

Indian Government Accounting Standard (IGAS)

Prior Period Adjustments

1. Introduction

- 1.1. Accounting on Cash Basis recognizes Prior Period Items for rectification of errors/adjustment of financial statements for one or more prior periods for which Accounts have been closed.
- 1.2. Presently, Prior Period Adjustments (PPA) are presented as a part of Statement No. 5 (in Union Finance Accounts) and Statement No. 13 (in some State Finance Accounts) as 'Summary of Balances'. While, the Prior Period Adjustments in Union Finance Account is governed by the para 5.15.3 of the Civil Accounts Manual (CAM) but in States there are no such rules in "Accounts code for Accountant General".
- 1.3. Further, in a study of various Finance Accounts of States it was observed that majority of the States are not taking cognizance of PPA in their accounts or following a wrong practice of passing Transfer entries to correct PPA.
- 1.4. The present Standard therefore not only aims to disclose such information which pertains to prior period errors but also covers entries requiring prior period adjustments arising out of changes in Government decisions which may impact current balances and progressive amounts during the earlier years for which accounts have been closed.

2. Objective

The objective of this Standard is to prescribe the manner in which Prior Period Adjustments including errors once identified shall be presented and disclosed in the current period (FY) under the cash basis of accounting.

3. Scope

This Standard will apply to Union Government, State Government and U.T.s with Legislature which prepares and presents financial statements under the cash basis of accounting; which are laid before the Parliament, State Legislature and U.T.s with Legislature respectively. This Standard while taking cognizance of Prior Period Adjustments does not include transactions such as payment of arrears arising due to increase in salaries or revision of pension or increase in D.A. etc. in current period though they belong to prior periods as these transactions cannot be attributed to any type of errors or any adjustment in Government Policies. This IGAS shall not include in its ambit, defaults of Loans & Grants-in-aid dealt in IGAS-2 & 3 exclusively as it is only a process for rectification/adjustment of financial statements of prior periods.

4. Definitions

- 4.1. **Accounting Authority** - It is the authority which prepares the Financial Statements of the Governments.
- 4.2. **Prior Period**- means one or more prior financial years for which accounts are already closed
- 4.3. **Prior period errors** are omissions from, and mis-statements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of,

reliable information that:

- (a) Was available when financial statements for those periods were authorized for issue; and
 - (b) Could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements. Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts.
- 4.4. **Prior Period Adjustment** means change in the government decisions which may affect balances and progressive bookings of earlier years for which accounts have been closed. For the purpose of this Standard this includes, prior period adjustments as well as prior period errors.
- 4.5. **Government** means the Union Government or any State Government or Government of any Union Territory with Legislature.
- 4.6. **General Purpose Financial Statements (GPFS) of Governments** means (i) Finance Accounts of the Government (ii) Appropriation Accounts and (iii) Statement on actual and budgeted receipts
- 4.7. **Heads closed to Government Accounts are** the heads in which there are no opening balances carried forward from the closing balance of previous Financial Year.
- 4.8. **Heads closed to Balances are** the heads in which there are opening and closing balances since the balances are carried forward to the next Financial Year.
- 4.9. **Capital Expenditure** - Capital Expenditure is an expenditure incurred to create future benefits like acquisition of tangible assets of material and permanent nature such as land, building, machines, upgradation of the existing facilities/assets to add values to the same. It also includes investment in shares and loans and advances given by the Government.
- 4.10. **Revenue Expenditure** - It includes all charges for maintenance, repair, upkeep and working expenses, which are required to maintain the assets in a running order as also all other expenses incurred for the day to day running of the entity, including establishment and administrative expenses.
- 4.11. **Reporting Date** is the last day of the financial year to which the financial statements relate i.e., 31st March.

5. Presentation & Disclosure Requirements

- 5.1. Prior Period Adjustments shall be presented and disclosed in accordance with Annexures 1-3 containing the following information:
- (a) the nature of the prior period adjustment/error;
 - (b) for each prior period presented, to the extent practicable, the amount of the adjustment/correction of error for each financial statement line item affected;
 - (c) to the extent practicable, the amount of the error correction/adjustment at the beginning of the earliest prior period presented; and
 - (d) an explanation if it is not practicable to determine with reasonable efforts the amounts to be disclosed in (b) or (c) above.
- 5.2. With regard to the Union Finance Accounts & State Finance Accounts these

disclosures as shown in annexures 1-3 of the standard will be attached.

5.3. Annexure-1 – “Summary of Balances” has been taken from Statement -5 of the Union Finance Accounts. It reflects total Prior Period Adjustments in Government Accounts and is derived from Annexure 2 of this standard. The consolidated debit or credit impact on the Heads closed to balances has to be taken as credit or debit in Government Accounts of the ‘Summary of Balances’ (Annexure 1) prepared as at the end of each financial year in the Finance Accounts of the Union/State Government.

5.4. Annexure 2 attempts:

To disclose information related to Government decisions which may require **adjustments and Errors** in Prior Period involving **all Heads** of Accounts including their Major/Minor heads wise details of both the affected heads of account involved in except heads Closed to Govt. Accounts.

These may include cases such as:

“conversion of Loans to equity and vice versa, conversion of loans to grants-in-aid and vice versa etc. arising due to Government decisions” which may impact Head closed to Balances entries thereon.

“Even after sanction for conversion of Loans to equity and vice versa, conversion of loans to grants-in-aid and vice versa etc. issued (as referred in para 5.4 above) and any entity continues to book expenditure under previous heads then such cases will be considered as ‘Error’.”

“cases involving Prior Period Adjustment to transfer balance of discharged loans from Market Loans bearing Interest to Market Loans not bearing Interest due to Government decision/sanction.”

“cases involving misclassification among two loan heads in the prior period which after correction may impact their opening balances in the current period.”

5.5. Annexure – 3 - Impact of Prior Period Adjustments involving Capital Expenditure Heads, if any, on Capital Expenditure:

If the Heads closed to Government Accounts involves Capital Expenditure Heads, then these cases affect the Capital Expenditure Heads which needs to be indicated and its impact to be taken in appropriate statements of GPFS of Government.

6. Materiality

Prior Period Adjustments shall be considered material if its value can be expressed in clear terms equal to or greater than rupees one thousand.

7. Effective Date

This Indian Government Accounting Standard on ‘Prior Period Adjustments shall be effective for the financial statement for the periods commencing from.....

8. Way Forward

8.1. The disclosures prescribed in this standard will require an amendment in the Chapter -7 (Transfer entries) of Account Code for Accountant General (July 1984, Manual prescribed for the compilation of Accounts of States)

Prior Period Adjustments

Annexure – 1

Summary of Balances (Government Accounts)

(Rs in thousands)

Debit	Details	Credit
	A. Opening Balance	
zz*	B. Net effect of Prior Period Adjustments	zz*
	C. Receipt Heads (Revenue Account)	
	D. Receipt Heads (Capital Accounts)	
	E. Expenditure Heads (Revenue Account)	
	F. Expenditure Heads (Capital Accounts)	
	G. Inter-state Settlement	
	H. Miscellaneous (Net)	
	I. Transfer to Contingency Fund	
	J. Closing Balance	
XXXX	GRAND TOTAL	XXXX

*Net effect (Dr or Cr) of Prior Period Adjustments in Government Accounts of 'Statement of Summary of Balance' (Annexure -1) will be zz (i.e. difference of xx and yy) given in Annexure – 2

Details of Prior Period Adjustments

Annexure-2
(Rs in thousands)

Sr No.	Type of Correction (Adjustments/Errors)	Heads of Accounts (Major / Minor Heads wise details of both the affected heads of account involved are to be shown, separately except heads closed to Govt. Accounts)	Carry Forward 'Opening Balance' as on 1.4.20.... (Current FY)		Year-wise prior period correction				Opening Balance as on 1.4.20.... after correction (Current FY)		Remarks if any
					Year of prior period	Amount of Correction		Reason of correction	Dr	Cr	
			Dr	Cr		Dr	Cr				
1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.
2.											
3.											
4.											
5.											
6.											
Total						xx	yy				
Net Effect of Prior Period Adjustment							zz (Difference of xx and yy)				

Note: Col. No.2 (Type of Correction): Adjustments/Errors will also include Frauds of any value, if any, which will be mandatorily recorded in Col -9 as 'Fraud'.

