

## CHAPTER 25

# INTER UNIT TRANSACTIONS

### **INTRODUCTION**

25.1 This chapter contains the recommended accounting systems for transactions between various accounting units within the ULB.

25.2 Some ULBs may have decentralised accounting set up. This may result in more than one accounting unit (AU) within the ULB and each of these accounting units maintains separate books of account and prepares their Trial balance. The accounting unit, as defined by the ULB (e.g. Zone, Circle, etc.), shall maintain all the primary records and shall prepare Trial Balance in respect of the transactions relating to the AU.

25.3 These accounting units may also enter into accounting transactions with each other. A transaction occurring between any two accounting units shall be called 'Inter Unit Transaction' (IUT). IUTs are defined as transactions/ transfers between any two accounting units (AUs) of the ULB. Given below is an illustrative list of IUTs that may occur between accounting units in an ULB:

Transfer of funds between the AUs

- Transfer of payments/ receipts from one AU to another for payments/ collections made on behalf of another AU
- Transfer of assets/ liabilities from one AU to another AU.

25.4 The AUs involved in any transactions are classified as Originating unit and Responding by virtue of origin of transactions.

- 'Originating AU' - unit, in which the transaction occurs and which raises the document for IUTs, called 'Advice of Transfer'.
- 'Responding AU' - means the accounting unit, on which the Originating Unit raises the 'Advice of Transfer'.

25.5 Advice of Transfer is called Advice Transfer Debit (ATD) when the originating unit debits the other Accounting unit. Advice of transfer is called Advice Transfer Credit (ATC) when the originating unit credits the other Accounting Unit.

25.6 Final Accounts may be prepared at every AU and then consolidated at H.O. or prepared directly at HO based on Trail Balance sent from every AU. This chapter covers

recording of the primary transactions between the Accounting Units. Procedure relating to Final Accounts preparation and consolidation is described in Chapter 31 on Financial Statements.

### **ACCOUNTING PRINCIPLES**

25.7 The following Accounting Principles shall govern the recording, accounting and treatment of transactions relating to **Inter Unit Transactions (IUTs)** :

- a. All IUTs shall be recorded on cost basis and no mark up shall be included in IUTs.
- b. At the year-end, the inter-unit accounts are knocked off / adjusted in the consolidated accounts of the ULB.

### **ACCOUNTING RECORDS & PROCEDURES**

25.8 *This section describes the records, registers, documents, forms, accounting entries, etc in respect of accounting for transactions related to IUTs between AUs of the ULB. For the purpose of accounting, there are certain forms, registers, etc., e.g. Advice of Transfer (IUT-01), specific to IUTs which have annexed to this chapter and are prefixed "IUT".*

### **INTER UNIT TRANSACTIONS**

25.9 All the AUs shall first record the transactions related to Inter Units (IUTs) in its books of accounts. This shall then be intimated to the concerned unit through an Advice. Transfer Advice Debit/ Credit in Form IUT-01 shall be used for raising all debits or credits to another AU. The 'Responding AU' shall accept the advice and make entry in its books of accounts based on the advice and intimate the same to the 'Originating AU'.

25.10 Register of Inter unit Advice shall be maintained to record the raising, acceptance and modifications of all advices at the originating and responding AU. This Register shall be maintained in the format specified in Form IUT-02.

### **ACCOUNTING FOR TRANSFER OF FUNDS BETWEEN AUs**

25.11 Funds may be transferred from one AU to another AU. The AU, which transfers the fund originates the transaction and hence is called as 'Originating AU'. The AU, which receives the funds, is called 'Responding AU'. The accounting entries to be passed by the AUs are given below:

- a. Recording of transfer of funds in the books of 'Originating AU':

Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs.) Illustrative figures	Credit Amount (Rs.) Illustrative figures	Books to be entered into
470-20-(a)	Inter Unit Account – AU*	Dr.	5000		cash Book, Ledger, Register of Transfer Advice
450-21-(a)	To BankAccount**	Cr		5000	

*Note: The postings in the Ledger Accounts of "Inter Unit 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 receipt of funds in the books of ‘Responding AU’:**

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.	5000		cash Book, Ledger, Register of Transfer Advice
470-20-(a)	To Inter Unit Account – AU*	Cr		5000	

\* Specify name of the Bank and account number

\*\* Specify name of the AU

(a) Insert Detailed Head Codes of Account as applicable

**ACCOUNTING FOR TRANSFER OF RECEIPTS AND PAYMENTS OF AUs**

25.12 As per the provisions and rules governing the ULB, one AU can accept collections relating to another AU and make payments on behalf of another AU. In order to account for these transactions, the ‘Originating AU’ shall raise an Advice of Transfer

(IUT-01) on the ‘Responding AU’.

- a. Recording of Receipt of collections of another AU: This type of collection generally happens only in case of Accrued Income e.g. Property Taxes, License Fees etc. At the time of recording the collection, the collection is first entered in the consolidated Debtors account and later transferred to the respective account based on the statement of head-wise collection as stated in Chapter 6 on Property and Other taxes. The accounting entries to be passed by the AUs are given below:

i) In the books of the 'Originating AUs: Based on the details of break-up of collection, the amount collected by the originating AU in respect of another AU is recorded as follows:

Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs.) Illustrative figures	Credit Amount (Rs.) Illustrative figures	Books to be entered into
431-80-(a)	Receivable Control Accounts -----*	Dr.	<b>10000</b>		cash Book, Ledger, Register of Transfer Advice
470-20-(a)	To Inter Unit Account – AU*	Cr		<b>10000</b>	

\*\* Specify name of the AU

(a) Insert Detailed Head Codes of Account as applicable

i) In the books of 'Responding AU' \_\_\_\_\_

Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs.) Illustrative figures	Credit Amount (Rs.) Illustrative figures	Books to be entered into
470-20-(a)	Inter Unit Account – AU*	Dr.	<b>10000</b>		cash Book, Ledger, Register of Transfer Advice
431-(b)	To Receivables for ----- **	Cr		<b>10000</b>	

\* Specify name of the AU.

\*\* Specify name of the receivable e.g. Property Tax Year ----

(a) Insert Detailed Head Codes of Account as applicable

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

b. Recording of payments made for another AUs This type of payments normally

happens at HO on behalf of another AU. Such payments are made only after receipt of duly authorised pass orders.

i. In the books of the 'Originating AUs :At the time of making the payment, the accounting entry to be passed is as follows:

Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs.) Illustrative figures	Credit Amount (Rs.) Illustrative figures	Books to be entered into
470-20-(a)	Inter Unit Account – AU*	Dr.	<b>10000</b>		cash Book, Ledger, Register of Transfer Advice
450-21-(a)	To Bank Account **	Cr		<b>10000</b>	

\* Specify the name of the AU

\*\* Specify name of the Bank and account number

(a) Insert Detailed Head Codes of Account as applicable

ii).In the books of the 'Responding AUs: 'On receipt of the Transfer Advice

the relevant liability account will be debited if the expenditure is already accrued in the books of AU. Else it will be debited to the relevant expense

account. The accounting entry to be passed is as follows:

Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs.) Illustrative figures	Credit Amount (Rs.) Illustrative figures	Books to be entered into
350-10-(a)	Other Liabilities - Creditors - *	Dr.	<b>10000</b>		Journal, Ledger, Register of Transfer Advice
2-(b)	Or ----- Expense **				
470-20-(a)	To Inter Unit Account – AU*			<b>10000</b>	

\* Type of payable if the liability is accrued

\*\* Name of expense head if the expense is not accrued

\*\*\* Specify name of the AU

(a) Insert Detailed Head Codes of Account as applicable

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

### **ACCOUNTING FOR TRANSFER OF ASSETS/LIABILITIES BETWEEN AUs**

25.13 Similar to collections and payments in Para 25.12 above, the ULBs may also be allowed to transfer assets and liabilities from one AU to another AU for various purposes. In order to account for these transactions, the ‘Originating AU’ shall raise an Advice of Transfer (IUT-01) on the ‘Responding AU’.

- a. Recording of Transfer of Assets: The ‘Originating AU’ shall raise the Advice for Transfer – Debit (ATD) when there is a transfer of fixed assets/

stocks/other assets. The accounting entry for the ATD raised is as follows:

- i. In the books of the ‘Originating AU’ is as follows:

Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs.) Illustrative figures	Credit Amount (Rs.) Illustrative figures	Books to be entered into
470-20-(a)	Inter Unit Account – AU*	Dr.	<b>100000</b>		cash Book, Ledger, Register of Transfer Advice
470-20-(a)	Inter Unit Account – AU*	Dr	<b>20000</b>		
410-(b)	To Fixed assets -- --**	Cr		<b>100000</b>	
430-(b)	To Stock in Hand - -----	Cr		<b>20000</b>	

\* Specify name of the AU as a detailed head code

\*\* Specify name of the assets

(a) Insert Detailed Head Codes of Account as applicable

(b) Insert Minor Head Codes of account as applicable

ii. In the books of the 'Responding AU' is as follows:

Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs.) Illustrative figures	Credit Amount (Rs.) Illustrative figures	Books to be entered into
410-(b)	Fixed assets -- --**	Dr.	100000		cash Book, Ledger, Register of Transfer Advice
430-(b)	To Stock in Hand - -----	Dr	20000		
470-20-(a)	Inter Unit Account – AU*	Cr		100000	
470-20-(a)	Inter Unit Account – AU*	Cr		20000	

\* Specify name of the AU as a detailed head code

\*\* Specify name of the assets

(a) Insert Detailed Head Codes of Account as applicable

(b) Insert Minor Head Codes of account as applicable

b. Recording of Transfer of Liability: The 'Originating AU' shall raise the Advice for Transfer – Credit (ATC) when there is a transfer of liabilities. The accounting entry for the ATD raised is as follows:

i. In the books of the 'Originating AU' is as follow:

Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs.) Illustrative figures	Credit Amount (Rs.) Illustrative figures	Books to be entered into
3 – (b)	_____ Liability Account**	Dr.	100000		Journal, Ledger, Register of Transfer Advice
470-20-(a)	To Inter Unit Account - AU*	Cr		100000	

\* Specify name of the AU as a detailed head code

\*\* Specify name of the assets

(a) Insert Detailed Head Codes of Account as applicable

(b) Insert Minor Head Codes of account as applicable

Code of Account	Accounting Entry	Dr/ Cr	Debit Amount (Rs.) Illustrative figures	Credit Amount (Rs.) Illustrative figures	Books to be entered into
470-20-(a)	Inter Unit Account - AU*	Dr.	100000		cash Book, Ledger, Register of Transfer Advice
3 – (b)	To _____ Liability Account**	Cr		100000	

\* Specify name of the AU as a detailed head code

\*\* Specify name of the assets

(a) Insert Detailed Head Codes of Account as applicable

(c) Insert Minor Head Codes of account as applicable

### **ACCOUNTING FOR NON – ACCEPTANCE OF ATD/ ATC RAISED**

25.14 If the 'Responding AU' finds the ATD/ATC is not acceptable, it shall return

the ATD/ATC to the 'Originating AU' giving reasons and supporting documents for non- acceptance of the ATD/ATC. The examples of reasons for non-acceptance may be that the ATD/ ATC has been raised on the wrong AU or for an incorrect value. The

'Originating AU' may, after analysing the reasons given for non-acceptance, either cancel the ATD/ATC or modify the same.

25.15 Recording of Cancellation of ATD/ ATC If the reasons claimed in the ATD/ ATC are justifiable, then the AU's accounts department shall cancel the ATD/ATC. On cancellation, Accounts department of the 'original AU' shall reverse the entry passed by it on raising the ATDs/ ATCs in its books.

25.16 The 'Originating AU' shall update the Register of IUT Advice for the reversal entry made above with the reasons for cancellation.

#### **PART ACCEPTANCE OF THE ATD/ATCS**

25.17 There are chances that the 'Responding AU' might accept part amounts of ATDs/ ATCs instead of non-acceptance of the whole document. In such circumstances, the 'Responding AU' may account for debits and credits to the extent it has accepted and intimates the 'Originating AU' accordingly.

25.18 The 'Originating AU', in such circumstances, shall follow the following accounting procedure if the reasons for rejection claimed by the 'Responding AU' found justified in order to rectify the accounting records of its books:

- a. Step 1: Cancel the original ATD/ ATC For cancellation of the ATD or ATC, which is being modified, the accounts department of the 'Originating AU' shall follow the procedure described in Para 25.15.
- b. Step 2: Raising of revised ATD/ ATC For raising a revised ATD/ ATC, the 'Originating AUs' accounts department shall follow the procedure described in Paras 25.11/25.12/25.13.

25.19 The 'Originating AU's' accounts department shall update the Register of IUT Advice for the same along with the reasons for modification.

## **INTERNAL CONTROLS**

25.20 The following internal controls shall be observed by the ULB in respect of IUT within the ULB:

- a. All the AUs shall generate monthly statement of accounts of other AUs accounts for circulation. Competent authority before forwarding to other AUs shall verify these statements. Each AU shall then reconcile their records based on the statement of accounts received from other AU for the differences if any.
- b. Originals of all the cancelled ATDs/ATCs shall be filed in the 'office file' with approval and reasons with justification for cancellation.
- c. On a half yearly basis, the reconciliation statements of individual AUs shall be submitted at the Head Office of the ULB and the Head of the Accounts Department shall ensure that the combined balance under all IUT account heads are tallied with the balance appearing in the ATDC.
- d. In case of any disputed IUTs identified during the reconciliation process, the ULB's Accounts department shall take appropriate action in resolving the disputed IUTs.
- e. At the period end, based on the review of reconciliation of AU account balances referred above, the Head of the ULB's Accounts Department shall ensure that the balance of all IUT Account heads is nullified in the consolidated accounting statement of the ULB.

## **PRESENTATION IN FINANCIAL STATEMENTS**

25.21 The various heads of accounts used for the accounting of IUT shall not be reflected in the Consolidated Financial Statements of the ULB as they should have a nil balance after adjustments. However if Financial Statement is prepared at the AU level, then IUT balances will appear in the financial statements. All such Financial Statements and schedules should be affixed with signature and seal of the Commissioner or any authority as authorised by him in this respect and in case of other ULBs the Executive Officer/Secretary.





**Name of the ULB**  
**Name of the Accounting Unit (AU)**  
**Advice of Inter Unit Transfer - Debit/ Credit (ATD/ ATC)**  
**(Tick the appropriate)**  
**PART -I**  
**ATD/ ATC No.....**

To

.....  
 .....

Please note that your account has been debited/ credited in our books with Rs. \_\_\_\_ (rupees in words) on account of following transactions. Copies of supporting documents are enclosed. Kindly acknowledge the balance with you also which is appearing in our books of account. Kindly send the duplicate copy of this ATD/ ATC as your acceptance at the earliest:

Sl. No	Particulars	Account head	Account code	Debit (Rs.)	Credit (Rs.)	Closing balance after this ATD/ATC (Rs.)		Remarks
						(Dr.)	(Cr.)	

List of documents attached:

- 1
- 2
- 3

Prepared by

Checked by

Approved by



*IUT-02*

\_\_\_\_\_Name of the ULB

**Register of Inter Unit Transfer Advice (RIUTDC)**

**(To be used by originating as well as responding AU)**

**Register Folio No.:**

**AU name.....**

**Year .....**

ATD/ ATC No. and Date	Voucher No. and Date	Particulars Op. Bal	Debit Amount (Rs.)	Credit Amount (Rs.)	Closing Balance Amount (Rs.)		Accepta nce date	Remarks *
					(Dr.)	(Cr.)		

\* Reasons for cancellation / modification needs to be filled in

