

CHAPTER 22

LOAN & ADVANCES

INTRODUCTION

22.1 This chapter contains the recommended accounting system for transactions relating to loans given to others including any boards/undertakings set up by the ULB. Loans and advances provided to employees and contractors /suppliers are covered in chapter 13 and 11 respectively.

22.2 ULBs may lend loans out of general funds as per the rules and provisions of the act governing the ULBs. ULBs may also advance out of specific funds / grants received for a long-term projects if the terms and conditions of the fund/grant provide for the same. In such cases, interests earned on the loans and advances lent out of the specific project fund/grant shall be credited to these funds/grants account.

ACCOUNTING PRINCIPLES

22.3 The following Accounting Principles shall govern the recording, accounting and treatment of transactions relating to loans provided by ULBs

- a. Interest on loans shall be recognised as and when due. At period-ends, interest shall be accrued up to the date of the period-end.
- b. Interest earned on loans given out of specific fund/grant shall be directly credited to the specific fund/grant account.
- c. Penal interests if any either on loans given out of Municipal fund or out of specific fund/grant shall be accounted on actual receipt.
- d. Provision against bad and doubtful loans shall be made according to the provisioning principle of the ULB based on norms or guidelines issued by the state government in this regard.
- e. Any additional provision for loans outstanding (net on overall basis) required to be made during the year shall be recognised as expenditure and any excess provision written back during the year shall be recognised as income of the ULB.
- f. Write-offs of bad and doubtful loans shall be adjusted against the provisions made and to that extent, loan outstanding get reduced. In case of inadequate provisions, the write off shall be recognised as expenditure.

ACCOUNTING FOR LOANS TO OTHERS

22.4 The amount of loans granted to external organisations and undertakings shall be entered in the Register of 'loans to others' in Form LA-1 maintained by the Accounts Department of the ULB.

a. Recording of disbursement of loans: On disbursement of loan, the Accounts Department shall pass the following entries:

Code of Account	Accounting Entry	Dr./ Cr	Debit Amount (Rs.) Illustrative figures	Credit Amount (Rs.) Illustrative figures	Books to be entered into
460-30-(a)	Loans to Others	Dr.	100,000		Cash Book, Register of loans to Others, Register of Specific funds/grants
450-21-(a)	To Bank Account*	Cr.		100,000	

* Specify name of the Bank and Account number

(a) Insert Detailed Head Codes of Account as applicable

Note: The postings in the Ledger Accounts of "Loans to Others" Account shall be carried out as indicated in Chapter 5 – General Accounting Procedures. The postings in the Ledger Accounts shall be similarly carried out in respect of all other accounting entries described subsequently in this chapter. Whenever the cash or the bank account is involved, there will be no entry in the Journal Book.

b. Recording of recovery of loan installments

Code of Account	Accounting Entry	Dr./ Cr	Debit Amount (Rs.) Illustrative figures	Credit Amount (Rs.) Illustrative figures	Books to be entered into
450-21-(a)	Bank Account*	Dr.	20,000		Cash Book, Ledger, Register of loans to Others, Register of Specific funds/ grants
460-30-(a)	To Loans to Others	Cr		20,000	

* Specify name of the Bank and Account number

(a) Insert Detailed Head Codes of Account as applicable

c. Recording of interest due on loans to external organisations/ undertakings

Code of Account	Accounting Entry	Dr./ Cr	Debit Amount (Rs.) Illustrative figures	Credit Amount (Rs.) Illustrative figures	Books to be entered into
431-40-(a)	Receivables from other sources – Interest Accrued	Dr.	2,000		Journal Book, Ledger, Register of loans to Others, Register of Specific funds/grants
171-30-(a)	To Interest on Loans to Others	Cr.		2,000	

(a) Insert Detailed Head Codes of Account as applicable

d. Recording of receipt of interest on loans :

Code of Account	Accounting Entry	Dr./ Cr	Debit Amount (Rs.) Illustrative figures	Credit Amount (Rs.) Illustrative figures	Books to be entered into
450-21-(a)	Bank Account*	Dr.	2,000		Cash Book, Ledger, Register of loans to Others, Register of Specific funds/grants
431-40-(a)	To Receivables from other sources – Interest Accrued	Cr.		2,000	

* Specify name of the Bank and Account number

(a) Insert Detailed Head Codes of Account as applicable

LOANS TO TRANSPORT UNDERTAKINGS / SCHOOL BOARDS

22.5 ULBs may provide loans to other undertaking/boards depending on the governing acts and Rules applicable to the ULB. The accounting entries and procedures relating to loans given to other Undertakings setup by the ULBs are same as explained in Para 22.4 above.

PROVISIONING AGAINST BAD AND DOUBTFUL ‘LOANS TO OTHERS’

22.6 The Accounts department shall review recoverability status of all Loans to Others on periodical basis and based on the review and in accordance with the provisioning principle laid down by the state, appropriate amount of provisioning or write off needs to determined and accounted after obtaining the requisite approvals. The accounting entries for provisioning or write off of Loans and Advances are detailed below:

a. Recording of provision against doubtful loans to Others as at the period end:

Code of Account	Accounting Entry	Dr./ Cr	Debit Amount (Rs.) Illustrative figures	Credit Amount (Rs.) Illustrative figures	Books to be entered into
270-20-(a)	Provision for Other Assets	Dr.	6,000		Journal Book, Ledger,
461-10-(a)	To Provision for Outstanding Loans to Others	Cr.		6,000	

(a) Insert Detailed Head Codes of Account as applicable

b. Recording of write off doubtful and bad loans for which provisioning was made in the previous years:

Code of Account	Accounting Entry	Dr./ Cr	Debit Amount (Rs.) Illustrative figures	Credit Amount (Rs.) Illustrative figures	Books to be entered into
270-20-(a)	Provision for Other Assets	Dr.	4,000		Journal Book, Ledger,
460-30-(a)	To Loans to Others	Cr.		4,000	

(a) Insert Detailed Head Codes of Account as applicable

c. Recording of write off of doubtful or bad loans for which no provisioning was made in the previous years:

Code of Account	Accounting Entry	Dr./ Cr	Debit Amount (Rs.) Illustrative figures	Credit Amount (Rs.) Illustrative figures	Books to be entered into
270-40-(a)	Assets Written off – Loans & Advances	Dr.	4,000		Journal Book, Ledger, Register of loans to Others
460-30-(a)	To Loans to Others	Cr.		4,000	

(a) Insert Detailed Head Codes of Account as applicable

d. Recording of write back of provision against doubtful loans to the extent of the amount recovered :

Code of Account	Accounting Entry	Dr./ Cr	Debit Amount (Rs.) Illustrative figures	Credit Amount (Rs.) Illustrative figures	Books to be entered into
461-10-(a)	Accumulated Provision for Loans to Others	Dr.	1,000		Journal Book, Ledger
180-60-(a)	To Other income –Excess Provisions Written back	Cr.		1,000	

(a) Insert Detailed Head Codes of Account as applicable

INTERNAL CONTROLS

22.7 The ULBs in respect of Loans lent to others shall observe the following internal controls:

- a. The loans to Others shall be entered in the ‘Loans to Others register’ in Form LA 1 and on a monthly basis, the amount as per the register shall be reconciled with the amounts as per the ledger accounts.
- b. Also the interest accrued at the period ends shall be entered in the registers referred above and the interest on loans as per the registers shall be reconciled with the amount as per Interest ledger.
- c. At the end of the year, an abstract of ‘Loans to Others’ has to be made showing the loans outstanding at the beginning of the year, loans lent during the year, total interests accrued during the year and total amount of recoveries/ adjustments during the year.
- d. The Commissioner/ Executive Officer/Secretary of the ULB shall specify such appropriate calendar of returns /reports for monitoring.

22.8 All the reconciliation statements shall be certified by the E.O. /Secretary & in case of M.Corp the Head of the Accounts Department.

PRESENTATION IN FINANCIAL STATEMENTS

22.9 The various heads of accounts used for the accounting of Loans to Others shall be reflected in the Financial Statements or the Schedules attached to the Financial Statements of the ULB. All such statements and schedules should be affixed with signature and seal of the Commissioner or authority authorised by him in this behalf and in case of other ULBs the Executive Officer/Secretary.

22.10 The schedule of Income and Expenditure Statement in respect of Loans is provided below:

Code No.	Particulars	Gross Amount (Rs.)	Provision for Outstanding revenues (Rs.)	Net amount (Rs.)	Previous year Net amount (Rs.)
1	2	3	4	5 = 3 - 4	6
431-40-(a)	Receivables from Other Sources				
	Total of Sundry Debtors (Receivables)				

* Break up for provision for outstanding revenues are given in Column 4

(a) Insert Detailed Head Codes of Account as applicable

Schedule B-18: Schedule of Loans, advances and deposits

Code No.	Particulars	Balance at the beginning of the year (Rs.)	Paid during the current year	Recovered during the year (Rs.)	outstanding at the end of the year (Rs.)
460-30-(a)	Loans to Others				
461-(b)	Less: Provision for Outstanding				
	Net total of Loans, advances, and deposits				

(a) Insert Detailed Head Codes of Account as applicable

(b) Insert Minor & Detailed Head Codes of Account as applicable

Schedule B-18 (a): Accumulated Provisions against Loans, Advances, and Deposits

Code No.	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
461-10-(a)	Loans to Others		
	Total Accumulated Provision		

(a) Insert Detailed Head Codes of Account as applicable

_____ *Name of the ULB*

REGISTER OF LOANS TO OTHERS

Form LA – 1

- 1.Name of the borrower _____
 2.Purpose of Loan _____
 3.No. & date of resolution / orders sanctioning the loan _____ [whether monthly, quarterly, half-yearly or yearly]
 4.Amount of Loan sanctioned _____
 8. Name of the Specific fund/grant used for lending.....
5. Rate of Interest _____
 6. No. of installment _____
 7. Amount of each installment _____

Disbursement of loan			Amount due for repayment				Initials of the Officer	Amount Repaid			Balance			Remarks	
Date of Disbursement	Amt Disburse	Total Amt Disbursed	Due Date of Repayment	Amount of Principal	Amt. of Interest	Total Amt. due to repayment		Date of Repayment	Principal Amt	Interest	Total	Principal Amt.	Interest		Total
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16

