Carrying Amount of loans shall undergo revision on account of additional disbursement and deletions/disposals during the accounting period.

6.3 The method of initial measurement and valuation of Loans and Advances in the Financial Statements of the Governments is to measure at historical cost of the Loans and Advances.

6.4 Subsequent to initial valuation, Loans and Advances will be reflected in the Financial Statements at Carrying Amount.

7. Disclosure

7.1 The Financial Statements of the Union and State Governments shall disclose the Carrying Amount of loans and advances at the beginning and end of the accounting period showing additional disbursements and deletions/disposals. An additional column in the relevant Financial Statements shall also reflect the amount of interest in arrears. This amount will not be added to the closing balance of the loan but will only be in nature of an additional disclosure.

7.2 The Financial Statements of the Union Government shall disclose the following details under 'Loans and Advances made by the Union Government' in the Annual Finance Accounts of the Union Government:

(a) Summary of Loans and Advances :Loanee group-wise

- (b) Summary of Loans and Advances: Sector-wise.*
- (c) Summary of repayments in arrears from Governments and other loanee entities.*

7.3 The Financial Statements of the Union Government shall disclose the following details under 'Detailed Statement of Loans and Advances made by the Union Government' in the Annual Finance Accounts of the Union Government:

- (a) Detailed Statement of Loans and Advances showing the Major Head and Minor Head-wise Details.*
- (b) Detailed Statement of repayments in arrears from State/Union Territory Governments.*
- (c) Detailed Statement of repayments in arrears from other Loanee entities.*

7.4 The Financial Statements of the Union Government shall disclose the following details under 'Additional Disclosures' in the Annual Finance Accounts of the Union Government:

- (a) Fresh Loans and Advances made during the year.*

7.5 The Financial Statements of the State Governments shall disclose the following details under 'Statement of Loans and Advances made by the State Governments' in the Annual Finance Accounts of the State Government:

- (a) Summary of Loans and Advances: Loanee group-wise.*
- (b) Summary of Loans and Advances: Sector-wise.*
- (c) Summary of repayments in arrears from Loanee entities.*

7.6 The Financial Statements of the State Governments shall disclose the following details under 'Detailed Statement of Loans and Advances made by the State Government' in the Annual Finance Accounts of the State Government:

- (a) Detailed statement of Loans and Advances showing the Major Head and Minor Head-wise details.*
- (b) Detailed Statement of repayments in arrears from Loanee entities.*

7.7 The Financial Statements of the State Governments shall disclose the following details under 'Additional Disclosures' in the Annual Finance Accounts of the State Government:

(a) Fresh Loans and Advances made during the year.

7.8 The Financial Statements shall reflect the Carrying Amount of loans at the beginning and end of the accounting period along with the additions made during the year by way of fresh loan disbursements to the opening balance and deductions there from by way of repayments/write-off of irrecoverable advances to arrive at the closing balance. An additional column in the relevant Financial Statements shall also reflect the amount of interest in arrears. This amount will not be added to the closing balance of the loan but will only be by nature of an additional disclosure.

7.9 Financial Statements of both the Union and the State Governments shall disclose details of loans and advances made to various loanees in their respective Annual Finance Accounts in three parts. For the Union Government these would be 'Loans and Advances made by the Union Government', 'Detailed Statement of Loans and Advances made by the Union Government' and 'Additional Disclosures' in the Annual Finance Accounts of the Union Government.

7.10 The State Government will have a similar three tier presentation in Annual Finance Accounts of the State. The three parts would be 'Loans and Advances made by the State Government', 'Detailed Statement of Loans and Advances made by the State Government' and 'Additional Disclosures' in the Annual Finance Accounts of the State Government.

7.11 The first part, Statement of Loans and Advances made by the Government, shall disclose loanee group-wise and sector-wise information on loans and advances disbursed, repaid and written-off during the year along with summarized information on repayments in arrears from various loanees.

7.12 The second, Detailed Statement of Loans and Advances made by the Government, on the other hand, shall disclose the major head-wise and minor head-wise details of the loans and advances made by Governments as also detailed statements on repayments in arrears from various loanee entities.

7.13 The third, Additional Disclosures, shall incorporate additional disclosures on fresh loans and advances made during the year. Further, information on loans of which the terms and conditions have not yet been settled is also disclosed as a note to this Statement. This section also contains a statement on quantum of loans disbursed during the year to those entities from which recoveries of earlier loans are in arrears along with the purpose for this disbursement.

7.14 The section on ‘Repayments in arrears from Loanee entities’ in the Finance Accounts of the Governments shall disclose loans, the repayments on which by way of principal repayments and/or interest payments are in arrears, in terms of the number of such loans and the total amount in arrears thereof as against the total amount of loans given by the Government outstanding against the entity, including those not in arrear. This would help indicate the credit worthiness of the entity against which loans are outstanding.

7.15 The Statements shall also disclose detailed information on the quantum and terms of fresh loans advanced during the year to those loanee entities from which recoveries of earlier loans by way of repayment of principal and/or by way of payment of interest are in arrears. This would be shown as a disclosure in ‘Additional Disclosures’.

7.16 In cases of conversion or re-structuring /re-scheduling of loans, the re-structured loan should be treated as a current loan and not classified as being in arrear. The classification of such loans would thereafter be governed by the revised terms and conditions and would be treated as in arrear if and when they subsequently fall in arrears in respect of interest payment and/or repayment of principal with reference to revised terms and conditions.

7.17 All the figures in the Financial Statements are ‘in lakhs’ of rupees.

8. Effective date

This Indian Government Accounting Standard becomes effective for the Financial Statements covering periods beginning 1 April of the year after the notification of the Standard by the Government.

9. Format for disclosure

The formats for disclosures in the Financial Statements of the Union Government and the State Governments respectively are shown hereunder:

Financial Statements of the Union Government

Statement of Loans and Advances made by the Union Government

Section: 1 Summary of Loans and Advances: Loanee group wise

(In lakhs of rupees)

Loanee Group	Balance on April 1, 20X0	Disbursements during the year	Repayments during the year	Write-off of irrecoverable advances	Balance on March 31, 20X1 (2+3) –(4+5)	Net increase/decrease during the year (2 – 6)	Interest payment in arrears
1	2	3	4	5	6	7	8

- Notes:**
1. Out of total amount of Rs. lakhs paid as loans to State/Union Territory Governments, loans granted to cover gaps in resources of the State/Union Territory amounted to Rs. lakhs
 2. In pursuance of the recommendations of the ...th Finance Commission, repayments by the State/Union Territories amounting to Rs. lakhs have been written off upto March 31,20X1.
 3. At the beginning of the year, there was a balance of Rs. lakhs sanctioned to State Governments as Ways and Means Advances. During the year, an amount of Rs. lakhs was paid as Ways and Means Advances to State Government for clearance/avoidance of overdrafts from the Reserve Bank of India. The State Governments repaid Rs. lakhs during the year leaving a balance of Rs. lakhs.
 4. Following are the cases of a loan having been sanctioned as ‘loan in perpetuity’ :

Sno.	Loanee entity	Year of Sanction	Sanction Order No.	Amount	Rate of Interest
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Section: 2 Summary of Loans and Advances: Sector-wise

(in lakhs of rupees)

Sector	Balance on April 1, 20X0	Disbursements during the year	Repayments during the year	Write-off of irrecoverable advances	Balance on March 31, 20X1 (2+3) –(4+5)	Net increase/decrease during the year (2 – 6)	Interest payment in arrears
1	2	3	4	5	6	7	8

Note: For details, refer Section 1 of Detailed Statement of loans and advances made by the Union Government

Section: 3 Summary of repayments in arrears from State/Union Territory Governments and other Loanee entities

(in lakhs of rupees)

Loanee-Entity	Amount of arrears as on March 31,20X1			Earliest period to which arrears relate	Total loans outstanding against the entity on March31, 20X1
	Principal	Interest	Total		
1	2	3	4	5	6
State / Union Territory					
Other Loanee entities					

Note: For details, refer Section 2 & 3 of Detailed Statement of loans and advances made by the Union Government

Detailed Statement of Loans and Advances made by the Union Government

Section: 1 Major and Minor Head wise Details of Loans and Advances

Out of total disbursement, amount for plan purpose has been shown in brackets below the total figure of disbursements for each major head

(In lakhs of rupees)

Major Head	Minor Heads	Balance on April 1, 20X0	Disbursement during the year	Repayment during the year	Write-off of irrecoverable advances	Balance on March 31, 20X1 (3+4) – (5+6)	Net increase/decrease during the year (3 – 7)	Interest credited
1	2	3	4	5	6	7	8	9

Section: 2 Repayments in arrears from State/Union Territory Governments

(In lakhs of rupees)

Name of the State/ UT govt.	Amount of arrears as on March 31 20X1			Earliest period to which arrears relate	Total loans outstanding against the entity as on March 31, 20X1
	Principal	Interest	Total		
1	2	3	4	5	6

Section: 3 Repayments in arrears from other Loanee Entities/Institutions

(In lakhs of rupees)

Loanee-Entity	Amount of arrears as on March 31,20X1			Earliest period to which arrears relate	Total loans outstanding against the entity as on March 31, 20X1
	Principal	Interest	Total		
1	2	3	4	5	6

Additional Disclosures

Fresh Loans and Advances made during the year

(In lakhs of rupees)

Loanee Entity	Number of Loans	Total amount of loans	Terms and conditions	
			Rate of Interest	Moratorium period, if any
1	2	3	4	5

NOTES:

Disclosures indicating extraordinary transactions relating to Loans and Advances:

1. Following are the cases of a loan having been sanctioned as 'loan in perpetuity' :

Sno.	Year of Sanction	Sanction Order No.	Amount	Rate of Interest
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2. The following Loans have been granted by the Government though the terms and conditions are yet to be settled:

(In lakhs of rupees)

Loanee entity	Number of loans	Total amount	Earliest period to which the loans relate
1	2	3	4

3. Fresh Loans and advances made during the year to loanee entities from whom repayments of earlier loans are in arrears

(In lakhs of rupees)

Name of the loanee entity	Loans Disbursed during the current year		Amount of arrears as on March 31, 20X1			Earliest period to which arrears relate	Reasons for disbursement during the current year
	Rate of Interest	Principal	Principal	Interest	Total		
1	2	3	4	5	6	7	8

Financial Statements of the State Government/Union Territory Government with Legislature

Statement of Loans and Advances made by the State/Union Territory Government

Section: 1 Summary of Loans and Advances: Loanee group wise

(In lakhs of rupees)

Loanee Group	Balance on April 1, 20X0	Disbursements during the year	Repayments during the year	Write-off of irrecoverable advances	Balance on March 31, 20X0 (2+3) – (4+5)	Net increase/decrease during the year (2 – 6)	Interest Payment in arrears
1	2	3	4	5	6	7	8

1. Following are the cases of a loan having been sanctioned as 'loan in perpetuity':

Sno.	Loanee entity	Year of Sanction	Sanction Order No.	Amount	Rate of Interest
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Section: 2 Summary of Loans and Advances: Sector-wise

(in lakhs of rupees)

Sector	Balance on April 1, 20X0	Disbursements during the year	Repayments during the year	Write-off of irrecoverable advances	Balance on March 31, 20X1 (2+3) – (4+5)	Net increase/decrease during the year (2 – 6)	Interest payment in arrears
1	2	3	4	5	6	7	8

Note: For details, refer Section 1 of Detailed Statement of loans and advances made by the State Government

Section: 3 Summary of repayments in arrears from Loanee entities

(in lakhs of rupees)

Loanee-Entity	Amount of arrears as on March 31, 20X1			Earliest period to which arrears relate	Total loans outstanding against the entity on March 31, 20X1
	Principal	Interest	Total		
1	2	3	4	5	6

Note: For details, refer Section 2 of Detailed Statement of loans and advances made by the State Government

Detailed Statement of Loans and Advances made by the State Government/Union Territory Government

Section: 1 Major and Minor Head wise Summary of Loans and Advances

Out of total disbursement, amount for plan purpose has been shown in brackets below the total figure of disbursements for each major head

(In lakhs of rupees)

Major Head	Minor Heads	Balance on April 1, 20X0	Disbursement during the year	Repayment during the year	Write-off of irrecoverable advances	Balance on March 31, 20X1 (3+4) – (5+6)	Net increase/decrease during the year (3 – 7)	Interest credited
1	2	3	4	5	6	7	8	9

Section: 2 Repayments in arrears from Loanee Entities

(In lakhs of rupees)

Loanee-Entity.	Amount of arrears as on March 31 20X1			Earliest period to which arrears relate	Total loans outstanding against the entity as on March 31, 20X1
	Principal	Interest	Total		
1	2	3	4	5	6

Additional Disclosure

Fresh Loans and Advances made during the year

(In lakhs of rupees)

Loanee Entity	Number of Loans	Total amount of loans	Terms and conditions	
			Rate of Interest	Moratorium period, if any
1	2	3	4	5

NOTES:

Disclosures indicating extraordinary transactions relating to Loans and Advances:

1. Following are the cases of a loan having been sanctioned as 'loan in perpetuity' :

Sno.	Year of Sanction	Sanction Order No.	Amount	Rate of Interest
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2. The following Loans have been granted by the Government though the terms and conditions are yet to be settled:

(In lakhs of rupees)

Loanee entity	Number of loans	Total amount	Earliest period to which the loans relate
1	2	3	4

3. Fresh loans and advances made during the year to loanee entities from whom repayments of earlier loans are in arrears

Name of the loanee entity	Loans Disbursed during the current year		Amount of arrears as on March 31, 20X1			Earliest period to which arrears relate	Reasons for disbursement during the current year
	Rate of Interest	Principal	Principal	Interest	Total		
1	2	3	4	5	6	7	8