

## CHAPTER 24

### ADDITION/MERGER OF LOCAL BODIES

#### **INTRODUCTION**

24.1 This chapter explains accounting principles and procedures to be followed by the ULBs for the merger of ULBs/Undertakings.

24.2 Additions or merger in ULBs can happen under the following circumstances.

- i. Merger between two or more local bodies for up-gradation or for some administrative reasons
- ii. Merger of any undertaking / Boards (para-statal agencies) which performs some of the functions assigned to the Local Bodies.

24.3 The ULB/Undertaking into which other ULBs/Undertakings are to be merged shall be called as 'Ultimate ULB/Undertaking'.

#### **ACCOUNTING PRINCIPLES**

24.4 The following Accounting Principles shall govern the recording, accounting and treatment of transactions relating to Addition / Merger of Local Bodies/undertakings:

- a) The financial statements of the merging local bodies/undertakings shall be consolidated at the cut-off dates under the pooling of interest method. The assets, liabilities, reserves and fund balances of the merging local bodies are recorded at their existing carrying amounts. However it must be ensured that accounting principles adopted for preparation of financial statements of merging local bodies should be same.
- b) The financial statements prepared on consolidation shall disclose
  - Names of the local bodies merged
  - Authority under which the merger has taken place
  - Effective date of merger
  - Principles adopted for consolidation

## **ACCOUNTING RECORDS AND PROCEDURES**

24.5 This section describes the records, registers, documents, forms, accounting entries, etc., in respect of accounting for transactions related to Merger. There is no specific form applicable to this chapter.

## **INCORPORATION OF BALANCES OF THE MERGED UNITS IN THE BOOKS OF ULTIMATE ULB/UNDERTAKING**

24.6 The financial statements of the individual ULBs / undertakings under the merger shall be prepared at the cut off dates and finalised.

24.7 Once the financial statements are finalised, the closing balances as at the cut off date shall be carried over to the ultimate ULB accounts to which the operations are merged.

24.8 The following accounting entries shall be passed in the books of the ultimate ULB/Undertaking for incorporating the assets and liabilities of individual ULBs/Undertakings to be merged in the books of the Ultimate ULB/Undertaking selected for consolidation:

| Code of Account | Accounting Entry                         | Dr/ Cr | Debit Amount (Rs.)<br>Illustrative figures | Credit Amount (Rs.)<br>Illustrative figures | Books to be entered into   |
|-----------------|--|--------|--|---|--|
| 410-(a)         | Fixed assets                             | Dr.    | 120000                                     |   | Journal Book, Ledger The following Registers will be updated:<br>i Fixed Assets<br>ii Capital Work in progress<br>iii Special Funds<br>iv Loans<br>v Deposits received<br>vi Provision for expenses. |
| 412-(a)         | Capital work in progress                 | Dr.    | 53000                                      |   |  |
| 431- (a)        | Sundry Debtors                           | Dr     | 210000                                     |   |  |
| 450-21-(b)      | Municipal Fund Bank                      | Dr     | 25000                                      |   |  |
| 311-10-(b)      | To Special fund Cyclone                  | Cr     |  | 60000                                       |  |
| 330- (a)        | To Secured Loans                         | Cr     |  | 80000                                       |  |
| 340 -(a)        | To Deposits received                     | Cr     |  | 40000                                       |  |
| 350- (a)        | To Other liabilities                     | Cr     |  | 97000                                       |  |
| 360-10- (b)     | To Provision for expenses                | Cr     |  | 16000                                       |  |
| 411 – (a)       | To Accumulated Depreciation              | Cr     |  | 45000                                       |  |
| 432 – (a)       | To Accumulated Provision for Receivables | Cr     |  | 20000                                       |  |
| 310 – (a)       | To Municipal fund                        | Cr     |  | 50000                                       |  |

a) Insert Minor & Detailed Head Codes of accounts as applicable

(b) Insert Detailed Head Codes of accounts as applicable

**Note:** Since the incorporation of account balances is made under the line by line method, the account balances are incorporated without netting off. For e.g., Sundry Debtors and Provision for doubtful receivables.

24.9 The financial statements of the Ultimate ULB/Undertaking after the merger shall be treated as the opening balance sheet for the subsequent year.

#### **Negative Municipal Fund Account balances**

24.10 In case of Municipal fund account balances of one or more ULBs under the merger is negative, these negative balances will get adjusted on incorporation of the account balances of the individual ULBs into the Municipal fund account balance of the Ultimate ULB.

24.11 Further, the 'General/Municipal' fund account schedule shall be disclosed under liabilities and as a separate line item in the financial statements of the ULBs irrespective of the nature of balance it carries.

#### **ADJUSTMENT OF INTER ULB/UNDERTAKING TRANSACTIONS**

24.12 Inter-ULB/Undertaking transactions shall be those transactions where in the services /goods of one ULB are availed by other ULBs/Undertakings. Examples of inter ULB/Undertaking transactions are as follows:

- a. Supply of water by 'Town Municipality' to 'School boards and primary education societies'
- b. Loans and advances between the local bodies/undertakings;
- c. Interest on loans and advances between the local bodies/undertakings;

24.13 Adjustment entries in respect of inter ULB/Undertaking transactions: Inter ULB / Undertaking balances, if any, will have to be first matched. If there are any differences, it has to be reconciled. Once the balances are matched, the accounting entries that are to be passed in the books of Ultimate ULB/Undertaking for the adjustments are explained with the following example.

Adjustment of Loans' received amounting to Rs 100,000 from the Ultimate ULB/Undertaking by other ULBs/Undertakings under merger;

Adjustment of an amount totaling to Rs.23,000 receivable by the Ultimate ULB/Undertaking from other ULBs/Undertakings;

Adjustment of interest on loans by Ultimate ULB/Undertaking to other ULBs/Undertakings amounting to Rs.10, 000.

24.14 For elimination of the inter ULB/Undertaking transactions:

| Code of Account | Accounting Entry                            | Dr/ Cr | Debit Amount (Rs.) Illustrative figures | Credit Amount (Rs.) Illustrative figures | Books to be entered into                                       |
|-----------------|---|--------|---|--|--|
| 330 – (a)       | Loans                                       | Dr     | 100000                                  |  | Journal Book, Ledger Register of Loans, Register of Provisions |
| 350 – (a)       | Other Liabilities                           | Dr     | 23000                                   |  |  |
| 360 – 20 –(b)   | Provision for Interest                      | Dr     | 10000                                   |  |  |
| 460 – (a)       | To Loans and Advances                       | Cr     |   | 100000                                   |  |
| 431 – (a)       | To Sundry Debtors                           | Cr     |   | 23000                                    |  |
| 460 – 80 –(b)   | To Interest receivable – Loans and advances | Cr     |   | 10000                                    |  |

(a) Insert Minor & Detailed Head Codes of accounts as applicable

(b) Insert Detailed Head Codes of accounts as applicable

### **DIFFERING ACCOUNTING PRINCIPLES**

24.15 In case, the accounting principles adopted by ULBs/Undertakings differ, a uniform set of accounting principles are to be adopted following the merger. The effect of the changes to the accounting principle shall be reported as ‘Prior period and extraordinary items and changes in accounting principles’ in the first year of merged accounts.

### **INTERNAL CONTROLS**

24.16 The following internal controls shall be observed by the ULB in respect of Merger of two or more ULB and its related transactions:

- a. The account balances of the financial statements of the individual ULBs/Undertakings under merger should be verified by the Commissioner/Executive Officer/Secretary before incorporation of their balances in the books of the Ultimate ULB/Undertaking.
- b. The Executive Officer/Secretary & in case of Municipal Corporation the Head of the accounts department of the Ultimate ULB/Undertaking should compare the inter-unit/ULBs/Undertaking balances and differences if any identified has to be reconciled and rectified before incorporating the balances in the books of Ultimate ULB/Undertaking.
- c. All the inter-ULB/undertakings transactions shall be identified and ensured that these are appropriately adjusted in the books of ultimate ULB/undertaking.
- d. The Commissioner/Executive Officer/Secretary of the ULB shall specify such appropriate calendar of returns /reports for monitoring.



