



सत्यमेव जयते

COMBINED FINANCE AND REVENUE ACCOUNTS

OF THE

CENTRAL AND STATE
GOVERNMENTS IN INDIA

FOR THE YEAR

1954-55



Comptroller and Auditor General of India, 1959

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INTRODUCTORY

1. *Main Divisions of the Indian Accounts*—Prior to the coming into force of the Constitution of India there were four main divisions of Government accounts:—

- (1) Revenue
- (2) Capital
- (3) Debt
- (4) Remittance

Beginning with the year 1950-51, Government accounts are being kept in the following three parts:—

- Part I—Consolidated Fund
- Part II—Contingency Fund
- Part III—Public Account

In Part I of the Account, there are three main divisions namely:—

- (1) Revenue;
- (2) Capital and
- (3) Debt (comprising Public Debt and Loans and Advances).

The first division deals with the proceeds of taxation and other receipts classed as revenue and the expenditure therefrom, the net result of which represents the revenue surplus or deficit for the year. The second division deals with expenditure met usually from borrowed funds with the object, either, of increasing concrete assets of a material character, or of reducing recurring liabilities, such as those for future pensions by payment of the capitalised value. It also includes receipts of a Capital nature intended to be applied as a set off to Capital expenditure. The third division comprises loans raised by Government, loans of a purely temporary nature classed as "Floating Debt", (such as, Treasury Bills and Ways and Means Advances), as well as other loans classed as "Permanent Debt" and "Loans and Advances made by Government" together with payments of the former and recoveries of the latter.

In Part II of the Account are recorded the transactions connected with the Contingency Fund set up under Article 267 of the Constitution of India.

In Part III of the Account, there are two main divisions, namely:—

- (1) Debt (other than those included in Part I) and Deposits; and
- (2) Remittances.

The first division comprises receipts and payments, other than those falling under Debt Heads pertaining to Part I, in respect of which Government incurs a liability to repay the moneys received or has a claim to recover the amounts paid, together with repayments of the former and recoveries of the latter. The second division embraces all merely adjusting heads, under which appear remittances of cash between treasuries, transfers between different accounting circles and remittances between India and England. Credits and debits taken to the adjusting heads in this division are cleared eventually by adjustment under final heads.

It may be explained that the transactions included in these accounts represent mainly the actual cash receipts and disbursements during the financial year April to March, as distinguished from amounts due to or by Government during the same period. The cash basis system is, however, not entirely suitable for recording the transactions and presenting at any time the true state of affairs of Government Commercial undertakings which are run on strictly commercial principles. The detailed accounts of this class of undertakings are maintained outside the regular accounts in proper commercial

form and these accounts are subjected to a suitable audit check by the Indian Audit and Accounts Department.

2. *Sections and Major Heads of Account*—Inside Parts I and III mentioned above, the transactions are grouped into Sections which are further sub-divided into the Major Heads of Account. The Sections are distinguished by letters of the alphabet, a double letter denoting the capital portion of the particular set of transactions. The Major Heads in Revenue and Capital Sections are numbered serially, Roman numerals being employed on the receipt side and International on the disbursement side. A complete list of the Sections classified under both the parts mentioned above is appended to this note. The Major Heads comprised in each Section will be found detailed in the sectional abstract preceding the accounts of the Section.

3. *Treasury Balances—Bullion and other Currency Reserves*—The accounts work from balance to balance, these balances working up to the general cash balances, a small portion of which is kept in the treasuries all over India and in the Bank of England in England, while the bulk has been deposited with the Reserve Bank of India. Outside these cash balances are the securities held on account of the Silver Redemption Reserve, the Surplus Silver Stock and other special Reserves invested outside the general cash balances of Government. The Gold Standard Reserve and the Paper Currency Reserve were closed on the institution of the Reserve Bank on the 1st April 1935.

As it is a difficult and complicated process to split up the balances into "Consolidated Fund" and "Public Account" one single balance is shown, for the present, for all the three parts *viz.*, Consolidated Fund, Contingency Fund and Public Account.

4. *Peculiarities of the Indian Accounts*—The Indian Accounts are complicated by reason of their—

- (1) covering transactions not only of the Central Government but also of the State Governments with their separate resources and separate balances and
- (2) combining transactions in two currencies, rupee and sterling, the exchange relation of which varies from time to time.

5. *Financial relations between the Central and Provincial (now State) Governments*—Prior to 1st April 1921 the revenues of India were treated as constituting one undivided fund and applied for the purpose of the Government of India as a whole. The Provincial Governments had no inherent legal right to the revenues which they raised. These were assigned more or less on the basis of the estimated needs of the several Provinces and this involved an apportionment different for different Provinces of the more important sources of revenue which included Land Revenue, Income Tax, Stamps, Excise and Registration. At times the Central Authorities had to levy benevolences and at others to distribute doles according to the exigencies of finance.

6. A new basis of financial settlement was introduced between the Centre and the Provinces in 1921 to suit the wide measures of legislative, administrative and financial devolution made under the Montague-Chelmsford Reforms. Subjects in Governors' Provinces were classified as Central or Provincial with reference to the functions of the respective Governments and there was a clear cut allocation in the matter of heads of Revenue and Expenditure. The Provinces also obtained a share in the growth of revenue from Income Tax so far as that growth was attributable to the increase in the amount of income assessed and were also given

powers to impose certain new taxes. The distribution of the sources of revenue on these lines resulted in the initial stages of the new Constitution in a large deficit in the Central Budget, and this was met by contributions paid by the various Provinces. These Contributions were gradually reduced and were completely and finally remitted with effect from the year 1928-29.

7. The constitutional machinery set up by the Government of India Act, 1935, made necessary a re-adjustment of financial resources and obligations between the Centre and the Provinces. The financial arrangements embodied in the Act provided for assignment to the Provinces of a definite share of the proceeds of Income Tax and its distribution among them in a prescribed manner, and allocation to the Jute growing Provinces of a prescribed share of the net proceeds of the Excise Duty on Jute or Jute Products. Taxes of a certain category (e.g. Duties on Succession to Property other than Agricultural Land, Stamp Duties on Bills of Exchange, etc.) were to be levied and collected by the Centre, though the net proceeds were to be distributed to the Provinces subject to the right of the Centre to levy a surcharge for its own purposes. In the same way the whole or a share of the yield of Duties on Salt and also of Federal Excise Duties could be assigned to the Provinces by an Act of the Federal Legislature. Provision had also been made for grants-in-aid to certain Provinces which were in need of such assistance from the Centre—*vide* Sections 137 to 142 of the Government of India Act, 1935, and the Government of India (Distribution of Revenues) Order, 1936. Most of the Provinces also received special financial assistance from the Centre at the time the Government of India Act, 1935, came into force as a result of the decentralisation of balances and the cancellation and consolidation of pre-autonomy debt due by them to the Central Government: *vide* paragraph 11 below.

The provisions of the Government of India Act, 1935 were allowed to continue under the India (Provisional Constitution) Order, 1947.

8. The financial arrangements embodied in the Constitution also provide for assignment to the States of a definite share of the proceeds of Income Tax and its distribution among them in a prescribed manner subject to the right of the Centre to levy a surcharge for its own purposes. Certain Duties (*i.e.*, certain Stamp Duties and Duties of Excise on Medicinal and Toilet Preparations) though levied by the Government of India, are collected by the States within which such Duties are respectively leviable and the proceeds thereof are assigned to those States. Certain other Duties and Taxes (*i.e.*, Duties in respect of Succession to Property other than Agricultural Land, Estate Duty in respect of Property other than Agricultural Land, Terminal Taxes on goods or passengers carried by railway, sea or air, etc.) are levied and collected by the Government of India, and the net proceeds are distributed to the States in a prescribed manner.

The whole or a part of the net proceeds of certain Union Excise Duties, other than such Duties of Excise on Medicinal and Toilet Preparations referred to above, is assigned to the States under Law made by Parliament in this behalf. Necessary legislation was enacted under which commencing from the year 1952-53, part of the Union Excise Duties on certain articles is paid to the States out of the Consolidated Fund of India. Provision has also been made for grants-in-aid as may be prescribed in lieu of assignment of any share of net proceeds of export duty on Jute and Jute Products to the States of Assam, Bihar, Orissa and West Bengal upto a maximum period of 10 years from the commencement of the Constitution. Grants-in-aid of revenue may also be paid out of

the Consolidated Fund of India to such States as Parliament may determine to be in need of assistance.

Provision has also been made for setting up a Finance Commission to make recommendations as to (i) the distribution between the Union and the States of the net proceeds of taxes which are to be or may be divided between them and the allocation thereof between the States of the respective shares of such proceeds, and (ii) the principles which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India, and (iii) any other matter referred to the Commission by the President in the interest of sound finance.

9. As a result of the passing of the Indian Independence Act, 1947, by the British Parliament, two Independent Dominions, known respectively as 'India' and 'Pakistan' were set up with effect from the 15th August, 1947 by partitioning India.

The N.W.F.P., Sind and Baluchistan became a part of Pakistan whereas the Provinces of the Punjab, Bengal and Assam were partitioned, certain portions thereof being transferred to Pakistan and the rest remaining in India. Due to these changes the accounts of the Central Government and of the divided Provinces of Bengal and Punjab were closed on 14th August, 1947, as on the annual closing date and the accounts of the year 1947-48 had to be compiled in two parts—(i) Pre-partition Accounts comprising of the accounts of the Central Government and the Governments of Bengal and Punjab for the period from 1st April, 1947 to 14th August, 1947, and (ii) Post-partition Accounts, comprising of the accounts of the Central, West Bengal and East Punjab Governments for the period from 15th August, 1947 to 31st March 1948 and of other Provincial Governments within the Indian Dominion for the entire year 1947-48. Pending the closing of the pre-partition accounts of the Central Government and the Government of Punjab the accounts of the post-partition years have been compiled by adopting provisional balances wherever necessary as indicated in the explanatory note in Part III—Public Account on page 587.

10. The former Indian States merged with the Provinces were treated as forming the territories of the respective Provinces (now States) while those converted into Centrally Administered Areas were treated as territories forming the States mentioned in Part C of the First Schedule to the Constitution. From 1st April, 1950, their accounts are being maintained under the normal heads in the Union and State Accounts. The rest of the former Indian States (including the Unions of such States) were treated as territories forming the States mentioned in Part B of the First Schedule to the Constitution. In accordance with the Provisions of Chapter V, Part V, of the Constitution and para 2 (1) of the Constitution (Removal of Difficulties) Order No. III, dated the 26th January, 1950 the Comptroller and Auditor General became responsible for the audit and accounting of the transactions of these States from 1st April, 1950 (13th April, 1950 in the case of Patiala and East Punjab States Union) except in the case of Jammu and Kashmir. Their accounts have accordingly been included in this compilation from the year 1950-51.

As regards Jammu and Kashmir the Comptroller and Auditor General is not responsible for the audit and accounting of its transactions under the Constitution (Application to Jammu and Kashmir) Order, 1954. These do not, therefore, find a place in this compilation except the transactions in regard to matters being administered by the Central Government which are merged in the relevant Central heads of account.

Consequent to the passing of the Part C States Act, 1951, separate Legislatures were set up from 1st April, 1952 for Ajmer, Bhopal, Coorg, Delhi, Himachal Pradesh and Vindhya Pradesh. Although these States have a Legislature and a Consolidated Fund of their own, they have no power to borrow or to have a separate cash balance. With the passing of the Part C States (Amendment) Act, 1954 the scope of the Consolidated Fund of these States has, however, been widened with effect from 1st October, 1954 (1st December, 1954 in the case of Ajmer) so as to include the Capital transactions outside the Revenue Account, Loans from the Central Government including repayments thereof and transactions relating to Loans and Advances by the States concerned. They have also been allowed to establish a Contingency Fund of their own but they have no Public Account. The transactions relating to these States are being shown separately in this compilation from the year 1952-53.

11. *Decentralisation of Balances*—Prior to 1921-22, the Provincial Governments had no balances under debt heads except for the amount of the Development Loan raised by the Government of Bombay in 1920-21, the balances in the Government books being regarded as the assets and liabilities of the Central Government. With the degree of separation of the finances of the Central Government from those of the Provincial Governments which resulted from the Montague-Chelmsford Reforms the Provincial Governments had certain assets and liabilities definitely assigned to them, and from 1921-22, it was found necessary to maintain for each Provincial Government a separate account identical in form with that previously maintained for the Government of India. The debt transactions of the Provincial Governments were, however, confined chiefly to loans raised by them in the open market or from the Provincial Loans Fund, special funds built up from Provincial revenues and loans and advances made by them out of their own funds, besides, transactions relating to provincial suspense accounts. The responsibility for the ways and means operations for the whole of India being vested in the Government of India, the balances of practically all other debt and remittance heads including deposits and advances and provident fund deposits of Provincial Government personnel were treated as Central.

12. It was decided that, as an integral part of the whole plan of the initial financial arrangements between the Provinces and the Centre:—

(i) the balances of an intrinsically local nature or balances definitely associated with any function which, after 31st March, 1937 became a function of Provincial Governments, held in the Debt, Deposits and Remittance group of the Central Government's Account should be decentralised;

(ii) a part of these balances should be credited to the Provincial Governments and the remaining amount set off against the outstanding Loans and Advances previously made or deemed to have been made to those Governments by the Central Government; and

(iii) the balance of the liabilities in respect of sums due to the Government of India on 31st March, 1937 through the Provincial Loans Fund for Loans and Advances taken previous to 1st April, 1936 should, in the case of certain provinces, be wholly or partly cancelled as a measure of special financial assistance and in the case of others, should, with certain exceptions, be treated as a consolidated debt repayable to the Government of India in the form of semi-annual equated payments of interest and principal within a period of 45 years.

These adjustments were effected immediately before the commencement of Provincial Autonomy as from the closing of the accounts for 1936-37 by certain amendments of the Devolution Rules.

The book balances of the Provinces as on 31st March, 1937 which were held in deposit with the Central Government on that date were made over to the Provinces on 1st April, 1937 partly in the form of physical cash balances in their treasuries and sub-treasuries and partly in the form of cash credits to their accounts with the Reserve Bank of India.

13. *Changes in the Accounts*—The general structure of the accounts was recast from 1st April, 1937 to correspond with the changes in the financial system entailed in the Government of India Act, 1935 and the changes in the banking and accounting arrangements consequent on the Provinces' taking over and managing their own balances with effect from the date of introduction of Provincial Autonomy. The principal changes introduced were—

(i) complete separation of the accounts of Provincial Governments from the accounts of the Central Government and the constitution of the accounts of each autonomous Province as an independent unit with separate cash balance in treasuries and in the Reserve Bank;

(ii) a general recasting of the list of major and minor heads to conform to the new division of function between the Central and Provincial Governments; and

(iii) abandonment of the system of final accounting of sterling transactions of Indian Governments in the books of the accounting authorities in England and the substitution in its place of system of adjustment of those transactions in the Indian books except those under certain debt and remittance heads which were essentially of a sterling character.

14. *Provincial Loans and Borrowings*—Prior to the Reforms of 1921, Provincial Governments had no power to borrow money in the open market. The Local Governments' Borrowing Rules made under Section 30 (la) of the Government of India Act, 1919, conferred on them the powers to raise loans on the security of the revenues allotted to them subject to certain conditions and with the sanction (in the case of loans to be raised in India) of the Governor General in Council, or (in the case of loans to be raised outside India) of the Secretary of State for India in Council, and the latter authority could specify the amount of issue and any or all of the conditions under which the loan could be raised. During the period 1st April, 1921 to 31st March, 1937 only three provincial Governments, namely the Governments of Bombay, United Provinces and the Punjab raised loans in the open market in exercise of those powers.

Under Section 163 of the Government of India Act 1935, the Provincial Governments could borrow upon the security of their revenues within such limits, if any, as might from time to time be fixed by an Act of the Provincial Legislature, and give guarantees within such limits, if any, as might be so fixed. The provinces had, however, to obtain the consent of the Federation for borrowing outside India and obtain the like consent for raising any loan, if there was outstanding any part of a loan made to them by (the Federation or) the Governor General in Council, or in respect of which a guarantee had been given by (the Federation or) the Governor General in Council. The provinces could, when necessary, provide themselves with short-term loans pending the issue of a regular loan and this could be done through the Reserve Bank either by Ways and Means Advances or by a market issue of Treasury Bills. They could also in exceptional circumstances borrow from the Central Government. The treatment of the outstanding debt due to that Government in respect of advances from the Provincial Loans Fund, which had been wound up as from 1st April, 1937 is explained in para 12 (iii) above.

The provisions of the Government of India Act, referred to above were allowed to continue under the India (Provisional Constitution) Order, 1947.

The position as regards borrowings by States referred to above, continues under the Constitution except that under Article 293 *ibid* the executive power of a State has been restricted to borrowings within the territory of India.

15. Throughout these accounts, a distinction has been drawn between items relating to State Revenues and those relating to the areas in which receipts and payments take place. Thus in the heading of a column the entries in which are intended to show the revenues or expenditure of a State the words "Government of" have

been inserted while a column headed by the name of a State alone (*cf.* Account Nos. 2, 3, 9, 10 etc.) is to be taken as referring to geographical area except that in the case of (i) Assam and (ii) Bombay, the transactions pertaining to (i) Manipur and Tripura and (ii) Kutch respectively, are also included therein.

16. In this compilation under the heading "India General" are included the receipts and expenditure pertaining to the Railways, the Posts and Telegraphs and the Defence Department, and the transactions brought to account by the Accountant General, Central Revenues, (including the transactions relating to the Centrally Administered Areas adjustable in his books) the Accountant General, Food, Rehabilitation and Supply and the Controller of Coal Accounts.

Appendix—List of Sections

Part I—Consolidated Fund—

(1) Revenue—

- A.—Principal Heads of Revenue.
- B.—Railway Revenue Account.
- BB.—Railway Capital Account within the Revenue Account.
- C.—Irrigation Revenue Account.
- CC.—Irrigation Capital Account within the Revenue Account.
- D.—Posts and Telegraphs Revenue Account.
- DD.—Posts and Telegraphs Capital Account within the Revenue Account.
- E.—Debt Services.
- F.—Civil Administration
- FF.—Civil Administration—Capital Accounts within the Revenue Account.
- G.—Currency and Mint.
- H.—Civil Works, Multi-purpose River Schemes and Miscellaneous Public Improvements.
- HH.—Capital Accounts of Civil Works, Multi-purpose River Schemes and Miscellaneous Public Improvements within the Revenue Account.
- I.—Electricity Schemes.
- II.—Capital Account of Electricity Schemes within the Revenue Account.
- J.—Miscellaneous.
- JJ.—Miscellaneous Capital Account within the Revenue Account.
- K.—Defence Services.
- L.—Contributions and Miscellaneous Adjustments between Central and State Governments.
- M.—Extraordinary Items.

(2) Capital—

- AA.—Principal Revenue Heads—
Forest and other Capital Accounts outside the Revenue Account.
- BB.—Railway Capital Account outside the Revenue Account.
- CC.—Irrigation Capital Account outside the Revenue Account.
- DD.—Posts and Telegraphs Capital Account outside the Revenue Account.
- FF.—Civil Administration—Capital Accounts outside the Revenue Account.
- GG.—Currency and Mint Capital Accounts outside the Revenue Account.
- HH.—Capital Accounts of Civil Works, Multipurpose River Schemes and Miscellaneous Public Improvements outside the Revenue Account.
- II.—Capital Account of Electricity Schemes outside the Revenue Account.
- JJ.—Miscellaneous Capital Account outside the Revenue Account.
- KK.—Capital Accounts of Defence Services outside the Revenue Account.
- MM.—Capital Account of Extraordinary Items outside the Revenue Account.

(3) Debt—

- N.—Public Debt.
- NA.—Inter-state Debt Settlements.
- Q.—Loans and Advances by the Central Government.
- R.—Loans and Advances by the State Governments.

Part II—Contingency Fund.

Part III—Public Account.

- O.—Unfunded Debt.
- P.—Deposits and Advances.
- S.—Remittances.
- T.—Transfer of cash between England and India.
- U.—Reserve Bank Deposits.

Note—The opening and closing Balances are shown under the head "Cash Balances".