

From Cash to Accrual Basis of Accounting in The Directorate of State Lotteries, Government of West Bengal–A Case Study

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Abstract: Government of India, ever since the recommendation of the Twelfth Finance Commission (2004), has been actively putting its efforts to switch over to accrual basis of accounting in place of the present cash based accounting system. Government of West Bengal, too, following the introduction of Fiscal Responsibility and Budgetary Management Act, has been actively considering accrual basis of accounting as an effective tool to keep its fiscal deficit within the prescribed limit. The present study is an attempt to identify the problem areas, and also provide solution to the eventual switch over to accrual basis of accounting in the Directorate of State Lotteries, Government of West Bengal, which is predominantly a revenue generating entity. However, the Directorate, like an ordinary accounting entity, besides earning revenue, also incurs several expenses for carrying out its operations, and in this process, creates liabilities and accumulates assets that need to be captured at the originating point. The present study points to the flaws in the existing cash based accounting, and also prescribes certain solutions to these inherent problems by way of suggesting the process by which the Trial Balance of the Directorate could be prepared with reference to the Consolidated Fund of West Bengal, while retaining the features of the present Government accounting system.

Key-words: Drawing and disbursing authority, dependent branch, sole selling agent, consolidated fund.

1. Introduction

Directorate of State Lotteries, 69 Ganesh Chandra Avenue, Kolkata- 700013 is an unit under Revenue Branch of Finance Department, Government of West Bengal (GoWB). The Directorate was established in the year 1968 with an object of promoting lottery business and hence preventing illegal gambling. At present, it provides chief source of livelihood to several small lottery ticket sellers across the State whose main source of bread and butter remains this lottery business.

Lottery draws are conducted on periodic basis. Main draws are Banga Bhumi Super (BBS), Banga Sree Super (BSS) and Banga Lakshmi (BL). While BBS and BSS are conducted once

in a month, BL is conducted twice in a month. Apart from these regular draws, there are six other bumper draws viz. New Year, Holi, Naba Barsha, Rathajatra, Durga Puja and Diwali, conducted at different times during a year. The entire process of lottery draws is conducted in the light of the Lottery Regulation Rule (2010) of Government of India being revised from time to time, and also the Lottery Regulation Act (1968), Government of West Bengal.

In terms of delegated financial power, Directorate of State Lotteries (DSL) is merely a drawing and disbursing authority i.e. all its expenses are paid by Finance Department by allotting fund under Specific Head of Account. Similarly, all revenue it earns through sale of lottery tickets are deposited into Government Account. Thus in all probable cases, DSL assumes the character of a dependent branch in the books of Finance Department. As a corollary to this main financial and accounting character, it is imperative that DSL should prepare a Trial Balance and allied Finance Department Account in its books. Accordingly, the present study makes an attempt to convert existing cash basis accounting of DSL into accrual basis accounting by suggesting a procedure that will eventually supplement finalization of its accounts in the books of Finance Department and help prepare State Accounts as a whole (assuming only one activity being done by the Government). The remainder of the paper is organized as follows. Section 2 deals with the accounting events at DSL, while Section 3 deals with the present system of accounting and its anomalies. The process of conversion from cash basis to accrual basis of accounting is laid down in Section 4, and finally conclusions are drawn in Section 5.

2. Accounting Events at DSL

It may be mentioned that Directorate of State Lotteries, like several other directorates under different departments of Government of West Bengal, pays salary to its staff, allows superannuation benefits to be paid to its retiring employees, and incurs office expenses to run the office smoothly apart from making payments for undertaking its own specific activity i.e. conducting lottery business. In the process of payment of salary, DSL recovers Government dues like professional tax, dues payable by employees like income tax, co-operative loans and also initiates steps towards recovering moneys for generating Superannuation Fund like General Provident Fund (GPF), Group Insurance Scheme (GIS) etc. In doing this, DSL also creates liabilities viz. unpaid superannuation benefits (employees retiring in the current year but paid in the subsequent year), salary for the month of March, being paid in the month of April next financial year etc. Besides, charges like electricity, telephone, cost of material supplies etc. accruing at the end of current financial year, are often paid in the subsequent year. Naturally all these unpaid expenses will appear as liabilities at the end of the year and they need to be reflected in the books of DSL.

Still another financial aspect of DSL is to conduct lottery business which triggers several financial events that have an accounting element. DSL sells lottery tickets by engaging one sole selling agent viz. M/S Lottery Syndicate Private Ltd, being appointed through an agreement. Among several clauses included in the agreement, guaranteed sale of 90% of lottery tickets

being allotted to the Syndicate constitutes the backbone of agreement. Unsold tickets may also be returned to DSL, the value of which is to be adjusted against value of subsequent sale of tickets. As far as practicable, direct selling i.e. sale against cash is encouraged. However, there is also a specific provision for Bank Guarantee that ensures realization of sale value of tickets in the event syndicate fails to obey its commitment for payment. The process of realization of sale value of tickets also includes adjustment of variable prizes (money value up to Rs. 5000) that are paid by syndicate. In addition to this, sale value is also adjusted for bonus payable to syndicate in favor of special ticket and super tickets that arise from contractual agreement. Claim for variable prizes normally extends up to a period of four months from the date of draw. Claim for fixed prize, is however, allowed a period of one month for settlement from the date of draw, which is to be referred to DSL directly. As these claims have different periods of settlement, it is natural that liabilities for unsettled claims at the end of the financial year are bound to accrue. Further, as syndicate takes recourse to guarantee fund to pay for the cost of lottery tickets (i.e. sale of tickets by DSL), the same fund utilized but remaining unsettled at the end of the financial year assumes the character of debtor in the books of DSL. All these financial events have meaningful accounting treatment in the books of DSL.

It has already been mentioned that the chief responsibility of DSL lies in conducting lottery business that requires maintaining an established office in terms of West Bengal Service Rule. Apart from meeting up contractual payments to employees, this entails certain allied expenses arising from conduct of lottery draws, typically commercial in nature. These expenses do not have much in common in other government office and they need to be matched against revenue earned. A few examples of these expenses are:-

- i) Cost of printing of lottery tickets
- ii) Cost of conducting lottery draws
- iii) Cost of stationery
- iv) Statutory fees payable for conducting lottery draw
- v) Annual maintenance cost of draw machine
- vi) Postage payable for delivery of prize winning cheques

As a matter of fact, these expenses require normal accounting treatment and their non-payment at the end of financial year requires further treatment towards creation of current liabilities. In addition to these, DSL has been paying considerable amount towards meeting up income tax obligation of prize winning tickets that needs a separate disclosure.

3. Present System of Accounting and its Anomalies

Meanwhile, Government Departmental accounts are being prepared annually on cash basis which is obligatory in nature. Among several things, these accounts highlight compliance with budgetary norms to ensure availability of fund to finance different Government Projects. In

the light of same, DSL has been preparing annual accounts under cash basis system that shows total receipts and total payments depicting a surplus when total receipts exceed total payments and vice-versa. Thus for the year under consideration i.e. 2011-12, DSL reported a surplus of receipts of Rs. 8.39 crore after considering total receipts of Rs. 45.20 crore and total payments of Rs. 36.81 crore. An item wise analysis shows that cash basis accounts prepared by DSL have the following anomalies in respect of 2011-12 annual accounts.

Table-1: Anomalies in Cash Basis of Accounting at DSL

Sl. No.	Item	Accrual Accounts	Cash Basis Receipts / Payments Accounts As Maintained By DSL	Remark
1.	Sale of lottery tickets	41,51,52,500	45,20,22,238	Total receipts have been booked as income in lieu of net sales in cash basis accounts.
2.	Claim for fixed prize— i. Fixed prize ii. Bonus	9,71,50,000 53,00,000	20,67,05,000 49,00,000	Total payment in lieu of actual amount payable has been booked as payment on this count in cash basis account.
3.	Claim for variable prize— i. Prize component ii. Bonus iii. Unsold ticket	6,97,71,500 7,44,67,500 1,6462,562	11,10,36,60	Besides absence of segregation of these expenses under different components, only adjustment made in lump sum has been shown in Receipts & Payments Account.
4.	Staff salary	1,36,79,562	1,48,50,961	An amount of Rs. 11,71,399 being paid towards arrear salary has been booked under current year's salary and thus overstatement follows.

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Sl. No.	Item	Accrual Accounts	Cash Basis Receipts / Payments Accounts As Maintained By DSL	Remark
5.	Superannuation benefits	71,85,504	Nil	As no allotment has been received by DSL on this account, the same has not been considered in cash basis account.
6.	Printing of lottery tickets	69,31,080	61,77,080	Actual payment in lieu of payable amount has been considered in R/P A/C.
7.	Miscellaneous Payments	6,14,321	5,12,513	Same as (6) above.
8.	Advertisement and Publicity	Nil	57,54,974	Not considered in Accrual Account since it relates to other Department.
9.	Current Assets– i. Prepaid Draw Expenses ii. Outstanding Guarantee	22,000 2,99,87,650	Nil	Cash basis accounting under DSL does not make finer distinction between expenses and expired benefits giving rise to Assets, and therefore, same is excluded from its consideration.
10.	Current liabilities– i. Staff Compensation ii. Expenses iii. Lottery Syndicate (Unsettled claim of syndicate for variable prize, bonus and fixed prizes)	21,51,894 30,66,501 3,9655,760	Nil	It has already been mentioned that cash basis accounting does not consider accrued liabilities arising from commitment to pay but not actually paid.

Sl. No.	Item	Accrual Accounts	Cash Basis Receipts / Payments Accounts As Maintained By DSL	Remark
11.	Other disclosures— i. Employee contribution to different super-annuation fund ii. Professional Tax iii. Income Tax Payment	40,29,200 80,159 4,25,13,761	Not Shown	Cash basis accounting does not have in built mechanism to segregate expenses in different component that shows for employees contribution, deduction of professional tax and statutory payment to third parties viz. income tax.
12.	Finance Department (Determined on the basis of opening excess of assets over liabilities and vice versa, plus all disbursement made on behalf of DSL minus all remittances made by DSL in the consolidated fund of State)	18,23,25,882	Nil	Backbone of accrual accounting lies in establishing relation among different accounting entities, including DSL, that contribute to economic activity of the principal entity i.e. State being considered. In the instant case, this vital relation seems to be absent in cash basis accounting.

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Sl. No.	Item	Accrual Accounts	Cash Basis Receipts / Payments Accounts As Maintained By DSL	Remark
13.	Contingent liability for office rent payable	Actual amount is not ascertainable as on the date of closing of account i.e. 31st March, 2012, since the matter is being heard in the court of L.A Collector.	Same as Accrual Accounting	
14.	i. Administrative Charge ii. Charges for lottery draw iii. Transfer credit for variable prize adjustment	Nil	6,84,65,000	Not considered in Accrual Accounts since these involve transfer of fund from one head of account to another leaving no impact on consolidated fund.
		Nil	1,78,00,000	
		Nil	11,10,36,640	

Thus the above analysis reveals that in all probability, cash basis accounting is expected to report a surplus different from that of accrual basis of accounting.

4. Process of Conversion from Cash Basis to Accrual Basis

The preparation of current year's Trial Balance of any accounting entity under accrual basis cannot start unless effect of previous year's financial transactions that need to be settled in the current year, are brought into picture. This can be done by preparing an opening Balance Sheet that sums up undischarged liabilities arising from contractual commitment to payments, and also accumulated assets from which future stream of income will accrue. In a commercial enterprise, preparation of final accounts is mandatory under relevant act applicable to the enterprise. This does not pose any problem for these enterprises to continue their accounting activities year after year. However, when such a course of action is contemplated for Government sector, preparation of opening balance sheet poses problems as screening of unpaid

liabilities and accumulation of opening assets have to be determined from existing set of books. Normally, Government Departments maintain elaborate records of financial transactions that are reflected in several registers. These registers, though not typically maintained in double entry format, can supplement accrual accounting with slight modification. Important among these registers are cash book (not typically maintained in branch, H.O. format), bill registers, allotment registers, cheque issue registers (both receipt and issue) etc.

Now, looking at the Opening Balance Sheet at 01.04.2011 (Annexure-I) it is seen that DSL had the following liabilities and assets at the end of financial year 31st March, 2011, excluding fixed assets.

Table-2: List of Assets and Liabilities as on 01/04/2011

Sl. No.	Particulars	Amount (Rs.)	Explanation
1.	Salary Outstanding	22,91,638	Common to all Departments/ Directorates and the same accrues due to obligatory one month lag in its payment at the end of the year.
2.	Outstanding Cost of Printing Expenses	22,94,760	May be DSL specific, still many Departments / Directorates have similar liability arising due to lag in payment.
3.	Outstanding Expenses— i. Hiring Charge of Vehicle ii. Electricity Charge iii. Stationery Cost	51,979 4,098 9,568	Almost common to all Department / Directorates and should be determined by segregating payments in the current year but for which obligation to pay arises in the previous year.
4.	Current Liabilities arising from typical nature of operation being done by DSL— i. Fixed Prize/Bonus ii. Variable Prize/Bonus	6,38,55,000 1,60,02,850	Specific to DSL for typical nature of operation being done by them and the process enumerated in (3) may be followed to ascertain its amount.
5.	Advance draw for lottery expenses	29,000	Normally does not have much relevance in other Directorate / Department but all advance draws at the end of the year need to be ascertained as an asset.

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Sl. No.	Particulars	Amount (Rs.)	Explanation
6.	Guarantee	2,97,69,050	Governments do not sell goods or provide service without receiving equivalent monetary benefits in advance. However, quite often Government sells goods or provides service on guarantee being provided by service users. This being in the nature of Debtors, is to be shown in the Balance Sheet.
7.	Finance Department	5,47,11,843	This is being shown on the analog that in the event lottery business is wound up, the excess of liabilities over assets shall be paid by Finance Department and DSL has, therefore, a claim against Finance Department for the same.

After preparation of opening Balance Sheet following the method enumerated above, the next step for preparation of Trial Balance may be taken up. However, even then preparation of Finance Department account is required since it is Finance Department which eventually pays for all services and goods received by DSL and receives all amounts for services being rendered by DSL. A format of Finance Department account is given in Annexure-II.

As regards payment of salary, elements of all deduction are to be excluded from the purview of payment. Similarly, as regards all other payments, element of income-tax payable is to be excluded from the purview of payment. Thus, in case of all payments net amount is to be shown in Finance Department Account. In accordance with this procedure, the Finance Department Account as on 31st March, 2012 may be drawn up as shown below.

Table-3: Finance Department Account (in the books of DSL) as on 31st March, 2012

Debit Items	Amount (Rs.)	Credit Items	Amount (Rs.)	Amount (Rs.)
To,		By,		
Balance b/d (from Opening Balance Sheet)	5,47,11,843	Salary		
		- Staff	73,85,087	
		- Officer	19,48,928	
		- Arrear	9,44,104	
				1,02,78,119

Debit Items	Amount (Rs.)	Credit Items	Amount (Rs.)	Amount (Rs.)
State Bank of India (Sale of Lottery Ticket)	25,47,20,598	Fixed Prize & Bonus		10,12,17,000
Miscellaneous Receipts	2,031	Payment for:		
Refund for Unpaid Salary	4,100	Superannuation Benefits	61,53,849	
		Withdrawal of GPF	25,18,655	
		Printing (Saraswati Press)	60,53,537	
		Stationery	1,14,429	
		Motor Vehicle (Hiring Charge)	1,82,973	
		Electricity	55,081	
		Telephone	34,378	
		Miscellaneous Expenses	1,08,159	
		AMC	4,050	
		Postage	5,708	
		Health Scheme	32,080	
		Computer	1,98,016	
		Draw Expenses	1,23,000	
		Purchase of Furniture	9,944	
		Cost of Memento	23,712	
				156,17,571
		By Balance c/d		1823,25,882
Total	3094,38,572	Total		3094,38,572

Thus looking at Finance Department Account, it is seen that apart from Opening Balance (Dr.) Rs. 5,47,11,843/- drawn from Opening Balance Sheet, DSL debited Finance Department for Rs. 25,47,26,729/- towards amount received from Sale of Lottery Tickets and other miscellaneous receipts, and credited Finance Department for an amount of Rs. 12,71,12,690/- for various

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payments, leaving a balance of Rs 18,23,25,882 to be considered in Trial Balance. These receipts and payments actually represent all transactions executed through third parties. Thus, payments like administration charges, lottery draws and transfer credit for variable prize adjustment, which involve transfer of fund from one head to another without affecting the overall balance in consolidated fund, have not been considered.

Now, preparation of Trial Balance in the books of DSL needs following considerations, based on inherent nature of operation being done by it.

- 1) DSL is a mere Drawing and Disbursing Authority, carrying out operations in terms of delegated authority being given to it by the Finance Department. Thus entire accounts of DSL have been prepared as a unit of Finance Department in which basic link with the State account has been established by preparing Finance Department Account in the books of DSL.
- 2) Only receipts and payments made through third parties indicating final inflow and outflow from consolidated fund are considered. Transactions involving transfer of fund from one head to another, having policy implications but no impact on consolidated fund, are excluded from the purview of accrual accounts.
- 3) Head wise booking of expenditure has been done on the basis of final debit shown by Pay and Accounts Officer, Kolkata. Committed liabilities arising on these heads have also been booked under these heads. In case of payment against these liabilities, these heads should be debited accordingly.
- 4) Certain transactions viz. deductions for GPF contribution, group insurance etc. from salary of the employees, in respect of which Government acts as agent or trustee, have been shown separately. Quite often, their outflows from State Exchequer have different time stipulations viz. premature withdrawal of these funds following death of the employee before superannuation, and thus separate individual account for each employee should be maintained to record intermittent drawal as well.
- 5) Entire accounts of DSL have been prepared on the basis of gross allotment utilized and net cash received from third parties from sale of lottery tickets etc. It may so happen that cheques issued by DSL are not presented to bank for encashment (example Rs 1,98,016/- for purchase of computer). Therefore, total debits considered in DSL book will inevitably differ from that of Finance Department (i.e. with reference to final debit in consolidated fund of the State). This will necessitate bank reconciliation in the books of Finance Department before DSL Account is made compatible for incorporation in Finance Department's books.
- 6) Trial Balance of DSL has been prepared, keeping in view that it will be eventually incorporated by the Finance Department to prepare the State Accounts as a whole. Thus, certain items viz. professional taxes, income tax paid etc. are shown separately which would have to be maintained by Finance Department centrally.

5. Conclusion

Efficacy of accrual basis of accounting in the context of the operation of lottery business by DSL may be judged in the light of numerous objectives it accomplishes.

- 1) Accrual accounting as a means of communication is best manifested when it is aligned with budgetary inputs. As budget conveys priorities, intention and commitments intended for several groups of stake holders, the same is effectively done by accrual accounting when actual information is disseminated through financial system to its intended users.

In the instant case, it has already been pointed out that there are several stakeholders having connection with the operation of DSL. A list of such interested stakeholders (not exhaustive) and nature of financial information supplementing their needs are illustrated below:-

- a) Government of India (income tax paid)
- b) Government of West Bengal (sustainability of the operation of lottery business)
- c) Employee (salary, GPF, GIS, Retiral benefit)
- d) Lottery Syndicate (sale of lottery tickets, guarantee fund, bonus)
- e) Prize Winners (payment of fixed prizes, bonus etc.)

Thus accrual accounting, even when applied to moderately significant Government operation like that of lottery business, could serve as a useful tool for communication of information.

- 2) Accrual basis of accounting in the context of lottery business shows that accrual system could be implemented retaining the features of cash system and thereby facilitating eventual migration to accrual system. This is indeed of great help since transition from simple cash system to a more complex accrual system requires not only sensitization of government accountants to accrual concept but formal training in a new type of accounting system.
- 3) Still another goal that accrual basis accomplishes is to link the information to donor practices. DSL has been operating lottery business by securing bank guarantee from Lottery Syndicate that supplements its working capital needs. A detailed bank guarantee account has to be prepared to reflect this accounting treatment.

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Annexure-I

Opening Balance Sheet as at 01-04-2011

Office of the Directorate of State Lotteries

69, Ganesh Chandra Avenue

Kolkata-700013

Liabilities	Amount (Rs.)	Amount (Rs.)	Assets	Amount (Rs.)
Current Liabilities:			Finance Department (Balancing Figure)	5,47,11,843
Outstanding Salary	22,91,638		Prepaid Lottery Expenses	29,000
Outstanding Printing Charges	22,94,760		Guarantee	2,97,69,050
Outstanding Motor Vehicles	51,979			
Outstanding Electricity Charges	4,098			
Outstanding Stationery Purchase	9,568			
		46,52,043		
Current Liabilities for Payment of Fixed Prize:				
Fixed Prize	6,35,05,000			
Fixed Bonus	3,50,000			
		6,38,55,000		
Lottery Syndicate				
Variable Prize	1,38,71,600			
Variable Bonus	10,23,000			
Unsold Ticket	11,08,250			
		1,60,02,850		
		8,45,09,893		
				8,45,09,893

Annexure-II

Format of Finance Department Account (In the books of DSL)

Debit	Amount (Rs.)	Credit	Amount (Rs.)
To, Balance b/d (if any as per opening Balance Sheet) All amount received on behalf of Finance Department and paid to Consolidated Fund - Sale Proceeds - Miscellaneous Income - Amount received for service provided Balance c/d		By, Balance b/d (if any as per opening Balance Sheet) Payment for salary/ superannuation benefits (Net payment excluding all deduction) Payment to Third party (excluding element of tax for material supplied, service rendered) Payment for purchase of Assets: - Computer - Furniture - Others G.P.F. withdrawal Balance c/d	

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