

Exposure Draft

Revised Guidance Note on Accounting of Political Parties

(Last date of Comments: April 6, 2019)



Issued By

Accounting Standards Board

The Institute of Chartered Accountants of India

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Exposure Draft

Revised Guidance Note on Accounting of Political Parties

During the year 2012, ICAI had issued a Guidance Note on “Accounting and Auditing of Political Parties” as desired by the Election Commission of India. The Guidance Note is now being upgraded to incorporate certain improvements and changes in the operating environments since then. It has also been decided to issue the guidance for Auditing of Political Parties separately in detailed manner, if required.

Accordingly, Following is the Exposure Draft of the revised Guidance Note on “Accounting of Political Parties” issued by the Accounting Standards Board of the Institute of Chartered Accountants of India, for comments. The Board invites comments on any aspect of this Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

How to Comment:

Comments are invited on the Exposure draft of the revised Guidance note. Comments can be submitted using one of the following methods so as to be received not later than April 6, 2019

Electronically: click on <http://www.icai.org/comments/asb/> to submit comments online

Email: Comments can be sent at commentsasb@icai.in

Postal: Secretary, Accounting Standards Board,
The Institute of Chartered Accountants of India,
ICAI Bhawan, Post Box No. 7100,
Indraprastha Marg, New Delhi 110 002

Questions:

1. This Guidance Note uses the term “net assets/equity” (please refer explanation to faithful representation under section 8) in place of the term “equity” which is used in case of commercial entities to refer to residual interest in the assets of the entity after deducting all its liabilities. Do you agree with the term used in this Guidance Asset? If not, please suggest any alternative/ relevant term along with the rationale for the same.
2. This Guidance Note uses the term “members” in place of the term “owners” used in case of commercial entities (please refer definition of Expenses and Income under section 5). Do you

agree with the term used? If not, please suggest any alternative/ relevant term along with the rationale for the same.

3. The Political Parties receive grants and donations (in cash/kind). The analogy has been drawn from existing AS 12, "Government Grants" for accounting treatment for the grants received by Political Parties. In addition, political parties may also receive services-in-kind. This Guidance note does not require entities to measure the same but requires the disclosure of the nature and type of services-in-kind received by political parties. Do you agree with the treatment prescribed? If not, please provide rationale for your view.

1. Introduction and Background Information

India is a democratic country with Parliamentary Democracy. Political Parties are one of the core institutions and critical component in the Parliamentary democracy. In other words, a Parliamentary democracy cannot exist without the presence of a political party as a Government always works through Political Parties in this set-up of democracy. Political Parties are supposed to represent and protect the people's interest. A political party is a means through which the people can communicate with the Government and contribute in the governance of country. Followings are the features of a Political Party:

1. Organisational structure and stability
2. Definite objectives
3. Activities on the basis of ideas, principles and mandates
4. Redressal of public issues
5. Ultimate objective of attaining governmental power in the public interest.

The primary role of a Political Party is to fix the political agenda and policies. The major functions performed by Political Parties are as under:

1. Contest elections by putting up candidates.
2. Shape public opinion and launch movements for solving problems.
3. Offer access to government welfare schemes.
4. Serve as a link between the citizen and the government.

When a Political Party or group of Parties in coalition win majority of seats in election, it forms the Government. Other Parties, which do not get the majority, play the role of Opposition Parties. Political Parties act like agencies that gather different views on various issues and convey the views and demands of the people to the Government. Hence, all Political Parties that exist in a country along with the Ruling Party, are generally concerned with provision of public goods and services to citizens, provision of social welfare, macroeconomic management of the economy, management of assets and liabilities and economic prosperity of the people of the country. Consequently, in a democratic society like ours, various stakeholders and general public at large deserve a true and fair account of how the political parties are funded and the funds so raised are used by the Political Parties and are being managed.

In this dynamic scenario, where the sources of funding of the Political Parties have been diversified, the objective of accountability and transparency seems to be of great importance. One of the means of ensuring public accountability and transparency is the dissemination of relevant financial information about the operating activities of an entity and its financial condition. Financial information is generally communicated through financial reports that are considered as relevant, useful, transparent, comparable,

uniform and consistent when prepared using Accounting Standards. Accounting Standards are set of guiding principles relating to diverse aspects of measurement, recognition, presentation and disclosures of economic events and transactions of an entity.

A large number of Political Parties exist in India which are categorised as national, state or regional parties. Earlier, the Political Parties registered with the Election Commission of India used to file a return containing 'A Statement of Election Expenditure by the Party' and 'A Statement of Contributions received by the Party during a particular year' in a prescribed format, which was not considered sufficient to meet the financial information requirements of the stakeholders. Consequently, subsequent to the issuance of the first edition of the Guidance Note on "Accounting of Political Parties", the Election Commission of India (ECI) has issued *Guidelines on transparency and accountability in party funds and election expenditure matter* (enclosed at Annexure I) which became effective from October 1, 2014, according to which Political parties are required to maintain their accounts in conformity with the Guidance Note on "Accounting of Political Parties". The Guidance Note provides guidance to political parties to maintain proper books of account and financial statements using accrual based Accounting Standards issued by the ICAI so as to comply with the requirements of the ECI and expectations of the society at large by presenting a complete set of financial statements.

2. Requirements of various Acts

Representations of Peoples Act, 1951:

1. Section 29A deals with the registration of the Political Parties with the Election Commission of India (ECI).
2. Section 29B deals with the acceptance of contribution by Political Parties.
3. Section 29C deals with the declaration of the donation received by the Political Parties.

Companies Act, 2013:

Section 182 of the *Companies Act, 2013*, deals with the prohibitions and restrictions regarding political contribution by Companies.

Income Tax Act, 1961:

1. Section 13A of the Income Tax Act 1961 deals with the exemption of income tax on certain incomes of Political Parties subject to certain conditions as laid down in this section.
2. Sections 80GGB and 80GGC of the Income Tax Act, 1961, deal with the deductions in respect of contribution given by Companies and any person, respectively, to Political Party or an electoral trust.

Foreign Contribution and Regulations Act, 2010:

Section 3 (1) states that no foreign contribution shall be accepted by any Political Party or office bearer thereof.

3. Objectives of this Guidance Note

As per the *Guidelines on transparency and accountability in party funds and election expenditure matter*, issued by the ECI, the accounts maintained by Political Parties should conform to the Guidance Note issued by the ICAI providing Guidance on accounting of Political Parties. Accordingly, the objectives of this Guidance Note are to recommend the following:

- (a) An accounting & financial reporting Framework for the preparation and presentation of financial statements of Political Parties. This includes recommendation of appropriate basis of accounting, the prescription of sound accounting principles pertaining to recognition, measurement, presentation and disclosure of various items of income and expenses, assets and liabilities in the financial statements of Political Parties keeping in view the peculiarities of the activities of Political Parties.
- (b) Applicability of Accounting Standards issued by the Institute of Chartered Accountants of India to Political Parties.
- (c) Standardised formats of Financial Statements for Political Parties.

4. Scope

- (a) The guidance provided under this Guidance Note is applicable to the Political Parties registered with the Election Commission of India under the Representation of People Act, 1951.
- (b) This Guidance Note contains a standardised framework for preparation and presentation of financial statements of Political Parties.
- (c) For the purpose of this Guidance Note, a Political Party is considered as the reporting entity. Most of the Political Parties have wings/branches at State Level/District/City/Town/Village Level. For the sake of convenience and transparency, Political Party may maintain separate accounts for each such wing/branch. However, for the purpose of preparation of financial statements of the Political Party, the accounts of all branch offices/wings have to be combined into that of the Political Party as the reporting entity.

5. Definitions

Political Party: As per the Representation of Peoples Act, 1951, a "*Political Party*" means an association or a body of individual citizens of India registered with the Election Commission as a Political Party under section 29A of that Act.

Accounting period means the period of 12 months commencing on the 1st day of April every year.

Accounting policies are the specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statements.

Accrual basis means a basis of accounting under which transactions and other events are recognised when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognised in the financial statements of the periods to which they relate. The elements recognised under accrual accounting are assets, liabilities, revenue and expenses.

Assets are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.

Expenses are decreases in economic benefits during the accounting period in the form of outflows or depletion of assets or incurrences of liabilities that result in decreases in corpus of the entity, other than those relating to distributions/transfers to the members in their capacity as members of the entity.

Income is the increase in economic benefits during the accounting period when that increase results in an increase in corpus of the entity, other than increases relating to contributions/transfers from the members in their capacity as members of the entity.

Liabilities are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity's resources embodying economic benefits.

General Purpose Financial Statements (GPFs): GPFs encompass financial statements including their notes (hereafter referred to as financial statements, unless specified otherwise), and the presentation of additional information by the entity that enhances, complements and supplements the financial statements which is useful for the users for transparency, accountability, decision making purposes and for assessment of future service delivery capacity. GPFs are not developed to specifically respond to their particular information needs.

6. Accrual Basis of Accounting

The term "accrual" has been explained in Accounting Standard (AS) 1, "Disclosure of Accounting Policies" as under:

Revenues and costs are accrued, that is, recognised as they are earned or incurred (and not as money is received or paid) and recorded in the financial statements of the periods to which they relate.

The accrual basis of accounting, thus, includes considerations relating to accrual of income, provisioning of expenses, allocations like depreciation and amortisation. This basis is also referred to as 'Mercantile Basis of Accounting'. In other words, accrual basis of accounting records the financial effects of the transactions and other events in the period in which they occur rather than recording them in the period(s) in which cash is received or paid. Accrual basis recognises that the economic events that affect an entity's performance often do not coincide with the cash receipts and payments. The objective of accrual basis of accounting is

to relate the accomplishments (measured in the form of revenue) and the efforts (measured in terms of costs) so that the reported net income/surplus measures an entity's performance during a period rather than merely listing its cash receipts and payments. Apart from income measurement, accrual basis of accounting recognises assets, liabilities or components or revenue and expenses for amounts received or paid in cash in past, and amounts expected to be received or paid in cash in future.

Accrual system of accounting offers the opportunity to the organisation to improve management of assets, and provides useful information about the real level of organisation's liabilities, relating to both debts and other obligations such as employee entitlements. Accrual is, thus, a scientific basis of accounting and. therefore, Political Parties should maintain their books of account on accrual basis.

Article VIII of point 3 (i) of the Guidelines issued by the Election Commission of India regarding registration of the political parties under section 29 A of the Representation of People Act, 1951, also prescribes that accounts of the political parties to be maintained on accrual system of accounting.

7. Accounting Standards issued by the ICAI: Applicability to Political Parties

Accounting is often said to be a social science. It operates in an open and ever-changing economic environment. The nature of transactions entered into by various entities and the circumstances surrounding such transactions differ widely. This characteristic of accounting measurements historically led to the adoption of different accounting practices by different entities for dealing with similar transactions or situations. Recognising the need for bringing about a greater degree of uniformity in accounting measurements, the trend all over the world now is towards formulation of Accounting Standards to be adopted in preparation of accounting information and its presentation in financial statements. Accounting Standards lay down the rules for recognition, measurement, disclosures and presentation of accounting information by different entities.

Accounting Standards are like grammar in a language. . In India, the Institute of Chartered Accountants of India (ICAI) plays a pivotal role in formulating Accounting Standards that are instrumental in carrying out accounting reform from time to time. ICAI has also recognised the needs of users of financial information of various forms of entities and developed/ prescribed appropriate set of Accounting Standards. Accordingly, at present, in India, there are three sets of Accounting Standards:

- Indian Accounting Standards (Ind ASs), converged with IFRSs for specified class of companies as prescribed by the Company Law ;
- Accounting Standards notified under Companies (Accounting Standards) Rules, 2006 for companies other than those following Ind ASs;
- The Accounting Standards prescribed by ICAI which are similar to the notified AS with minor differences for entities other than companies.

The Preface to the Statement of Accounting Standards states the following with regard to the applicability of Accounting Standards issued by the ICAI:

“3.3 Accounting Standards are designed to apply to the general purpose financial statements and other financial reporting, which are subject to the attest function of the members of the ICAI. Accounting Standards apply in respect of any entity (whether organised in corporate, co-operative or other forms)

engaged in commercial, industrial or business activities, irrespective of whether it is profit oriented or it is established for charitable or religious purposes. Accounting Standards will not, however, apply to entities only carrying on the activities which are not of commercial, industrial or business nature, (e.g., an activity of collecting donations and giving them to flood affected people). Exclusion of an entity from the applicability of the Accounting Standards would be permissible only if no part of the activity of such entity is commercial, industrial or business in nature. Even if a very small proportion of the activities of an entity is considered to be commercial, industrial or business in nature, the Accounting Standards would apply to all its activities including those which are not commercial, industrial or business in nature.”

The reference to commercial, industrial or business enterprises in the aforesaid paragraph is in the context of the nature of activities carried on by the enterprise rather than with reference to its objective which can be charitable/ not to earn profits.

Since the wholesome principles contained in the Accounting Standards provide most appropriate guidance even in case of those organisations to which Accounting Standards do not apply, it is recommended that Political Parties, irrespective of the nature of activities carried out by them, should follow Accounting Standards issued by the ICAI for entities other than Companies as mentioned above (See Appendix II). These Accounting Standards would help Political Parties to maintain uniformity in presentation of financial statements, proper disclosure and transparency. However, while applying the Accounting Standards, certain terms used and content/context in the Accounting Standards may need to be modified for Political Parties. For instance, where an Accounting Standard refers to the term ‘Statement of Profit and Loss’, in the context of Political Parties, the term ‘Income and Expenditure Account’ should be used.

8. Accounting Framework for Political Parties

This Framework will assist the political parties in preparation and presentation of financial statements. This Framework is concerned with General Purpose Financial Statements (hereafter referred to as ‘Financial Statements’) and, viz., the Balance Sheet, Income and Expenditure Account prepared under accrual basis of accounting a Cash Flow Statement. Such financial statements are prepared and presented at least annually and are directed towards the common information needs of a wide range of users such as the general public, regulators (Election Commission of India), and donor agencies. These users have to rely on the financial statements as their major source of financial information and cannot prescribe the information they want from an organisation. The General Purpose Financial Statements should, therefore, be prepared and presented with their needs in view. Special purpose financial reports, for example, computations prepared for taxation purposes or others having the authority to obtain the type of information they need are outside the scope of this Framework.

Where the General Purpose Financial Statements prepared in accordance with the recommendations contained in this Guidance Note do not provide such specific requisite information, it would be appropriate to prepare a separate statement for the specific purpose envisaged in the relevant statute/regulation or specified in the donor requirements. The recommendations contained in this Guidance Note may be applied to such specific purpose statements to the extent appropriate.

The Framework also deals with the qualitative characteristics that determine the usefulness of information provided in the financial statements. A few relevant definitions, recognition and measurement of the elements contained in the financial statements have also been provided in the Guidance Note.

(A) Qualitative Characteristics of Financial Statements

Qualitative characteristics are the attributes that make the information provided in financial statements useful to users. The four principal qualitative characteristics are understandability, relevance, reliability and comparability.

Understandability:

An essential quality of the information provided in financial statements is that it must be readily understandable by users. For this purpose, it is assumed that users have a reasonable knowledge of the entity's activities and accounting and study the information with reasonable diligence. Information about complex matters that should be included in the financial statements because of its relevance to the economic decision-making needs of users should not be excluded merely on the ground that it may be too difficult for certain users to understand.

Relevance:

To be useful, information must be relevant to the decision-making needs of users. Information has the quality of relevance when it influences the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluations.

Materiality:

The relevance of information is affected by its materiality. Information is material if its misstatement (i.e., omission or erroneous statement) could influence the economic decisions of users taken on the basis of the financial information. Materiality depends on the size and nature of the item or error, judged in the particular circumstances of its misstatement. Materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which the information must have if it is to be useful

Reliability:

To be useful, information must also be reliable. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent or could reasonably be expected to represent.

Faithful representation:

To be reliable, information must represent faithfully the transactions and other events it either purports to represent or could reasonably be expected to represent. Thus, for example, a balance sheet should represent faithfully the transactions and other events that result in assets, liabilities and net asset/equity of the entity at the reporting date which meet the recognition criteria.

Substance over form:

If information is to represent faithfully the transactions and other events that it purports to represent, it is necessary that they are accounted for and presented in accordance with their substance and economic reality and not merely their legal form. The substance of transactions or other events is not always consistent with that which is apparent from their legal or contrived form. For example, where rights and beneficial interest in an immovable property are transferred but the documentation and legal formalities are pending, the recording of acquisition/disposal (by the transferee and transferor respectively) would in substance represent the transaction entered into.

Neutrality:

To be reliable, the information contained in financial statements must be neutral, that is, free from bias. Financial statements are not neutral if, by the selection or presentation of information, they influence the making of a decision or judgement in order to achieve a predetermined result or outcome.

Prudence:

The preparers of financial statements have to contend with the uncertainties that inevitably surround many events and circumstances, such as the collectability of receivables, the probable useful life of plant and machinery, and the warranty claims that may occur. Such uncertainties are recognised by the disclosure of their nature and extent and by the exercise of prudence in the preparation of the financial statements. Prudence is the inclusion of a degree of caution in the exercise of the judgements needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

Completeness:

To be reliable, the information in financial statements must be complete within the bounds of materiality and cost. An omission can cause information to be false or misleading and thus unreliable and deficient in terms of its relevance.

Comparability

Users must be able to compare the financial statements of an entity through time in order to identify trends in its financial position, performance and cash flows. Users must also be able to compare the financial statements of different entities in order to evaluate their relative financial position, performance and cash flows. Hence, the measurement and display of the financial effects of like transactions and other events must be carried out in a consistent way throughout an entity and over time for that entity and in a consistent way for different entities.

An important implication of the qualitative characteristic of comparability is that users be informed of the accounting policies employed in the preparation of the financial statements, any changes in those policies and the effects of such changes. Users need to be able to identify differences between the accounting policies for like transactions and other events used by the same entity from period to period and by different entities. Compliance with Accounting Standards, including the disclosure of the accounting policies used by the entity, helps to achieve comparability.

The need for comparability should not be confused with mere uniformity and should not be allowed to become an impediment to the introduction of improved accounting standards. It is not appropriate for an entity to continue accounting in the same manner for a transaction or other event if the policy adopted is not in keeping with the qualitative characteristics of relevance and reliability. It is also inappropriate for an entity to leave its accounting policies unchanged when more relevant and reliable alternatives exist.

(B) Elements of financial statements:

The elements of financial statements basically comprise income, expenses, assets and liabilities. This framework aims to identify the items that should be considered as income, expenses, assets and liabilities by Political Parties (hereafter referred to as 'entity') for the purpose of including the same in the financial statements by defining the aforesaid terms.

'Assets' are resources controlled by an entity from which future economic benefits or service potential is expected to flow to the entity. It may thus be noted that the definition of 'asset' would remain the same whether an entity is a business enterprise or a Political Party, insofar as expectation of the future economic benefits is concerned. In other words, what is considered as an asset by a business entity, e.g., Land, Building, Furniture and Equipment, etc., would be considered as asset by a Political Party also. However, in case of a Political Party, certain items which may not have future economic benefits but have service potential would also be considered as assets. Many assets, for example, computers and buildings have a physical form. However, physical form is not essential to the existence of an asset. Hence, intangible assets such as copyrights and computer software are also assets, if they are controlled by the Political Party and future benefits from their use are expected to flow to the Political Party.

A 'liability' is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

An essential characteristic of a liability is that the entity has a present obligation. An obligation is a duty or responsibility to act or perform in a certain way. Obligations may be legally enforceable as a consequence of a binding contract or a statutory requirement. This is normally the case, for example, with amounts payable for goods and services received and taxes, if any, to be paid. Obligations also arise, however, from normal practices followed by the entity, custom and a desire to maintain good relations or act in an equitable manner.

'Income' is increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in corpus of the entity, other than increases relating to contributions/ transfers from the promoters of the entity.

Revenue arises in the course of ordinary activities of an organisation.

Gains represent other items that meet the definition of 'Income' and may or may not arise in the course of the ordinary activities of Political Parties. Gains represent increases in economic benefits and as such are no different in nature from revenue. Gains include, for example, profits arising from the disposal of an item

of property, plant and equipment and sale of investments. When gains are recognised in the 'Income and Expenditure Account, they are usually disclosed separately.

'Expenses' are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in corpus of the entity, other than those relating to distributions/ transfers to the members in their capacity as promoter members of the entity.

The definition of 'Expense' encompasses both expenses that arise in the course of the ordinary activities of Political Parties as well as losses. Expenses that arise in the course of the ordinary activities of Political Parties include monetary expenses such as election expenditure; office administration/maintenance expenses; salaries and other employee costs; and non-monetary expenses such as depreciation. The expenses take the form of an outflow or depletion of assets or enhancement of liabilities.

Losses represent other items that meet the definition of 'Expense' and may or may not arise in the course of the ordinary activities of Political Parties. Losses represent decreases in economic benefits and as such they are no different in nature from other expenses. Losses include, for example, those resulting from disasters such as fire and flood, as well as those arising from the disposal of an item of property, plant and equipment. The definition of expenses also includes unrealised losses. These losses are generally recognised in the Income and Expenditure Account, and are usually disclosed separately.

(C) Principles for recognition of items of Income, Expenses, Assets and Liabilities

These principles lay down the timing of recognition of the aforesaid items in the financial statements of Political Parties. In other words, these principles lay down when an item of Income, Expense, Asset or Liability should be recognised in the financial statements. There is no difference in the application of the recognition principles to business enterprises and Political Parties. For example, the timing of the recognition of a grant/donation/contribution as an income in the financial statements of an organisation does not depend upon the purpose for which the organisation runs. A grant is recognised as income in the financial statements, under accrual basis of accounting, when it becomes reasonably certain that the grant/donation/ contribution will be received and that the organisation will fulfil the conditions attached to it. Thus, a business enterprise and a Political Party would both follow the aforesaid criteria for recognition of grant as income. Similarly, principles for recognition of other Incomes, Expenses, Assets and Liabilities would be the same for other entities and Political Parties for which Framework for the Preparation and Presentation of Financial Statements as in case of commercial entities, may be referred.

(D) Principles of measurement of items of Income, Expenses, Assets and Liabilities

These principles lay down at what amount the aforesaid items should be recognised in the financial statements. Measurement is the process of determining the monetary amounts at which the elements of the financial statements are to be recognised and carried in the Balance Sheet and Income and Expenditure Account. This involves the selection of the particular basis of measurement. Ordinarily, the same principles of measurement would be applicable in case of Political Parties as those for business enterprises. A number of different measurement bases are employed to different degrees and in varying combinations in financial statements such as historical cost, current cost, realisable (settlement) value and present value depending on the nature of the asset.

(E) Presentation and disclosure principles

These principles lay down the manner in which the financial statements are to be presented by Political Parties and the disclosures to be made therein. Insofar as presentation of financial statements is concerned, the principles in case of Political Parties may differ from those applicable to other entities. Similarly, there may be some specific disclosures which the Political Parties may be required to disclose.

9. Application of recognition and measurement principles to transactions of Political Parties

Income:

Income in case of Political Parties may be in the form of:

- (i) Grants from government/foundations/donor agencies on the basis of duly approved grant letters, specifying the timeframe/guidelines for grant accrual;
- (ii) Donations (including through electoral bonds¹);
- (iii) Fee and Subscription from Members;
- (iv) Sale of Publications, if any;
- (v) Rental Income from properties;
- (vi) Interest and dividend from investments; and

(vii) Collection from sale of coupons.

Recognition Criteria for Items of Income

An item that meets the definition of income becomes eligible to be recognised in the financial statements if:

- (i) it is probable that the inflow or other enhancement of future economic benefits has occurred; and
- (ii) the inflow or other enhancements of future economic benefits can be measured reliably.

¹ Union Budget 2017-18 introduced the concept of electoral bonds whereby donors can donate/contribute to registered political parties through electoral bonds which are issued by RBI and can be encashed by the recipient Political Party within a specified time limit through authorised bank in their designated bank account (for more details refer Appendix VI).

The recognition in respect of revenue/income as given above is based upon the AS 9, "Revenue Recognition". In context of Political Parties, the principles related to recognition of revenue from sale of goods may be relevant for the purpose of recognition of revenue from sale of forms, publications and coupons etc. Revenue recognition principles related to rendering of services may be relevant for the purpose of recognition of membership fee and other fees, if any. Revenue recognition principles related to revenue from use of organisation's resources by others are relevant for the purpose of recognition of income from interest, rent, etc.

In the following paragraphs, this Guidance Note elaborates on certain main category of incomes of political parties:

Entrance and Membership fee:

One of the sources of revenue for a political party is membership fees from members. According to the Appendix to AS 9, revenue arising from membership fees should be accounted as follows:

Entrance fee, if any, is generally capitalised.

If membership fee permits only membership, the fee should be recognised when received.

If the membership fee entitles the member to any services or publications to be provided during the year, it should be recognised on a systematic and rational basis having regard to the timing and nature of all service provided.

Sale of publications, forms, and coupons, etc.:

Revenue arising from the sale of publications, forms and coupons, etc., should be recognised at the time when the sale takes place.

Interest and dividend from investments:

As per AS 9 interest income is recognised on a time proportion basis taking into account the amount outstanding and the rate applicable. For example, if there is bank deposit of Rs.1,00,000/- for three years carrying interest rate of 7% p.a., then an entity recognises interest income of Rs. 7,000/- in each year.

Dividend income is recognised when the owner's right to receive from payment is established, i.e., a political party recognises dividend income when the payee entity has declared the dividend.

Rental Income:

Political Parties may give their premises on rent to outside parties. Such rental income should be recognised on a time proportion basis over the period for which the rent is received

Grants/ donations/voluntary contributions (including through electoral bonds):

Grants are assistance received in cash or in kind with or without conditions. The receipt of grants by a political party would be significant in preparation of the financial statements, therefore, an appropriate method of accounting of grants is necessary and it is also desirable to give an indication of the extent to which the recipient entity has benefited from such grant during the reporting period. This will facilitate comparison of the political party's financial statements with those of prior periods and with those of other political parties, which are receiving similar types of grant.

Accounting Standard (AS) 12, 'Accounting for Government Grants', prescribes accounting for government grants which should be followed by the political parties for accounting of any type of grants received from any grantor (corporates/ non-corporates). The accounting treatment prescribed in AS 12 is based on the nature of the grant and the purpose for which the grant is received.

A political party should account for grants as follows:

(i) A grant should be recognised when and only when there is reasonable assurance that the grant will be received and the political party will be able to comply with the conditions attached to it. A mere promise of a grant does not warrant its recognition in the books of the political party; there has to be a reasonable assurance with regard to the above mentioned factors.

(ii) Grant received or receivable for construction or acquisition of a specific fixed asset, such as, land, building, furniture, etc., should be accounted for as below:

(a) Grants received to acquire a non-depreciable asset which does not require fulfilment of any obligation, e.g., freehold land, should be credited to 'capital reserve' in the balance sheet. However, if a grant related to a non-depreciable asset requires the fulfilment of certain obligations, the grant should be treated as deferred income which should be recognised as income over the same period over which the cost of meeting such obligations is charged to income. As an example, where a grant is received for acquiring land conditional upon the erection of a building on the land, it would be appropriate to recognise it as income over the life of the building.

(b) Grants related to a depreciable fixed asset should be treated as deferred income which should be recognised in the income and expenditure account by allocating it over the useful life of the asset in proportions in which depreciation on the asset concerned is charged.

(c) The deferred income balance, if any, should be shown separately in the balance sheet.

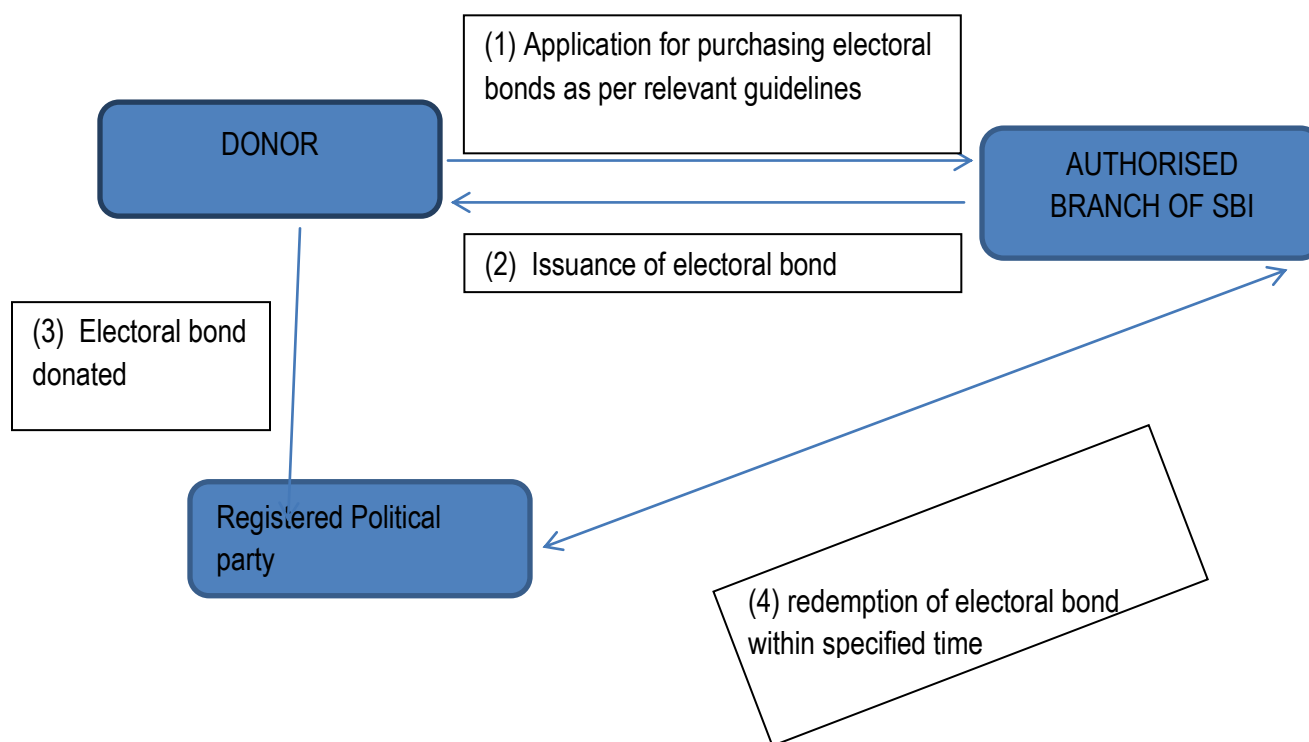
(iii) Grants in the form of non-monetary assets (such as fixed assets) received at a concessional rate should be accounted for on the basis of their acquisition cost. In case a non-monetary asset is received free of cost, it should be recorded at a nominal value of Re.1.

(iv) Grants received for the purpose of meeting the revenue expenditure should be recognised on a systematic basis in the income and expenditure account over the periods necessary to match them with the related costs which they are intended to compensate.

- (v) Grants of the nature of promoters' contribution (e.g., founders of the Political Party) should be recognised separately as a part of the 'Corpus/capital Fund' in the balance sheet.
- (vi) In some cases, a grant may be receivable by a political party as compensation for expenses or losses incurred in a previous accounting period, or for providing immediate financial support to the party with no related further costs. Such grants should be recognised and disclosed in the income and expenditure account of the period in which they are receivable.
- (vii) The amount refundable in respect of grants received that relate to revenue as well as those that relate to specific fixed assets, should be applied first against any unamortised deferred credit remaining in respect of the grant. To the extent that the amount refundable exceeds any such deferred credit, or where no deferred credit exists, the amount should be charged to the income and expenditure account of the political party.

The principles enunciated in respect of grants as dealt with in the above paragraphs also apply to donation/voluntary contributions (including through electoral bonds).

Now, political parties can also receive donations through electoral bonds which work as follows:



Services- in-kind:

Political parties may also receive some services in kind, e.g., any free advertisement space offered by any television channel /magazine, etc. This Guidance Note requires political parties to disclose nature and type of services- in-kind received during the reporting period.

Expenses:

Recognition Criteria for Items of Expense

An item that meets the definition of expense becomes eligible to be recognised in the Income and Expenditure Account when and only when:

- (i) it is probable that the consumption or loss of future economic benefits resulting in a reduction in assets and/or an increase in liabilities has occurred;
- (ii) the consumption or loss of future economic benefits can be measured reliably.

Under accrual basis of accounting, expenses are recognised on the following basis:

- (i) Identification with revenue transactions: Costs directly associated with the revenue recognised during the relevant period (in respect of which whether money has been paid or not) are considered as expenses and are charged to income for the period.
- (ii) Identification with a period of time: In many cases, although some costs may have connection with the revenue for the period, the relationship is so indirect that it is impracticable to attempt to establish it. However, there is a clear identification with a period of time. Such costs are regarded as 'period costs' and are expensed in the relevant period, e.g., salaries, telephone, travelling, depreciation on office building, etc. Similarly, the costs the benefits of which do not clearly extend beyond the accounting period are also charged as expenses.

Amounts paid relating to a future period are accounted for as 'prepaid expenses' even though they are paid for in the current accounting period. Similarly, expenses of the current year, for which payment has not yet been made are 'outstanding expenses', and are charged to the Income and Expenditure Account for the current accounting period.

The application of the expense recognition criteria stated above, in the context of certain important expenses incurred by a political party, are dealt with hereinafter.

Expenses that arise in the course of ordinary activities of a political party include, for example, election expenditure, employee cost, administration and general expenses, finance cost, and depreciation.

In the following paragraphs, this Guidance Note elaborates on certain main types of expenses of Political Parties:

Salaries, allowances and retirement benefits:

AS 15 (revised), '*Employee Benefits*', will guide political parties with regard to recognition, measurement, presentation and disclosure requirements for employee benefits. Considering the limited resources available with the SMEs/SMCs to apply AS 15 (revised), relaxations/exemptions from certain requirements of AS 15 (revised) have been provided to them. Accordingly, Political Parties falling within the meaning of SMEs/SMCs can avail of such relaxations/exemptions. For example, a political party falling under the

category of SMEs and whose average number of persons employed during the year is less than 50 is exempted completely from the application of actuarial method for defined benefit plans [for details of all the exemptions/relaxations available under AS 15 (revised) to SMEs/SMCs, relevant announcements of the Council of the ICAI in this regard may be referred].

AS 15 (revised) identifies four categories of employee benefits:

- (a) short-term employee benefits, such as wages, salaries and social security contributions (e.g., contribution to an insurance company by an employer to pay for medical care of its employees), paid annual leave, profit-sharing and bonuses (if payable within twelve months of the end of the period) and non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees;
- (b) post-employment benefits such as gratuity, pension, other retirement benefits, post-employment life insurance and post-employment medical care;
- (c) other long-term employee benefits, including long-service leave or sabbatical leave, jubilee or other long-service benefits, long-term disability benefits and, if they are not payable wholly within twelve months after the end of the period, profit-sharing, bonuses and deferred compensation; and
- (d) termination benefits AS 15 (revised) requires an entity to recognise the undiscounted amount of short-term employee benefits when an employee has rendered service in exchange for those benefits.

Post-employment benefits:

These are classified as either defined contribution plans or defined benefit plans. Under defined contribution plans such as provident fund, the entity's obligation is limited to the amount that it agrees to contribute to the fund and in consequence, actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall on the employee. AS 15 (revised) requires that when an employee has rendered service to an entity during a period, the entity should recognise the contribution payable to a defined contribution plan in exchange for that service. All other post-employment benefit plans are defined benefit plans. Defined benefit plans may be unfunded, or they may be wholly or partly funded by contributions by an entity, and sometimes its employees, into an entity, or fund, that is legally separate from the reporting entity and from which the employee benefits are paid. Examples of defined benefit plans are pension and gratuity. As per AS 15 (revised), for defined plans, the amount recognised in the balance sheet should be the present value of the defined benefit obligation (that is, the present value of expected future payments required to settle the obligation resulting from employee service in the current and prior periods), as adjusted for unrecognised past service cost, and reduced by the fair value of plan assets at the balance sheet date. The present value of the defined benefit obligation should be determined using an actuarial valuation method (Projected Unit Credit Method). The Standard also prescribes amounts with regard to the defined benefit plans to be reflected in the income and expenditure account.

Other long-term employee benefits:

AS 15 (revised) requires a simplified method of accounting for other long-term employee benefits. This method differs from the accounting required for post-employment benefits insofar as that all past service cost is recognised immediately.

Termination benefits:

These are employee benefits payable as a result of either an entity's decision to terminate an employee's employment before the normal retirement date; or an employee's decision to accept voluntary redundancy in exchange for these benefits. An entity should recognise termination benefits as a liability and an expense when and only when:

- (a) the entity has a present obligation as a result of a past event;
- (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation;
- (c) a reliable estimate can be made of the amount of the obligation.

Non-monetary expense – Depreciation and Amortisation:

Political parties use buildings, computers, furniture and fixtures and other assets having long life. Such assets are used by Political Parties over their useful life and, accordingly, are depreciated over that period. Such assets are known as 'depreciable assets'.

Depreciation is a measure of the wearing out, consumption or other loss of value of a depreciable asset arising from use, effluxion of time or obsolescence through technology and market changes. Depreciation is allocated so as to charge a fair proportion of the depreciable amount in each accounting period during the expected useful life of the asset. Thus, the purpose of charging depreciation is to spread the cost of a depreciable asset over its useful life so as to charge it as an expense in the income and expenditure account.

Depreciable amount of a depreciable asset refers to the historical cost, or the revalued amount, as reduced by its estimated residual value. Various factors i.e. expected usage of the asset, expected physical wear and tear, technical or commercial obsolescence, and legal or similar limits on the use of the asset are considered in determining the useful life of an asset.

Depreciation of an asset begins when it is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases at the earlier of the date that the asset is retired from active use and is held for disposal and the date that the asset is derecognised.

The depreciation method used should reflect the pattern in which the future economic benefits of the asset are expected to be consumed by the entity. The depreciation method applied to an asset should be reviewed at least at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method should be

changed to reflect the changed pattern. Such a change should be accounted for as a change in an accounting estimate in accordance with AS 5.

AS 10 (revised 2016), '*Property, Plant and Equipment*', provides detailed guidance with regard to charging depreciation on property, plant and equipment. In respect of useful lives of depreciable assets and rates of depreciation, political parties may be guided by Schedule II to the Companies Act, 2013.

Intangible Assets used by the political party such as any computer software is amortized systematically over the useful life of the intangible asset. Amortisation is the systematic allocation of the depreciable amount of an intangible asset over its useful life. Amortisation should commence when the asset is available for use. AS 26 provides guidance with regard to factors for determining the estimated useful life of an intangible asset. There is a presumption that the useful life of an intangible asset will not exceed ten years. However, in some cases, there may be persuasive evidence that the useful life of an intangible asset will be a specific period longer than ten years. In these cases, the presumption that the useful life generally does not exceed ten years is rebutted.

The amortisation method used should reflect the pattern in which the asset's economic benefits are consumed by the entity. If that pattern cannot be determined reliably, the straight-line method should be used. The amortisation charge for each period should be recognised as an expense unless any Accounting Standard permits or requires it to be included in the carrying amount of another asset.

The amortisation period and the amortisation method should be reviewed at least at each financial year end. AS 26 provides detailed guidance with regard to amortization.

Other Expenses:

All other expenses such as election expenditure, administrative and general expenses, finance costs and other miscellaneous expenses should be recognised in the Income and Expenditure Account on the basis of the criteria for recognition of expenses as listed above.

Assets

Recognition of Assets

An asset should be recognised in the Balance Sheet when and only when:

- (i) it is probable that the future economic benefits or service potential associated with the asset will flow to the entity; and
- (ii) the cost of the asset can be measured reliably.

Assets can be classified into various categories depending on their nature and life such as property, plant and equipment (fixed assets); intangible assets; investments – both current and long-term; and current assets – inventories, loans and advances, cash and bank balances.

The recognition and measurement principles with regard to the aforesaid categories of assets are dealt with hereinafter in the context of the Accounting Standards where relevant from the perspective of political parties.

Property, Plant and Equipment:

As per Accounting Standard (AS) 10, Property, Plant and Equipment (revised 2016), Property, plant and equipment are tangible items that

- (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- (b) are expected to be used during more than a period of twelve months

The financial statements should disclose, inter alia, the gross book value of property, plant and equipment. The gross book value of an item of property, plant and equipment should be either its historical cost or a revalued amount.

Initially, an item of property, plant and equipment is measured at cost that comprises purchase price and all directly attributable costs (such as installation and assembly cost and professional fee etc.) which are incurred in bringing an item of property, plant and equipment to its working condition for its intended use.. The initial estimate of the costs of dismantling/ 'decommissioning, restoration and similar liabilities' are also included in the cost of an Property, Plant and Equipment.

Any subsequent expenditure related to an item of property, plant and equipment should be added to its book value only if it increases the future benefits from the existing item of property, plant and equipment beyond its previously assessed standard of performance.

For measuring an item of property, plant and equipment subsequent to its initial recognition, a political party chooses cost model or revaluation model as per AS 10 (revised).

An item of property, plant and equipment should be eliminated from the financial statements on disposal or when no further benefit is expected from its use and disposal.

Where an item of property, plant and equipment is obtained by a political party free of cost, such item of property, plant and equipment is a non-monetary grant and, accordingly, should be accounted for as per AS 12, which requires that non-monetary grants should be accounted for at a nominal value (e.g. rupee one). Any incidental costs of acquisition such as registration charges, transportation charges, etc., should be added to the cost of the property, plant and equipment. When an item of property, plant and equipment is disposed off, the gain being the difference in the carrying amount, i.e., Re. 1 and the sale proceeds should be recognised.

The application of AS 10 to some major items of property, plant and equipment in the context of peculiar features of Political Parties is discussed below:

Land:

A Political Party may acquire land in a variety of ways such as the following:

- (i) By way of purchase from land owners
- (ii) Land gifted/provided free of cost to Political Parties with or without any conditions as to their use.

The accounting treatment of land acquired through the above modes may be as follows

Land acquired through purchase

Such land should be recorded at the aggregate of the purchase price paid/payable and other costs incidental to acquisition such as registration charges.

Land acquired free of cost

The cost of such land to the political party is nil. In substance, such land received is a non-monetary grant and, accordingly, should be accounted for at nominal value as per AS 12. However, to maintain proper control, such land must be recorded in the fixed assets register.

Any incidental costs of acquisition such as registration charges should be added to the above

Buildings:

The cost of buildings should be taken as the aggregate of the purchase price and incidental costs such as registration charges. In the case of self-constructed buildings, the cost would comprise those costs that relate directly to the construction of the building and an appropriate portion of other general construction costs.

Plant and Machinery:

The cost of plant and machinery would include, besides purchase price, such costs as site preparation costs, installation costs and professional fees.

Other items of property, plant and equipment:

The cost of other items of property, plant and equipment such as vehicles, furniture and fittings, office equipment, etc., comprise the purchase price and incidental costs such as freight, installation charges, etc.

Revaluation

For measurement after initial recognition, an entity can choose either the cost model or revaluation model as its accounting policy in accordance with revised AS 10 and should apply that accounting policy to an entire class of property, plant and equipment. Under revaluation model, after recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably should be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated

depreciation and subsequent accumulated impairment losses. Revaluations should be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

An increase in the carrying amount of an asset arising on revaluation should be credited to revaluation reserve. However, the increase should be recognised in Income and Expenditure Account to the extent that it reverses a revaluation decrease of the same asset previously recognised in the Income and Expenditure Account.

A decrease in the carrying amount of an asset arising on revaluation should be charged to the Income and Expenditure Account. However, the decrease should be debited directly to revaluation reserve to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

Intangible Assets

The recognition and measurement of intangible assets is prescribed under Accounting Standard (AS) 26, Intangible Assets, the salient features of which from the perspective of Political Party are given below:

- (a) Intangible asset is defined as “an identifiable non-monetary asset, without physical substance, held for use in the production or supply of goods or services, for rental to others, or for administrative purposes”
- (b) If an item covered by AS 26 does not meet the definition of an intangible asset, expenditure to acquire it or generate it internally is recognised as an expense when it is incurred.
- (c) In some cases, an asset may incorporate both intangible and tangible elements that are, in practice, inseparable. To determine whether such an asset should be treated as property, plant and equipment under AS 10, or as an intangible asset under AS 26, judgement is required to assess as to which element is predominant.
- (d) An intangible asset should be recognised if, and only if:
 - (i) it is probable that the future economic benefits that are attributable to the asset will flow to the entity; and
 - (ii) the cost of the asset can be measured reliably.
- (e) The future economic benefits flowing from an intangible asset may include revenue from the sale of products or services, cost savings, or other benefits resulting from the use of the asset by the entity.
- (f) The cost of an intangible asset comprises its purchase price, including any import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and any directly attributable expenditure for making the asset ready for its intended use.
- (g) Intangible asset acquired free of charge, or for nominal consideration, by way of a grant should be accounted for in accordance with the requirements of AS 12, Accounting for Government Grants.

- (h) Cost of intangible asset acquired in exchange or part exchange of another asset is determined in accordance with the principles laid down in this regard in AS 10, "Property, plant and equipment".
- (i) Internally generated goodwill should not be recognised as an asset because it is not an identifiable resource controlled by the entity that can be measured reliably at cost. Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance should not be recognised as intangible assets.
- (j) No intangible asset arising from research (or from the research phase of an internal project) should be recognised. Expenditure on research (or on the research phase of an internal project) should be recognised as an expense when it is incurred.
- (k) Insofar as computer software acquired by a political party for its internal use is concerned, it is recognised at cost, i.e., purchase price, including any import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities) and any directly attributable expenditure on making the software ready for its use. AS 26 lays down that only in those cases where the software is not an integral part of the related hardware, computer software should be treated as an intangible asset. Thus, software of the nature of operating system of a computer is not separately recognised as an intangible asset. Cost of software capitalised is amortised on straight-line basis over a period of about 3 to 5 years as per Appendix A1 to Accounting Standard (AS) 26, Intangible Assets. Other intangible assets, if any, are accounted for as per AS 26.

Current Assets

Inventories:

Political parties may have inventories at the year-end that are:

- (a) held for sale in the ordinary course of business/operations
- (b) in the process of production for such sale; or
- (c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.

In accordance with the Accounting Standard (AS) 2, Valuation of Inventories, these inventories should be valued at lower of cost and net realisable value. Example of inventories in case of political parties may be its publications, journals, and campaign material (flags, caps, t-shirts etc.)

Certain items are held for the purpose of distributing to beneficiaries either free of cost or at a nominal amount. Since such items may not meet the definition of inventories within the meaning of AS 2. In view of this, such items should be valued at the lower of cost or replacement cost, if available

In certain cases, Political Parties may receive items from donor either free of cost or at a nominal charge for distribution to beneficiaries or for sale. A part of these items may remain undistributed/ unsold, at the year-

end. Political Parties should disclose the market prices or estimated net realisable values of such items, lying at the year-end, in the notes to accounts, along with quantitative details.

Loans and advances:

These should be carried at the lower of cost and their net realisable value. In view of this, if there is a significant uncertainty about collectability of a loan or advance, e.g., loan given to employees, a provision to the extent of the amount considered uncollectable should be made by a charge to the income and expenditure account.

Investments:

Typical examples of investments held by Political Parties may be investment in shares/ debentures of companies, unit of mutual funds and bank deposits.

As per Accounting Standard (AS) 13, Accounting for Investments, which deals with accounting for investments in the financial statements of entity and related disclosure requirements, investments are defined as “assets held by an entity for earning income by way of dividends, interest, and rentals, for capital appreciation, or for other benefits to the investing entity”. Political Parties may invest their funds in securities such as, government bonds and units. They may also invest monies received in respect of specific funds with a view to liquidate them at the time of incurrence of the expenditure for the specified purpose. These investments could be in short term fixed deposits with banks. Political Parties should account for investments in accordance with AS 13 as follows:

- (i) A Political Party should disclose current investments and long term investments distinctly in its financial statements. A current investment is an investment that is by its nature readily realisable and is intended to be held for not more than one year from the date on which such investment is made. A long term investment is an investment other than a current investment.
- (ii) The cost of an investment should include acquisition charges such as brokerage, fees and duties. Where an investment has been purchased on cum-dividend or cum-interest basis, the interest or dividend received subsequently should be allocated between pre-acquisition and post-acquisition periods. The interest or dividend relating to the pre-acquisition period represents a recovery of cost and should, accordingly, be deducted in arriving at cost.
- (iii) Investments classified as current investments should be carried in the financial statements at the lower of cost and fair value.
- (iv) The comparison of cost and fair value for determining the carrying amount of current investments should be made either on an individual investment basis (i.e., cost and fair value should be compared separately for each investment) or by category of investment (i.e., cost of an entire category of investments such as government securities should be compared with its fair value).
- (v) Investments classified as long term investments should be carried in the financial statements at cost. However, provision for diminution should be made to recognise a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually.

- (vi) Any reduction in the carrying amount and any reversals of such reductions should be charged to income.
- (vii) On disposal of an investment, the difference between the carrying amount and net disposal proceeds should be charged or credited to income. When disposing of a part of the holding of an individual investment, the carrying amount to be allocated to that part is to be determined on the basis of the average carrying amount of the total holding of the investment.

Liabilities:

Recognition of Liabilities

A liability should be recognised in the balance sheet when and only when:

- (i) it is probable that any future sacrifice of economic benefits will be required; and
- (ii) the amount of the liability can be measured reliably.

An essential characteristic of a liability is that the entity has a present obligation. An obligation is a duty or responsibility to act or perform in a certain way. Obligations may be legally enforceable as a consequence of a binding contract or a statutory requirement. This is normally the case, for example, with amounts payable for goods and services received. Obligations also arise, however, from normal practices followed by the entity, custom and a desire to maintain good relations or act in an equitable manner.

The settlement of a liability usually involves the entity giving up resources embodying economic benefits in order to satisfy the claim of the other party. Settlement of a liability may occur in a number of ways, for example, by:

- (a) payment of cash;
- (b) transfer of other assets;
- (c) provision of services;
- (d) replacement of that obligation with another obligation.

An obligation may also be extinguished by other means, such as a creditor waiving or forfeiting its rights.

In the case of Political Parties, liabilities are normally in the form of payments due to the suppliers of material and services or any income received in advance. They could also represent unutilised grants of funding agencies. These liabilities should be measured at the amount at which they are due for payment and recognised on the basis of the criteria specified above.

Provisions:

Some liabilities can be measured only by using a substantial degree of estimation. Such liabilities are commonly described as 'provisions'. Provisions are created through a charge to the income and

expenditure account against the corresponding liability created. Examples of provisions include provisions for payment of telephone and electricity charges of Political Parties.

A Political Party should recognise and measure provisions in accordance with Accounting Standard (AS) 29, Provisions, Contingent Liabilities and Contingent Assets.

As per AS 29, present obligation is an obligation if, based on the evidence available, its existence at the balance sheet date is considered probable, i.e., more likely than not. According to AS 29, the amount recognised as a provision should be the best estimate of the expenditure required to settle the present obligation at the balance sheet date

Contingent liabilities:

AS 29 defines the terms 'contingent liability' and "possible obligation" as below:

"A contingent liability is:

- (a) a possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- (b) a present obligation that arises from past events but is not recognised because:
 - (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
 - (ii) a reliable estimate of the amount of the obligation cannot be made."

"Possible obligation – an obligation is a possible obligation if, based on the evidence available, its existence at the balance sheet date is considered not probable."

A Political Party should not recognise a contingent liability on the face of financial statements, but it should make the following disclosures, for each class of contingent liability, in the notes to financial statements, unless the possibility of any outflow in settlement is remote:

- (i) a brief description of the nature of the contingent liability;
- (ii) an estimate of its financial effect;
- (iii) an indication of the uncertainties relating to any outflow; and
- (iv) the possibility of any reimbursement.

Where any of the information required in the paragraph above is not disclosed because it is not practicable to do so, that fact should be stated.

9. Books of Account to be maintained by Political Parties

Clause (a) Section 13 A of the Income tax Act, 1961 prescribe to maintain such books of account and other documents as would enable the [Assessing] Officer to properly deduce its income there from to claim the exemption in respect of certain incomes of the Political Parties as specified there in.

Books of account should be maintained like any other commercial organisation following the rules of Double Entry Book Keeping System and generally accepted accounting principles and practices prevailing in India. Political Parties with reference to specific requirements may also maintain other books of account, e.g. Receipt Book, Purchase Book, Inventory Register and Voucher files, etc., as deemed necessary.

Every Political Party should maintain proper books of account with respect to:

- (i) all sums of monies received by the Political Party and the matters in respect of which receipts take place, showing distinctly the amounts received from income generating activities and through grants/donations/contribution;
- (ii) all sums of money expended by the Political Party and the matters in respect of which expenditure takes place;
- (iii) all assets and liabilities of the Political Party.

Proper books of account would not be deemed to be kept with respect to the matters specified therein, if such books are not kept as are necessary to give a true and fair view of the state of affairs, income and expenditure and cash flows of the Political Party, and to explain its transactions.

An illustrative list of books of account and records which may be generally maintained by a Political Party is given in Appendix III.

10. Formats of Financial Statements

As per the framework for the preparation and presentation of financial statements issued by the ICAI, a complete set of Financial Statements includes:

1. Balance Sheet
2. Income and Expenditure Account
3. Cash Flow Statement
4. Notes forming part of financial statements.

Accordingly, it is recommended that above statements should form part of the GPFs of a Political Party. Information about financial position (at a point in time) is primarily provided in a balance sheet. Information about financial performance (for the reporting period) is provided in Income and Expenditure Account and

information about cash flows (over the reporting period) is provided in the financial statements by way of cash flow statement.

A Balance Sheet for the Political Party as a whole should be presented. In the Balance Sheet, assets and liabilities should not be set-off against each other, even though these may be related to the same programme/ project. Rather these should be disclosed separately. Balances of various funds should be distinctly disclosed in the Balance Sheet.

An Income and Expenditure Account should contain all revenues earned and all expenses incurred by a Political Party during the reporting period.

In the preparation and presentation of financial statements, the overall consideration should be that they give a true and fair view of the state of affairs of the Political Party and of the surplus or deficit as reflected in the Balance Sheet and the Income and Expenditure Account, respectively. The financial statements should disclose every material transaction, including transactions of an exceptional and extraordinary nature. The financial statements should be prepared in conformity with relevant statutory requirements, accounting standards and other generally accepted accounting principles and practices.

For use by Political Parties, for which the governing statute does not prescribe any formats, the formats of financial statements are given in the Appendix IV. The formats should be viewed as the minimum rather than the maximum information that Political Parties should present in their financial statements. Those Political Parties who wish to present more detailed information are encouraged to do so.

Guidelines on transparency and accountability in party funds and election expenditure matter issued by ECI

ELECTION COMMISSION OF INDIA

Nirvachan Sadan, Ashoka Road, New Delhi – 110001

No. 76/PPEMS/Transparency/2013

Dated: 29th August 2014

To

1. The President/General Secretary of all Political parties
2. The Treasurer of all Political parties

Subject: Guidelines on transparency and accountability in party funds and election expenditure matter – regarding.

Sir / Madam,

Under article 324 of the Constitution, Election Commission of India is vested with responsibility to conduct free and fair elections. Concerns have been expressed in various quarters that money power is disturbing the level playing and vitiating the purity of elections. To curb the abuse of money power during elections, the Election Commission has issued several instructions in the past to the candidates and political parties from time to time.

2. It is desirable for the political parties to observe transparency and accountability in respect of funds raised and expenditure incurred, both during election and in other times. Further, in the interest of conduct of free and fair elections, it is necessary and expedient to provide guidelines for bringing transparency and accountability with regard to funds of political parties.
3. In order to formulate the guidelines, the Commission sought comments/suggestions/ inputs from all recognized political parties. While most of these parties supported the issue of transparency guidelines, some others had a different view. Having regard to the suggestions received from the political parties and in the interest of purity of election process, the Commission hereby issues the following gridelines under Article 324 of constitution, to bring transparency and accountability in funding of political parties:
 - (i) Proviso (a) to Section 13A of Income Tax Act 1961, inter alia, provides that political party shall keep and maintain such books of accounts and other documents as would enable proper deduction of its income there from. Accordingly, it is required that (a) the treasurer of the political party or such person as authorized by the party, besides ensuring maintenance of the accounts at all State and lower levels, shall

maintain consolidated accounts at the central party Head Quarters as required under the aforesaid provision, (b) the accounts so maintained by him/her shall conform to the guidance note on Accounting and Auditing of political parties², issued by the Institute of Chartered Accountants of India (ICAI), and (c) the Annual Accounts shall be audited and certified by the qualified practicing Chartered Accountants.

- (ii) The Commission has amended the requirements for registration of a new political party w.e.f. 8th October 2010, which inter-alia, require a party to submit a copy of its audited annual accounts. Accordingly, in order to bring uniformity, all political parties shall submit to the Commission or to such authority as mentioned in para (vi) below, a copy of the audited Annual Accounts with Auditor's report for each financial year, before 31st October of each year.
- (iii) The provisions of section 80GGB and 80GGC of I.T. Act 1961, inter alia, state that no deduction shall be allowed on the contributions made in cash by any person or company to a political party. Accordingly, the political party shall maintain name and address of all such individuals, companies or entities making donation to it, excepting petty sums, donated by the public only during its public rallies. Further, any amount/donation received in cash, shall be duly accounted in relevant account books and deposited in the party's bank account within a week of its receipt. However, the party can retain a reasonable amount required for day to day functioning of the party and for defraying the cash expenses.
- (iv) Section 40A (3) of Income Tax Act, 1961, provides that all payments exceeding Rs. 20,000/- by any business entity to a person in day are required to be made by account payee cheque/draft, except the exempted category as provided in Rule 6 DD of Income Tax Rules, 1962. Similarly, if a party is incurring any expenditure, it shall ensure that no payment in excess of Rs. 20,000/- is made in a day to any person or company or entity in cash, except where (a) the payment is made in a village or town, which is not served by a bank; or (b) the payment is made to any employee or party functionary towards salary, pension or for reimbursement of his expenses; or (c) cash payment is required under any statute.
- (v) Section 77(3) of the R.P. Act, 1951 provides for a ceiling of election expenditure for a candidate. Therefore, if the party desires to provide any financial assistance shall not exceed the prescribed ceiling. Any payment in this regard by the party shall be made only through crossed account payee cheque or draft or through bank account transfer and not in cash.

² The scope of the revised Guidance Note is restricted to the accounting only.

- (vi) While the recognized political parties shall file all reports, namely, the contribution reports in Form 24A, The Audited Annual Accounts as certified by the Chartered Accountants, referred to in para 3 (i) above, and the Election Expenditure Statements, with the Election Commission of India, the unrecognized parties shall file the same with the Chief Electoral Officer (CEO) of the respective states (i.e., the state where the party Head Quarters is situated) in the prescribed time and manner.

4. The above guidelines shall apply to all political parties with effect from 1st October 2014.

Applicability of Accounting Standards issued by the ICAI to Political Parties

Accounting Standards issued by the ICAI

AS No.	AS Title
1.	Disclosure of Accounting Policies
2.	Valuation of Inventories
3.	Cash Flow Statement
4.	Contingencies and Events occurring after the Balance Sheet Date
5.	Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies
7.	Accounting for Construction Contracts
9.	Revenue Recognition
10.	Property, Plant and Equipment
11.	Accounting for the Effect of Changes in Foreign Exchange Rates
12.	Accounting for Government Grants
13.	Accounting for Investments
14.	Accounting for Amalgamations
15.	Accounting for Retirement Benefits in the Financial Statements of Employers
16.	Borrowing Costs
17.	Segment Reporting
18.	Related Party Disclosures
19.	Leases
20.	Earnings Per Share
21.	Consolidated Financial Statements

22.	Accounting for Taxes on Income
23.	Accounting for Investment in Associates in Consolidated Financial Statements
24.	Discontinuing Operations
25.	Interim Financial Reporting
26.	Intangible Assets
27.	Financial Reporting of Interests in Joint Venture
28.	Impairment of Assets
29.	Provisions, Contingent Assets and Contingent liabilities

It may also be noted that the following Accounting Standards may not be relevant to Political Parties. However, it is suggested that Political Parties should follow such Accounting Standards to the extent relevant, keeping in view the activities carried out by them:

(AS 7) Accounting for Construction Contracts

(AS 14) Accounting for Amalgamations

(AS 16) Borrowing Costs

(AS 17) Segment Reporting

(AS 20) Earnings Per Share

(AS 21) Consolidated Financial Statements

(AS 22) Accounting for Taxes on Income

(AS 23) Accounting for Investment in Associates in Consolidated Financial Statements

(AS 24) Discontinuing Operations

(AS 25) Interim Financial Reporting

(AS 27) Financial Reporting of Interests in Joint Venture

(AS 28) Impairment of Assets

Books of Account and Records

(This Appendix is not a part of the Guidance Note and is illustrative in nature.)

Books of account

1. Cash Book.
2. Bank Book.
3. Journal.
4. General ledger.
5. Subsidiary ledgers.

Registers and other records so as to give information in relation to:

1. Fees received from members (in respect of entrance fee, membership fee, etc.).
2. Grants-in-aid received from various sources.
3. Funds such as building, library, furniture, equipment, endowment, provident fund, deposits, etc.
4. Immovable properties and other fixed assets.
5. Investments.
6. Stock (for books, stationery, etc.).

Formats of Financial Statements (Political Parties)

NAME OF POLITICAL PARTY _____

BALANCE SHEET AS AT _____
(.....)

SOURCES OF FUNDS	Schedule	Current Year	Previous Year
CORPUS/CAPITAL FUND	1		
EARMARKED FUNDS	2		
RESERVES	3		
LOANS/BORROWINGS Secured Unsecured	4		
CURRENT LIABILITIES & PROVISIONS	5		
TOTAL			
APPLICATION OF FUNDS			
PROPERTY, PLANT AND EQUIPMENT Capital Work-in-progress	6		
INTANGIBLE ASSETS	7		
INVESTMENTS Long Term Current Investments	8		

CURRENT ASSETS	9		
LOANS, ADVANCES & DEPOSITS	10		
TOTAL			
Significant Accounting Policies	20		
Notes on Accounts	21		

NAME OF POLITICAL PARTY _____

INCOME AND EXPENDITURE ACCOUNT FOR THE PERIOD/ YEAR
ENDED _____

(.....)

INCOME	SCHEDULE	Current Year	Previous Year
FEE & SUBSCRIPTIONS	11		
GRANTS / DONATIONS/ CONTRIBUTIONS	12		
COLLECTION BY ISSUING COUPONS/SALE OF PUBLICATIONS	13		
OTHER INCOME	14		
TOTAL (A)			
EXPENDITURE			
ELECTION EXPENDITURE	15		
EMPLOYEE COSTS	16		
ADMINISTRATIVE AND GENERAL EXPENSES	17		
FINANCE COSTS	18		
DEPRECIATION & AMORTISATION EXPENSES OTHER EXPENSES	19		
TOTAL (B)			

Balance being excess of Income over Expenditure (A-B) Transfers to/from reserves			
Balance Being Surplus (Deficit) Carried to Corpus/Capital Fund			
Significant Accounting Policies	20		
Notes on Accounts	21		

General Instructions

1. The financial statements of Political Parties (viz., Balance Sheet and Income and Expenditure Account) should be prepared on accrual basis.
2. Where compliance with the requirements of the Accounting Standards as applicable to the political parties, relevant guidelines issued by the Election Commission of India, and the principles prescribed in this Guidance Note require any change in the treatment or disclosures including addition, amendment, substitution or deletion in the head or sub-head or any changes, *inter se*, in the financial statements, the same should be made and the requirements of the formats prescribed in this Guidance Note should stand modified accordingly.
3. A statement of all significant accounting policies adopted in the preparation and presentation of the Balance Sheet, Income and Expenditure Account and Cash Flow Statement should be included in the Political Party's Financial Statements..
4. Accounting policies should be applied consistently from one financial year to the next. Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. In case of a change in accounting policies which has a material effect in the current period, the amount by which any item in the financial statements is affected by such change, should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.
5. The accounting treatment and presentation in the financial statements should be governed by their substance and not merely by the legal form.
6. In determining the accounting treatment and manner of disclosure of an item in the financial statements, due consideration should be given to the materiality of the item.
7. Each item on the face of the Balance Sheet and Statement of Profit and Loss shall be cross-referenced to any related information in the notes to accounts. In preparing the Financial Statements including the notes to accounts, a balance should be maintained between providing excessive detail that may not assist users of financial statements and not providing important information as a result of too much aggregation.
8. Notes to accounts should contain information in addition to that presented in the Financial Statements and should provide where required (a) narrative descriptions or disaggregations of items recognised in those statements; and (b) information about items that do not qualify for recognition in those statements.
9. If the information required to be given under any of the items or sub-items in these formats cannot be conveniently included in the Balance Sheet or the Income and Expenditure Account itself, as the case may be, it can be furnished in a separate schedule or schedules to be annexed to and

forming part of the Balance Sheet or the Income and Expenditure Account. This is recommended where items are numerous.

10. The schedules referred to above, accounting policies and explanatory notes should form an integral part of the financial statements.
11. The corresponding amounts for the immediately preceding financial year for all items shown in the Balance Sheet and the Income and Expenditure Account and Cash Flow Statement should also be given in the Balance Sheet or Income and Expenditure Account and Cash Flow Statement, as the case may be.
12. A cash flow statement may be annexed to the Balance Sheet, wherever applicable, showing cash flows during the period covered by the Income and Expenditure Account and during the corresponding previous period.
13. Disclosures as suggested in the formats are minimum requirements. A Political Party is encouraged to make additional disclosures.
14. The figures in the financial statements, if rounded off, should be rounded off as below:

Amount of Gross Income (in `)	Rounding off to (`)
Up to one crore	Actual in rupees
One Crore or more but less than one hundred crore	Lakh / Million
One hundred Crore or more	Crore / Billion

Schedules Forming Part of Accounts

NAME OF ENTITY _____

SCHEDULES FORMING PART OF BALANCE SHEET

AS AT

SCHEDULE 1 – CORPUS/CAPITAL FUND

- (a) Corpus Fund refers to funds contributed by the members in their capacity as promoters of the Political Party or any amount received by way of contribution specifically to the corpus of the Political Party.
- (b) The balance, if any, in the Income and Expenditure Account after appropriation, i.e., surplus/(deficit) is transferred to this fund.
- (c) The Opening Balances, Additions and the Closing Balance of the Corpus/Capital Fund should be shown under this head.

SCHEDULE 2 – EARMARKED FUNDS

- (a) Designated/Earmarked funds are funds set aside by the Political Parties for specific purposes or to meet specific future commitments.
- (b) The following should be shown in respect of each of the designated fund:
 - (i) Balance at the beginning of the year
 - (ii) Additions during the year
 - (iii) Deductions during the year
 - (iv) Balance at the end of the year
- (c) Disclosures should be made under relevant heads based on self-imposed conditions/restrictions on the grants.
- (d) Assets, such as investments, and liabilities related to each designated fund should be disclosed separately.
- (e) Any income earned on the investments made out of earmarked funds is credited to the Income and Expenditure account for the year in which the income is earned and an equivalent amount is transferred to the earmarked/designated fund after determining the surplus/deficit for the year.

SCHEDULE 3 – RESERVES

Following reserves may be created by a Political Party

- (a) Capital reserve: This should not include any amount regarded as free for distribution to the Income and Expenditure Account. Grants related to non-depreciable assets which do not require fulfilment of any obligation should be credited to this reserve.
- (b) Revaluation reserve is created to reflect effects of changing prices, property, plant and equipment otherwise stated at historical cost, are revalued and the historical cost substituted by a revaluation, normally done by competent valuers. Such substitution resulting in an upward revaluation is required to be shown as a “Revaluation Reserve”.
- (c) Special reserves comprise the reserves required to be created pursuant to any statutory or regulatory requirement applicable to the entity.
- (d) General reserve is a reserve other than capital reserve and revaluation reserve.
- (e) Following particulars should be shown in respect of each reserve:
 - (i) Balance at the beginning of the year.
 - (ii) Additions during the year.
 - (iii) Deductions during the year.
 - (iv) Balance at the end of the year.

SCHEDULE 4 – LOANS/BORROWINGS

- (a) The head should be classified into funds borrowed from Financial Institutions, banks or other institutions or agencies, etc. and separately disclosed.
- (b) Borrowings should further be sub-classified as secured and unsecured and specified separately in each case. Secured loans and borrowings should be such as are against hypothecation/pledge/charge on asset on the entity. Unsecured loans and borrowings comprise amount in respect of which no asset of entity is charged as security or encumbered.
- (c) Terms of repayment of term loans and other loans should be stated.
- (d) Interest free loans should be disclosed separately from interest bearing loans, interest accrued and due on loans should be included under appropriate sub-head.
- (e) Nature of security should be specified separately in each case.

- (f) Amount due within a period of less than 12 months as at the balance sheet date need to be disclosed.
- (g) Period and amount of continuing default as on the balance sheet date in repayment of loans and interest, shall be specified separately in each case.

SCHEDULE 5 – CURRENT LIABILITIES & PROVISIONS

(a) Current Liabilities should be classified and disclosed separately as:

- (i) Creditors
- (ii) Statutory Liabilities
- (iii) Interest accrued but not due on borrowings
- (iv) Expenses Payable
- (v) Other Current Liabilities (specify)

(b) Provisions should be classified and disclosed as follows:

- (i) For retirement benefits
- (ii) Others (specify)

(c) Where any item constitutes ten percent or more of the total current liabilities and provisions, the nature and amount of such items may be shown separately and may not be included under the head 'Others'

SCHEDULE 6 – PROPERTY, PLANT AND EQUIPMENT

Under this head, classification and disclosures should be as follows:

TANGIBLE ASSETS	
Land	Includes freehold land and leasehold land.
Building	Include office and other buildings, public buildings, temporary structures and sheds.
Plant and Machinery	Includes air conditioners, generator sets, television

	sets, fire extinguishers, etc.
Vehicles	Include buses, lorries, vans, cars, scooters, etc.
Office equipments	Include such items as fax machines, photocopiers, EPABX, typewriters, duplicating machines, etc.
Computers/Peripherals	Include computers, printers and other peripherals like CDs, U.P.S & Software, etc.
Furniture, fixtures and fittings, and electrical appliances	Furniture includes items such as cabinets, almirahs, tables, chairs and partitions include electrical fixtures and fittings such as fans, bulbs and tube lights and electrical appliances such as air-conditioners, water and air Coolers, etc.
Library books	In some cases the number of Library Books could be very large or there may be an established Library. In such cases these books may be disclosed as a separate category of assets. Library books will include books/journals/information stored in CD ROMs
CAPITAL WORK-IN-PROGRESS	Property, plant and equipment in the course of construction should be shown against this head till they are ready for their intended use. Plant, machinery and equipment acquired and pending installation should be included here. Advances to suppliers/contractors on capital account should also be included.

- (i) Under each head, the original cost, the additions thereto and deductions there from during the year, depreciation written off or provided during the year, and the total depreciation written off or provided up to the end of the year should be stated.
- (ii) Advance payments to contractors and suppliers should be classified as capital work-in-progress.
- (iii) Separate disclosure under each of the above heads should be made in respect of donated assets (i.e., assets that have been received free of cost as non-monetary grant/at

concessional value donation by the Political Party and assets financed under a lease agreement.

- (iv) Restrictions, if any, on the utilisation of each asset should also be disclosed in the notes to accounts.

SCHEDULE 7 – INTANGIBLE ASSETS

INTANGIBLE ASSETS	Should be classified as computer software purchased, patents, trademarks, etc., and should be specified separately.
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SCHEDULE 8 – INVESTMENTS

- (a) The investments should be classified and disclosed under long term investments and current investments
- (b) Aggregate amount of the Political Party's long-term quoted investments and also the market value thereof should be shown. Aggregate amount of the Political Party's unquoted investments should also be shown.
- (c) 'Quoted investment' for this purpose, means an investment in respect of which a quotation or permission to deal on a recognised stock exchange has been granted, and the expression 'unquoted investment' should be construed accordingly.
- (d) The significant restrictions on the right of ownership, realisability of investment should be disclosed by way of notes.

SCHEDULE 9 – CURRENT ASSETS

- (a) The current assets should be classified and disclosed as follows:
- (e) Inventories:
- Mode of valuation of the Inventories should be disclosed.
- (ii) Receivables should be classified and disclosed as:
- Grants/Donations/Contributions in respect of which, there is a reasonable assurance that (i) the entity will comply with the conditions attached, and (ii) the donation/grants will be received.

- Others (specify)
 - Any debts due by the employees of the entity should be separately stated.
- (i) Balances with Banks & Post Office should be shown as follows:
- With Scheduled Banks
 - With Non-scheduled Banks
 - With Post Office
 - Particulars should be given of balances lying on current account, call accounts and deposit accounts should be given.
 - Bank deposits with more than 12 months maturity should be disclosed separately.
 - Where any deposit accounts are pledged or charged as security or are encumbered, the fact should be disclosed.
 - Overdue/matured deposits should be separately disclosed.
- (ii) Cash and cash equivalents should be classified as cash on hand, cheques and drafts on hand, balance with banks and others (specify) and disclosed accordingly.
- (iii) Other current assets should be classified and disclosed as follows:
- 'Other current assets' is an all-inclusive heading, which incorporates current assets that do not fit into any other asset categories.
 - Interest accrued on investments should be included under this head.
 - Where any item constitutes ten percent or more of the total or more of the total current assets, the nature and amount of such items may be shown separately.

SCHEDULE 10 – LOANS, ADVANCES & DEPOSITS

(a) These should be classified and disclosed as follows:

(i) Loans & advances to-

- Staff (interest bearing and non-interest bearing should be shown separately)
- Others (includes (i) other amounts recoverable in cash or kind for value to be received, and (ii) prepaid expenses)

(ii) Deposits (other than with bank) such as for telephone and electricity etc.

(iii) Others (specify)

(b) Where any item constitutes ten percent or more of total loans, advances and deposits, the nature and amount of such item may be shown separately and the same may not be included under the head 'Others'.

Income and Expenditure Account

1. The Income and Expenditure Account should disclose every material item and should be so made out as to clearly disclose the result of the working of the Political Party during the period covered by the financial statements.
2. Any item under which income/expense exceed one percent of annual gross revenue of the Political Party or Rs. 50,000/- whichever is higher should be shown as a separate and distinct item against an appropriate account head in the Income and Expenditure Account. These items, therefore, should not be shown under the head miscellaneous and other income/expense.
3. Depreciation should be provided so as to charge the depreciable amount of a depreciable asset over its useful life. As the matter of guidance, Schedule II to the Companies Act, 2013, may be followed for rate(s) of depreciation.
4. A Political Party should disclose the following additional information by way of notes:
 - (a) Fair value and quantitative details of the services rendered by volunteers/members for which no payment has been made (wherever practicable).
 - (b) Net gain/loss on foreign currency transaction.
 - (c) Details of items of exceptional and extraordinary nature.
 - (d) Prior period items.

SCHEDULE 11 – FEES & SUBSCRIPTIONS

- (a) This should be classified and disclosed as follows:
 - (i) Entrance Fees
 - (ii) Annual Fees/Subscriptions from members
 - (iii) Subscriptions for Publications (if any)
 - (iv) Others (Specify)
- (b) In case the fees like entrance fee, subscriptions etc. are in the nature of capital receipts, such amount should be recognised to the Corpus Fund. Otherwise, such fees will be incorporated in this schedule.

SCHEDULE 12 – GRANTS/DONATIONS/CONTRIBUTIONS

The grants/donations/contributions (including through electoral bonds) received should be classified and disclosed as follows:

- (a) Corporates:
 - Electoral bonds
 - Other than electoral bonds
- (b) Non-corporates:
 - Electoral bonds
 - Other than electoral bonds.

SCHEDULE 13 – COLLECTION FROM ISSUANCE OF COUPONS/ SALE OF PUBLICATIONS

Income under this head should be classified and disclosed as follows:

- (a) Revenue from issuance of Coupons should be disclosed separately.
- (b) Revenue from sale of publications of the party (if any) should also be disclosed separately.

SCHEDULE 14 – OTHER INCOME

Other incomes should be classified and disclosed as follows:

- (a) Interest earned on government securities, bonds & debentures, deposits with scheduled & non-scheduled banks, saving accounts and loans & advances given to employees or others etc.
- (b) Income from investments in mutual funds, dividend on shares, etc.
- (c) Profit on sale of investments
- (d) Profit on sale of an item of property, plant and equipment
- (e) Rent received
- (f) Other miscellaneous income
- (g) Items of material amounts included in miscellaneous income should be separately disclosed.

SCHEDULE 15 – ELECTION EXPENDITURE³

These should be classified and disclosed as follows:

- a. General propaganda expenses by the party:
 - i. Travel expenses of Star Campaigners
 - ii. Travel expenses of Leaders other than Star Campaigners
 - iii. Expenses on media advertisement:
 - Print and electronic
 - Bulk SMS
 - Cable/TV channels
 - Website
 - iv. Expenses on publicity material including posters, banners, badges, stickers, arches, gates, cut-outs, hoardings flags etc.
 - v. Expenses on public meetings/processions/ rally etc.
 - vi. Other miscellaneous expenses
- (b) Expenses incurred by the party for candidates (to be bifurcates as above)

SCHEDULE 16 – EMPLOYEE COSTS

These should be classified and disclosed as follows:

- (a) Salaries and Wages
- (b) Allowances and Bonus
- (c) Employee welfare
- (d) Contribution to Provident and other Funds
- (e) Employees Retirement and Terminal Benefits
- (f) Others (specify)

SCHEDULE 17 – ADMINISTRATIVE AND GENERAL EXPENSES

These should be classified and disclosed as follows:

³ This schedule should be aligned with the Pro-forma of statement of election expenditure prescribed by the Election Commission of India from time to time.

- (a) Rents
- (b) Rates and taxes
- (c) Communication expenses
- (d) Printing & stationery
- (e) Electricity
- (f) Travelling & conveyance expenses
- (g) Insurance charges
- (h) Remuneration to auditors
- (i) Professional Charges
- (j) Repair & Maintenance of Building, Furniture & Fixture, Plant & Machinery etc.
- (k) Others (specify)

SCHEDULE 18 – FINANCE COSTS

Finance cost should be classified and disclosed as follows:

- (a) Interest on loans
- (b) Bank charges
- (c) Others (specify)

SCHEDULE 19 – OTHER EXPENSES

Other expenses should be classified as write-offs, provisions, miscellaneous expenses, loss on sale of investments and fixed assets etc. and disclosed accordingly.

SCHEDULE 20 – SIGNIFICANT ACCOUNTING POLICIES

Political Parties should disclose their significant accounting policies and this disclosure should be made at one place. An illustrative list of accounting policies that a Political Party could disclose is as follows:

- (a) The bases of recognition of major types of expenses and revenue

- (b) Accounting for income from and expenditure on specialised activities such as welfare programmes
- (c) Conversion or translation of foreign currency (if any)
- (d) Method(s) of depreciation
- (e) Valuation of inventories
- (f) Valuation of investments
- (g) Treatment of employee benefits
- (h) Valuation of property, plant and equipment
- (i) Accounting of provisions and contingent liabilities

SCHEDULE 21 – NOTES ON ACCOUNTS

- (a) Significant contributions/donations/collection from issuance of coupons exceeding Rs. 5,00,000/- to any individual or any other party should be disclosed with names.
- (b) Donation received from outside India should be disclosed with names.
- (c) Penalties on electoral officers along with the material electoral offences should be disclosed.
- (d) Transactions with the related parties, if any, should also be disclosed in line with the AS 18.

Notification regarding Electoral Bonds

THE GAZETTE OF INDIA : EXTRAORDINARY [PART II—SEC. 3(ii)]

MINISTRY OF FINANCE

(Department of Economic Affairs)

NOTIFICATION

New Delhi, the 2nd January, 2018

S.O. 29(E).—In exercise of the powers conferred by sub section (3) of Section 31 of the Reserve Bank of India Act, 1934 (2 of 1934), the Central Government hereby makes the following Scheme, namely:

1. Short title and commencement.—(1) This scheme may be called the Electoral Bond Scheme, 2018.
 - (2) It shall come into force on the date of its publication in the Official Gazette.
2. Definition.— In this Scheme, unless the context otherwise requires, —
 - (a) “electoral bond” means a bond issued in the nature of promissory note which shall be a bearer banking instrument and shall not carry the name of the buyer or payee;
 - (b) “authorised bank” means the State Bank of India authorised to issue and encash the bonds in the branches specified in Annexure I to this notification;
 - (c) “issuing branch” means a designated branch of the authorised bank specified in Annexure I for issuing electoral bonds;
 - (d) “person” includes
 - (i) an individual;
 - (ii) a Hindu undivided family;
 - (iii) a company;
 - (iv) a firm;
 - (v) an association of persons or a body of individuals, whether incorporated or not;
 - (vi) every artificial juridical person, not falling within any of the preceding sub clauses; and
 - (vii) any agency, office or branch owned or controlled by such person.

3. Eligibility for purchase and encashment of electoral bond. (1) The Bond under this Scheme may be purchased by a person, who is a citizen of India or incorporated or established in India.
 - (2) A person being an individual can buy bonds, either singly or jointly with other individuals.
 - (3) Only the political parties registered under section 29A of the Representation of the People Act, 1951 (43 of 1951) and secured not less than one per cent of the votes polled in the last general election to the House of the People or the Legislative Assembly, as the case may be, shall be eligible to receive the bond.
 - (4) The bond shall be encashed by an eligible political party only through a bank account with the authorised bank.
4. Applicability of Know Your Customer Norms. (1)The extant instructions issued by the Reserve Bank of India regarding Know Your Customer norms of a bank's customer shall apply for buyers of the bonds.
 - (2) The authorised bank may call for any additional Know Your Customer documents, if it deems necessary.
5. Denomination.–The bonds shall be issued in the denomination of ` 1000, ` 10,000, ` 1,00,000, ` 10,00,000 and ` 1,00,00,000.
6. Validity of Bond. (1) The bond shall be valid for fifteen days from the date of issue and no payment shall be made to any payee political party if the bond is deposited after expiry of the validity period.
 - (2) The bond deposited by any political party to its account shall be credited on the same day.
7. Procedure for making application for purchase of bonds.– (1) Every buyer desirous of purchasing bond can apply with a physical or through online application in the format specified in Annexure II to this notification.
 - (2) Every application shall contain particulars as per the format in Annexure II and shall be accompanied with the specified documents.

- (3) On receipt of an application, the issuing branch shall issue the requisite bond, if all the requirements are fulfilled.
 - (4) The information furnished by the buyer shall be treated confidential by the authorised bank and shall not be disclosed to any authority for any purposes, except when demanded by a competent court or upon registration of criminal case by any law enforcement agency.
 - (5) A non Know Your Customer compliant application or an application not meeting the requirements of the scheme shall be rejected.
 - (6) The bond shall be issued to the buyer on non refundable basis.
8. Periodicity of issue of bonds. (1) The bonds under this Scheme shall be available for purchase by any person for a period of ten days each in the months of January, April, July and October as may be specified by the Central Government.
- (2) An additional period of thirty days shall be specified by the Central Government in the year of general elections to the House of People.
9. Interest.—No interest shall be payable on the bond.
10. Issuing offices and commission payable. No commission, brokerage or any other charges for issue of bond shall be payable by the buyer against purchase of the bond.
11. Payment options. (1) All payments for the issuance of the bond shall be accepted in Indian rupees, through demand draft or cheque or through Electronic Clearing System or direct debit to the buyer's account.
- (2) Where payment is made through cheque or demand draft, the same shall be drawn in favour of the issuing bank at the place of issue such bond.
12. Encashment of the bond. (1) The bond can be encashed only by an eligible political party by depositing the same in their designated bank account.
- (2) The amount of bonds not encashed within the validity period of fifteen days shall be deposited by the authorised bank to the Prime Minister Relief Fund.
13. Tax treatment.— The face value of the bonds shall be counted as income by way of voluntary contributions received by an eligible political party, for the purpose of exemption from Income tax under section 13A of the Income tax Act, 1961.
14. Trading of bonds.—The bonds shall not be eligible for trading.

Name of Authorised Bank: STATE BANK OF INDIA

[refer clause 2 (b)]

List of Issuing Branches: [refer clause 2 (c)]

S.NO.	STATE	Code	BRANCH NAME
1	ANDHRA PRADESH	952	VISAKHAPATNAM
		948	VIJAYAWADA
2	ANDAMAN & NICOBAR	156	PORT BLAIR
3	ARUNACHAL PRADESH	6091	ITANAGAR
4	ASSAM	78	GUWAHATI
5	BIHAR	152	PATNA MAIN BRANCH
6	CHANDIGARH	626	CHANDIGARH MAIN BRANCH
7	CHHATISGARH	461	RAIPUR
		336	BILASPUR
8	DADAR & NAGAR HAVELI	6586	SILVASSA
9	DAMAN & DIU	514	DAMAN
10	DELHI	691	NEW DELHI MAIN BRANCH
11	GOA	509	PANAJI
12	GUJARAT	1355	GANDHI NAGAR
		301	AHMEDABAD
13	HARYANA	645	NEW COLONY GURGAON
14	HIMACHAL PRADESH	718	SHIMLA

15	JAMMU& KASHMIR	2295	BADAMI BAGH BR SRINAGAR
		657	JAMMU
16	JHARKHAND	167	RANCHI
17	KARNATAKA	813	BANGALORE MAIN BRANCH
		846	HUBLI
18	KERALA	941	THIRUVANANTHAPURAM MAIN
19	LAKSHADWEEP	5080	KAVARATTI
20	MADHYA PRADESH	1308	BHOPAL MAIN BRANCH
		377	GWALIOR MAIN BRANCH
21	MAHARASHTRA	300	MUMBAI MAIN BRANCH
		432	NAGPUR
		454	PUNE MAIN BRANCH
22	MANIPUR	92	IMPHAL
23	MEGHALAYA	188	SHILONG
24	MIZORAM	1539	AIZAWL
25	NAGALAND	214	KOHIMA
26	ODISHA	41	BHUBANESHWAR
		59	CUTTACK
27	PUDUCHERRY	900	PUDUCHERRY
28	PUNJAB	674	LUDHIANA
29	RAJASTHAN	656	JAIPUR MAIN BRANCH
		659	JODHPUR
30	SIKKIM	232	GANGTOK

31	TAMILNADU	800	CHENNAI MAIN BRANCH
		827	COIMBATORE
32	TELANGANA	916	SECUNDERABAD
		5324	NIZAMABAD
		847	HYDERABAD MAIN BRANCH
33	TRIPURA	2	AGARTALA
34	UTTAR PRADESH	125	LUCKNOW
		86	GORAKHPUR
		102	JHANSI
		602	AGRA MAIN BRANCH
35	UTTARAKHAND	630	DEHARADUN MAIN BRANCH
36	WEST BENGAL	1	KOLKATA MAIN BRANCH
		184	SILIGUDI

Annexure

Format of Application for Issue of Electoral Bond:

APPLICATION FORM FOR ELECTORAL BONDS _____(YEAR)						
NAME OF ISSUING BANK: NAME OF BRANCH:						
DATE						
MODE OF SUBSCRIPTION CHEQUE/DD ELECTRONIC TRANSFER						
					DETAILS OF	DATED
AMOUNT IN FIGURES:					AMOUNT IN WORDS:	
DENOMINATION & NUMBER OF ELECTORAL BONDS REQUIRED (in Denomination of `1000, `10,000, `1,00,000, `10,00,000 and `1,00,00,000)						
PAN NO. / TAN NO.AS APPLICABLE						
APPLICANT STATUS	INDIVIDUAL	HUF	COMPANY	FIRM	CHARITABLE TRUST	Others
(As per clause 3(a) of the notification No.... dated						
APPLICANT (S) DETAILS (IN BLOCK LETTERS)						
FIRST/ SOLE APPLICANT'S NAME IN FULL:						
DETAILS OF IDENTITY: (Passport, Aadhaar/Voter Id)						
SECOND APPLICANT'S NAME IN FULL:						

(Name of more applicant's can be added, if situation so demands)

DETAILS OF IDENTITY: (Passport, Aadhaar/ Voter Id)

FIRST / SOLE APPLICANT'S ADDRESS IN FULL:

CONTACT DETAILS :

PHONE/ FAX:

EMAIL:

DECLARATION: I/ We hereby declare and undertake that

- (i) The information furnished in the application form is correct in all respects.
- (ii) I have read and understood the details of information for the buyer of the Electoral Bonds as well as the rights and duties of the Electoral Bond holder.

FOR OFFICE USE

Date of receipt of application	BLA No. / CIF No.	HUF Status (Y/N)	Any other information

INFORMATION FOR BUYERS OF ELECTORAL BOND:

ITEM	ELECTORAL BOND
WHO CAN BUY	(1) The Bond under this Scheme may be purchased by a person, who is a citizen of India or incorporated or established in India. (2) A person being an individual can buy bonds, either singly or jointly with other individuals.
LIMIT OF INVESTMENT	None
FORM OF ELECTORAL BONDS	Non refundable banking instrument, in physical form
INTEREST OPTION	No interest shall be payable
LIFE OF ELECTORAL BOND	To be encashed within fifteen days from date of issuance.
TRADABILITY	Not tradable.
LOANS FROM BANKS AGAINST SECURITY OF THESE ELECTORAL BONDS	Not permitted.
APPLICATION FORMS	Available at designated branches of authorised Banks.
ENCASHMENT	Only the political parties registered under section 29A of the Representation of the People Act, 1951 (43 of 1951) and secured not less than one per cent of the votes polled in the last general election to the House of the People or the Legislative Assembly, as the case may be, shall be eligible to receive the bond.