Question Paper

Maximum Marks: 100 marks

Note: Question 1 to 65 carries one marks and all of them are to be attempted.

Question 66 to 72 are of 5 marks and five out of these seven are to be attempted

Question 73 and 74 are of 10 marks. One out of these two case studies are to be attempted

1. Which of the following mechanisms are used for Allocation of Resources in Public Financial Management:
    a. Market Mechanism
    b. Public Sector Units
    c. Both (a) and (b)
    d. Neither (a) nor (B)
2. Which of the following is/are a function of Public Financial Management?
    a. Allocation of Resources
    b. Distribution of Income and Wealth
    c. Economic Stabilization
    d. All of Above
3. Which of the following is NOT an element of effective Government Budgeting?
    a. Aggregate Fiscal Discipline
    b. Maximization of Revenue
    c. Allocative Efficiency
    d. Operational Efficiency
4. Allocative efficiency can be improved by:
    a. Strategic Planning and Medium-Term Fiscal Framework
    b. Program Budgeting and Program Evaluation
    c. Both (a) and (b)
    d. Neither (a) nor (b)
5. Information asymmetry with respect to factors that degrade the operational efficiency is defined as:
    a. Service providers know more about outputs and costs than those who allocate resources
    b. Spenders have incentives to use all the resources provided to them
    c. Government lacks independent information on performance
    d. Detailed ex-ante controls are costly and drive out initiative and variation
6. Match the correct Article of the Constitution with the functions in respect of Distribution of Tax Revenue between Union and States:

A. Duties Levied by Union but collected and appropriated by States	(i) Article 270
B. Taxes Levied by Union but assigned to States	(ii) Article 269
C. Taxes on income other than Agriculture Income	(iii) Article 268

    a. A-(III); B-(ii); C-(i)
    b. A-(i); B-(ii); C-(iii)
    c. A-(iiii); B-(i); C(ii)

    d. A-(ii); B-(i); C-(iii)

7. Which of the following statements is correct?
    a. State Government can borrow outside the territory of India
    b. Union Government has unlimited powers of borrowings
    c. State legislatures cannot impose limitations on the borrowings of the State Government
    d. None of the above
8. Finance Commission:
    a. Is a Statutory Body
    b. Recommends the distribution of taxes between Union and States
    c. Cannot decide on principles related to Grants in Aid given by Union to States
    d. All of the above
9. Which of the following is true about 14th Finance Commission?
    a. It was chaired by Sh. Ashok Lahiri
    b. The Finance Commission is Chaired by Union Finance Minister
    c. The setting up of Finance Commission every five years is a Constitutional Mandate
    d. All of the above
10. 14th Finance Commission deliberated the following:
    a. The devolution of tax to States was recommended at 42 per cent
    b. Included the expenditure on Centrally Sponsored Scheme in revenue expenditure
    c. Did not adopt fiscal performance criteria in devolution
    d. All of the above
11. Terms of Reference of 15th Finance Commission included:
    a. The distribution between Union and the States
    b. The principles which should govern the grants-in-aid of the revenues of the States
    c. The measures to augment the consolidated fund of State to supplement the resources of Panchayats and Municipalities
    d. All of the above
12. Normative issue in Tax Theory brings out:
    a. How to design taxes to promote social welfare
    b. The economic effect of various taxes that Government use
    c. Both (a) and (b)
    d. Neither (a) nor (b)
13. Which of the following characteristics would be there in broad based tax collection?
    a. Ease of collection
    b. Ease of compliance
    c. Flexibility
    d. All of the above
14. A Value Added Tax is:
    a. Tax levied on wage and salary
    b. Tax levied on accounting profit
    c. Difference between sales revenue and input purchases
    d. Levied on owner of property
15. The principle of Equality in Taxation by Adam Smith envisages:

   a. Every person should pay to the Government according to his ability to pay
   b. Persons having same income pay different taxes
   c. Similarly placed individuals to pay different taxes
   d. None of the above
16. The principle of Certainty of Adam Smith envisages:
   a. A convenient way and time to pay taxes
   b. The tax to be paid is not arbitrary and subject to discretion
   c. Everybody placed in similar situation should pay same tax
   d. All of the above
17. Which of the following statements is NOT correct about Tax Policy and Administration?
   a. It has a bearing on the investment in the country
   b. A well-designed tax system improves the efficiency of the system and improves compliance
   c. Policy makers intend to devise systems which are complex and difficult to understand
   d. A properly designed tax system will not have much discretion
18. Which of the following statement/s are considered to be true regarding taxing income/consumption:
   a. Taxing consumption is believed to be regressive
   b. It is believed that taxing income has higher welfare cost
   c. Both (a) and (b)
   d. Neither (a) nor (b)
19. One of the major shortcomings of depreciation system in a country with regards to taxation can be mentioned as:
   a. Too many asset classes and depreciation rates
   b. Depreciation rate according to obsolescence
   c. Depreciation rates appropriately prescribed (neither too high nor too low)
   d. All of the above
20. Which of the following is NOT a disadvantage of giving tax incentive through Tax Holidays?
   a. Incentive for tax avoidance
   b. Administering is not complicated
   c. Benefits an investor who expects high profit and would have invested anyways
   d. Prone to abuse
21. The tax credit and investment would incentivize investments by:
   a. Better targeting the investments
   b. More transparent method
   c. Easier to control
   d. All of the above
22. Which of the following is NOT a tax incentive to promote investments?
   a. Accelerated depreciation
   b. Investment subsidies
   c. Exempting raw material and capital goods from VAT
   d. None of the above
23. Which of the following is an instrument of Public Debt for Union Government?
   a. Disinvestment proceeds from Public Sector Units

   b. Loans and Advances to the State Governments
   c. Treasury Bills issued by Union Government
   d. Dividend received from PSUs
24. Bank Rate is the rate:
   a. At which RBI lends to the commercial banks
   b. At which RBI rediscounts the bills of the commercial banks
   c. Both (a) and (b)
   d. Neither (a) nor (b)
25. Which of the following is NOT an instrument of monetary policy?
   a. Cash Reserve Ratio
   b. Statutory Liquidity Ratio
   c. Public Expenditure Management
   d. Repo Rate
26. Reverse Repo Rate is:
   a. Rate at which RBI borrows from commercial banks
   b. Rate at which RBI lends to the commercial banks
   c. Both (a) and (b)
   d. Neither (a) nor (b)
27. Which of the following statements is true about Open Market Operations?
   a. Central Bank controls the flow of credit through the sale and purchase of securities in open market
   b. It increases money supply with commercial banks and public
   c. It will expand credit in the economy
   d. All of the above
28. Statutory Liquidity Ratio is:
   a. Banks have to keep deposits with RBI
   b. Certain percentage of deposits are to be kept by the bank in form of liquid assets
   c. It is the discount rate of the banks
   d. None of the above
29. The objective of fiscal policy is:
   a. To achieve equal distribution of wealth
   b. Increase in savings
   c. Price stability
   d. All of the above
30. Which of the following statements is Not correct about Budget of a country?
   a. It denotes the actual expenditure which Government will incur in the coming year
   b. It is the annual financial plan of the Government
   c. It is a projection of expenditure which Government proposes for the year
   d. It is an estimate of the allocation of resources
31. Which of the following statements is correct about Revenue Deficit?
   a. It is the difference between Revenue Expenditure and Revenue Receipts in a Financial Year
   b. A positive revenue deficit denotes excess of expenditure over revenue
   c. Both (a) and (b)
   d. Neither (a) nor (b)
32. Fiscal deficit:
   a. Includes borrowings of the last year

b. Excludes borrowing for the last year
c. Is exactly same as Revenues Deficit
d. None of the above

33. Fiscal deficit can be remedied by:
    a. Borrowing money
    b. Printing Currency
    c. Both (a) and (b)
    d. Neither (a) nor (b)
34. Which of the following Budget documents is mandated by Fiscal Responsibility and Budget Management Act, 2003?
    a. Annual Financial Statement (AFS)
    b. Demand for Grants
    c. Finance Bill
    d. Macro-Economic Framework Statement
35. Which of the following is NOT true Public Account of India?
    a. The money lapses at the end of Financial Year
    b. Moneys held by Government in trust is kept in Public Account
    c. Provident Fund, Small Saving Scheme collection are kept in Public Account
    d. None of the above
36. Which of the following is included in the Receipt Budget of the country?
    a. It includes Tax and Non-Tax Revenue estimates
    b. Statement of arears of Tax and Non-Tax Revenue
    c. Trends of receipts and expenditure along with trends
    d. All of the above
37. Outcome Budget provides:
    a. Outcomes of the end products and results of various Government initiatives
    b. Is a practice of listing outcomes of each scheme/project of Government
    c. Both (a) and (b)
    d. Neither (a) nor (b)
38. Financial Advisor in the Ministry:
    a. Is an extension of the Ministry of Finance
    b. Is not accountable to the Administrative Ministry and its Financial Management
    c. Has no role in Budget Preparation
    d. None of the above
39. The objectives of Public Financial Management include:
    a. Aggregate fiscal discipline
    b. Strategic Allocation of Resources
    c. Efficient Service Delivery
    d. All of the above
40. Code of Integrity prohibits:
    a. Limited Tender Enquiry
    b. Collusion and Bid Rigging
    c. Single Tender
    d. Open Tender
41. Performance Security in a bid is:
    a. Normally kept at one percent of the bid value
    b. Kept at 5 to 10 percent of the bid value

   c. Same as bid security
   d. All of above

42. Which of the following is true about procurement through Government e-Marketplace (GeM)?
   a. Mandatory to procure goods and services available on GeM
   b. Credentials of vendors shall be verified by GeM
   c. Both (a) and (b)
   d. Neither (a) nor (b)
43. Which of the following statement is true about Budget Execution?
   a. 25 per cent of Budget Estimates can be spent in the last quarter of the Financial Year
   b. 33 per cent of Budget Estimates can be spent in the last month of the Financial Year
   c. 50 per cent of Budget Estimates can be spent in the last two months of the Financial Year
   d. None of the above
44. Which of the following statements is true about re-appropriations?
   a. Any re-appropriation to New Instrument of Service can be done with Parliamentary approval
   b. All re-appropriations are to be reported to Parliament at the end of the year
   c. Both (a) and (b)
   d. Neither (a) nor (b)
45. Which of the following statements is True about preparation of Government Accounts of India?
   a. Accounts of Union government are prepared by Comptroller and Auditor General (C&AG) of India
   b. Accounts of Union Government are certified by Controller General of Accounts
   c. Accounts are to be prepared and laid into Parliament within one month after completion of Financial Year
   d. Accounts of Union Government are to be kept in Form prescribed by President on the advise of C&AG.
46. Which of the following statements is True about Classification in Government Accounts?
   a. Major Head represents functions of the Government
   b. Minor Head corresponds to the programs of the Government
   c. Sub Head corresponds to the Scheme of the Government
   d. All of the above
47. Government Accounts are:
   a. Maintained on Cash Basis
   b. Prepared according to Government Accounting Rules 1990
   c. Both (a) and (b)
   d. Neither (a) nor (b)
48. Chief Accounting Authority for each Ministry is:
   a. Controller General of Accounts
   b. Secretary of the Ministry
   c. Chief Controller of Accounts of the Ministry
   d. Comptroller and Auditor General of India
49. The Principal Accounting Advisor to Government of India is:

a. Controller General of Accounts
b. Chief Controller of Accounts of Ministry of Finance
c. Revenue Secretary
d. Governor of Reserve Bank of India

50. Which of the following is NOT a function of Controller General of Accounts?
    a. Prescribe General principle of Government Accounts for Union and State Governments
    b. Reconciliation of Cash Balances of Government of India with Reserve Bank of India
    c. Consolidation of Monthly Accounts
    d. Audit of Appropriation Accounts
51. Which of the following is NOT correct about recording transactions in Government Accounts?
    a. Amounts due to or due by Government during the period are recognized in the accounting statements.
    b. Records cash flows into and out of Government Accounts
    c. Stock of Government Liabilities
    d. Financial Assets of Government
52. The accounting treatment for various types of transactions are given below. Identify the Incorrect treatment.
    a. The financial statements and accounts are maintained on the historical cost convention.
    b. The external debt has been shown at the exchange rate applicable at the time of contracting the debt
    c. Government financial investments are recorded at the historical cost.
    d. Provision is made for impairment of the value of physical assets
53. Ways and Means Advances are:
    a. Provided to cover wages to workers
    b. Provided by Reserve Bank of India to the State Governments for taking care of temporary mismatches of Cash flow
    c. Both (a) and (b)
    d. Neither (a) nor (b)
54. Which of the following statements is True about classification of Government Expenditure/ Revenue?
    a. Capital Receipts are recorded in the Major Head 4000
    b. Advance from Contingency Fund of India is recorded under Major Head 8000
    c. Public Debts Loans and Advances are recorded in Heads 6001 to 7999
    d. All of the above
55. Public Financial Management System (PFMS) does not have which of the following function into it?
    a. Budget preparation by Ministry of Finance is done on PFMS
    b. Demand for Grants approved by Parliament is entered into the system by O/o Controller General of Accounts
    c. Payment advices are issued by Pay and Accounts Offices on PFMS
    d. Detailed Demand for Grants is entered by Principal Accounts Offices
56. Which of the following is/are function/s of Financial Advisor in the Ministries?
    a. Supervising the process of budget preparation
    b. Supervising the preparation of Annual Accounts (Appropriation and Finance Accounts)

c. Both (a) and (b)
d. Neither (a) Nor (b)

57. Which of the following functions is NOT associated with Drawing and Disbursing Officers (DDO)?
    a. DDOs prepare bills based on sanctions issued by Sanctioning officers
    b. DDOs consolidate accounts for the Ministries
    c. DDOs monitor budget for the offices associated with them
    d. DDOs submit bills to Pay and Accounts Offices for payment
58. Merged Drawing and Disbursing Officers has which of the following functions?
    a. Merged DDOs scheme is prevalent in the Secretariat of the Ministries
    b. Normally one Accountant from Pay and Accounts Offices is posted in Merged DDO
    c. Maintains GPF accounts for all Secretariat staff
    d. All of the above
59. Which of the following statements is NOT Correct regarding Establishment function of Union Government?
    a. Head of Department is approved and appointed by Head of Office
    b. Head of Office should be a Gazetted officer
    c. Head of Office is appointed in terms of Rule 14 of Delegation of Financial Powers Rules (DFPR), 1978
    d. Head of Office is assisted by officials/officers handling Cash and Establishment sections.
60. Which of the following is included in Standards of Financial Propriety of Union Government?
    a. Every officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money
    b. The expenditure should not be prima facie more than the occasion demands.
    c. No authority should exercise its powers of sanctioning expenditure to pass an order which will be directly or indirectly to its own advantage.
    d. All of the above
61. Which of the following statements is NOT true regarding compilation of monthly accounts?
    a. Monthly accounts are submitted to O/o Controller General of Accounts by Pay and Accounts Officers
    b. Cheque Drawing and Disbursing Officers submit List of Payments to Principal Accounts Officer
    c. Both (a) and (b)
    d. Neither (a) nor (b)
62. Which of the following is a requirement for giving Cheque Drawing powers to Drawing and Disbursing Officers (DDOs)?
    a. Distance from DDOs to PAOs is more than 400 kms.
    b. Budget provisions for items other than salary may not be less than Rs. 1 crore.
    c. Number of staff for which DDO would be making payments may not be less than 150.
    d. All of the above

63. Which of the following statement is true about Classification of Government Accounts?
    a. Object Heads represent the first three digits of accounting classification
    b. Chart of Accounts is a 15 digit hierarchical classification system
    c. Major Head represent the first three digits of Government Account
    d. All of the above
64. Which of the following is an input for Union Government Finance Accounts?
    a. Statement of Central Transactions
    b. Journal Entries
    c. Both (a) and (b)
    d. Neither (a) nor (b)
65. Journal Entry:
    a. Is prepared at Minor Head Level
    b. Is prepared in Millions of Rupees
    c. Is prepared by Controller General of Accounts
    d. Is prepared by C&AG

Answer any five questions from 66 to 72 in brief.

66. Describe the flow of accounting information for Government of India for compilation of Monthly and Annual Accounts with the help of a flow chart.
67. Describe the six tier Accounting Classification system used in Government of India (for Consolidated Fund of India transactions) bringing out clearly each tier of classification and number of digits used at each level of classification.
68. Write short notes on following:
    a. Public Investment
    b. Electronic Reverse Auction
69. Define Monetary Policy. What are the instruments of monetary policy? Briefly describe each instrument of Monetary Policy?
70. What are the characteristics of a good Tax System given by Adam Smith? Write briefly about each of these.
71. Distinguish between following classifications of Public Expenditure:
    a. Productive and Unproductive Expenditure
    b. Transfer and Non-Transfer Expenditure
72. Write briefly about the role and functions of Controller General of Accounts.

Attempt one of the two case studies given below

73. Case Study: A case has been presented below. You are requested to kindly go through the situation presented and answer the questions that follow.

    Ministry X had a scheme which had housing as one of the components. Funds were released for construction of housing for the Ministry. The funds were released by Union Government through Intergovernmental Advice to the State Governments under the Scheme from the Major Head Grants in Aid. The State Government had to make 30 per cent contribution for the Scheme. The total amount was provisioned in the budget of the State Government. The State Governments had Housing Corporations which were corporations under the State Governments. Many of the State Governments would release the funds on the last day of Financial Year to the Housing Corporations and show the money as spent.

Since, the Government Accounts are on Cash basis the funds were considered utilized by the State Governments. The funds were lying in the accounts of Housing Corporations and were accumulated for the years together. In some of the cases State Governments had given Utilization Certificates (UCs) based on the releases made by the State Governments. The subsequent releases were made by the Ministry based on UCs received from the State Governments. It was also noted that the approval process in the State Governments was taking too long and adversely affecting the deliverables of the Scheme. Union Government had analyzed and reviewed the scheme and Secretary of the Ministry wrote to all the Chief Secretaries for enhancing the Delegation of the Implementing agencies and quicken the approval process and ensure prompt Scheme implementation.

An assessment was made by the Comptroller and Auditor General of India that there are many such Bank Accounts in the State Government/Union Government autonomous bodies and corporations which is adversely affecting the Government Finances of the country.

The Scheme was reviewed by a Committee under the Chairmanship of Additional Secretary every year wherein work programs were approved and associated activities were also sanctioned in principle. The State Governments had to implement the plan as approved by the Union Government. The Scheme was of National importance and required cooperation from the States as well.

1. When was the fund release recorded in the Union Government Accounts and why?
2. Whether the Utilization Certificate given by the State Governments were correct (given on the basis of releases made to the Housing Corporations)
3. How the funds released to the Housing Corporation and lying idle there adversely affects the Union Government Finances in light of fiscal deficit?
4. How was the review mechanism designed to ensure that the objectives of the State Governments are aligned to the overall objectives of the Union Government in the federal structure?

74. Case Study 2: A payment was processed in organization X attached to the Ministry Y for procurement of Computers. The delegated powers under the particular item of expenditure for the Head of the Organization was Rs. 10 lakhs. The expenditure proposal mentioned here was for Rs. 17.5 lakhs and would therefore, require approval of the next higher level i.e., the Ministry Y. The organization X processed the proposal and sent it to the Ministry for approval. The power was vested with the Secretary of the Ministry and would require approval. The Secretary exercised his powers in consultation with Financial Advisor whose advise is not binding and can be over-ruled by the Secretary. However, it is a general practice that the advice of Financial Advisor is not over-ruled in majority of cases.

The financial sanction was given by the Secretary after Financial Advisor had concurred the proposal. Once, the approval was given, a sanction was issued on the successful delivery of computers by the contractor. The sanction along with all the supporting documents was sent to Drawing and Disbursing Officer (DDO) for preparation of bill. DDO prepared the bill and sent it along with all the supporting documents to the Pay and Accounts Officer (PAO). PAO checked the bill and noted that the budget for the DDO was not sufficient to clear the bill and hence returned the bill to DDO.

The budget in the system is allocated for each DDO by the Head of Department and conforms to the overall budget line item in the Detailed Demand for Grants. In the instant case, the budget provision was increased in the Revised Estimate (RE) which was communicated by the Finance Ministry to Ministry Y but the requisite re-appropriation order was not there. DDO had processed the bill based on RE ceiling communicated. PAO refused to pass the bill.

The requirement of the Ministry was urgent and hence DDO was repeatedly pushing for passing the bill, however, PAO was also not yielding in absence of adequate budget provision.

1. Do you think PAO was right in returning the bill of an urgent procurement? Substantiate your answer with appropriate reason and rationale?
2. PAO had taken a stand that communication of RE ceiling was not enough for increasing the budget provision. Do you agree or not? Why?
3. How do you perceive the role of PAO as an independent check in the payment process?

Answers

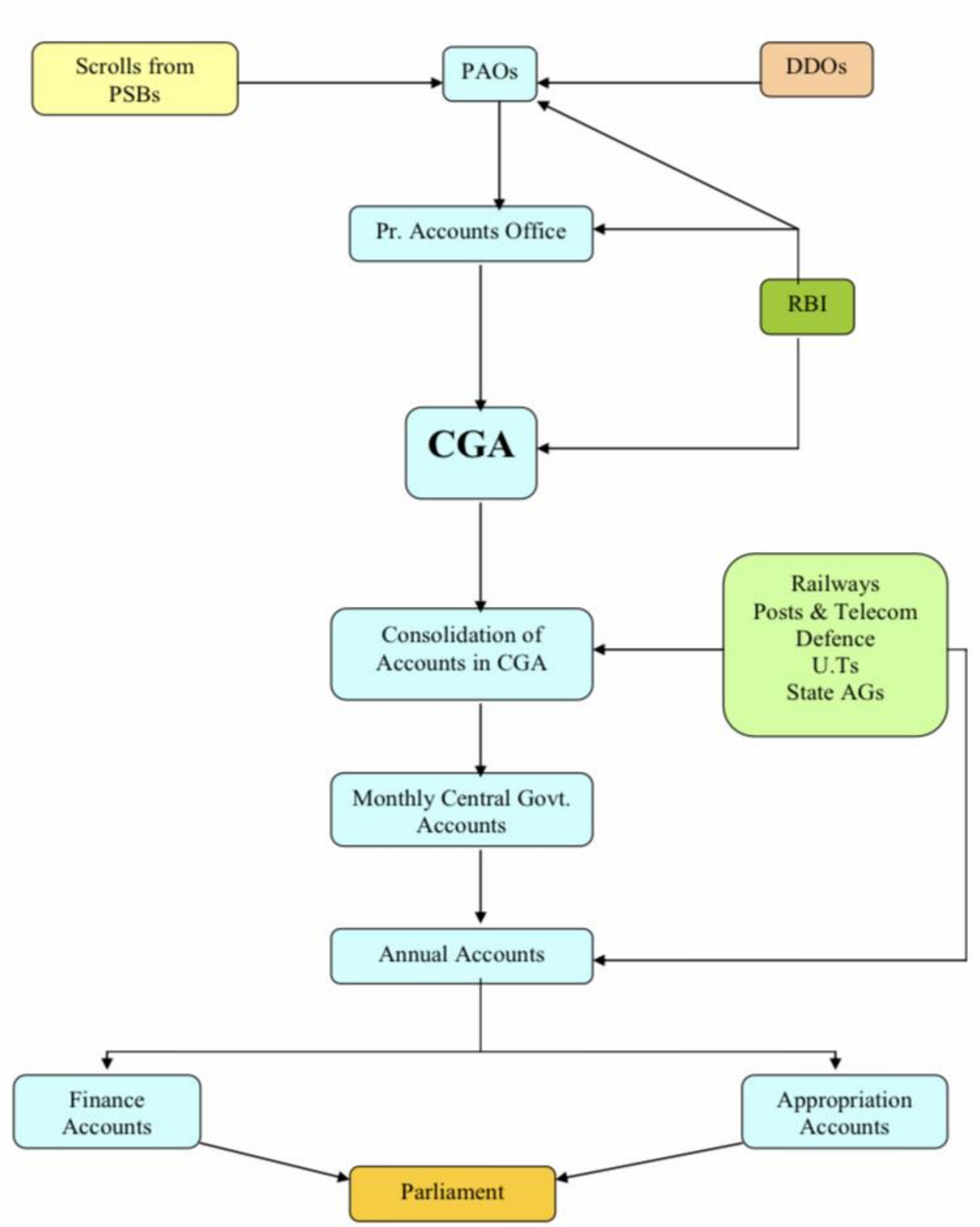
1. (c)
2. (d)
3. (b)
4. (c)
5. (a)
6. (a)
7. (b)
8. (b)
9. (c)
10. (d)
11. (d)
12. (a)
13. (d)
14. (c)
15. (a)
16. (b)
17. (c)
18. (c)
19. (a)
20. (b)
21. (d)
22. (d)
23. (c)
24. (c)
25. (c)
26. (a)
27. (d)
28. (b)
29. (d)
30. (a)
31. (c)

32. (b)
33. (c)
34. (d)
35. (a)
36. (d)
37. (c)
38. (a)
39. (d)
40. (b)
41. (b)
42. (c)
43. (a)
44. (c)
45. (d)
46. (d)
47. (c)
48. (b)
49. (a)
50. (d)
51. (a)
52. (d)
53. (b)
54. (d)
55. (a)
56. (c)
57. (b)
58. (c)
59. (a)
60. (d)
61. (c)
62. (b)
63. (b)

64. (c)

65. (a)

66. The flow of accounting information may be described as:



67. Consolidated Fund of India transactions are classified using functional classification divided into functions and programs [largely conforming to plan heads of development but for Constitutional and other requirements] with a 6-tier hierarchical structure as follows:

- Major Head (4 digits) – representing a major function of the Government.
- Sub-Major Head (2 digits)– representing a sub-function of the Government.
- Minor Head (3 digits)– representing a program of the Government.
- Sub Head (2 digits)– representing a scheme.
- Detailed Head (2 digits)– representing a sub-scheme and
- Object Head (2 digits)– for the object of expenditure [e.g. salaries, office expenses].

68.
(a) Public Investment: Public investment refers to government spending on public infrastructure, which is categorized into two types:

- economic infrastructure such as airports, roads, railways, ports, water and sewage, power, gas, and telecommunication; and
- social infrastructure such as schools and hospitals.

Both economic and social infrastructure becomes public physical assets once they are completed. Public investment is generally disbursed from capital budgets (or expenditures) at the construction stage, whereas costs for operation and maintenance (O&M) are disbursed from recurrent budgets (or expenditures). For this reason, budget management for public investment requires adjustment and arrangement from both categories of expenditures over the life-cycle of the public infrastructure.

(b) Electronic Reverse Auction is an online real-time purchasing method, which involves presentation by bidders of successively more favorable bids during a scheduled period of time and automatic evaluation of bids;
Purchasing through reverse auction is applicable when

- Detailed description of the subject matter of the procurement is available;
- There is competitive market

CVC approved this method in 2003. This mode of procurement is to be decided at the tender issuing stage itself.

69. Monetary policy refers to the use of instruments under the control of the central bank (RBI) to regulate the availability, cost and use of money and credit.

According to **Johnson**, “Monetary policy is defined as policy employing central bank’s control of thesupply of money as an instrument for achieving the objectives of general economic policy.”

The instruments of monetary policy are:

1. **Bank Rate**
   - Bank Rate is also known as discount rate.
   - It is the rate at which RBI lends to the commercial banks or rediscounts their bills.

2. **Cash Reserve Ratio (CRR)**
   - Cash Reserve Ratio is a certain percentage of bank deposits which banks are required to keep with RBI in the form of reserves or balances.

3. **Statutory Liquidity Ratio (SLR)**
   - It means a certain percentage of deposits are to be kept by banks in form of liquid assets.
   - This is kept by bank itself the liquid assets here include government securities, treasury bills and other securities notified by RBI.

4. **Repo Rate & Reserve Repo Rate**
   - Repo rate is the rate at which RBI lends to commercial banks generally against government securities. Reverse Repo rate is the rate at which RBI borrows money from the commercial banks.

5. **Open Market Operations**

- It means that the bank controls the flow of credit through the sale and purchase of securities in the open market.
- When securities are purchased by central bank, then RBI makes payment to commercial banks and public.

70. A good tax system must fulfill certain principles if it is to raise adequate revenue and fulfill certain social objectives. Adam Smith had explained four principles of taxation which he thought a good tax must fulfill.

These four principles are of

(1) Equality; (2) Certainty; (3) Convenience; and (4) Economy

These are still regarded as characteristics of a good tax system.

1. **Principle of Equality**

The first principle of a good tax system emphasised by Adam Smith is of equality. According to the canon of equality, every person should pay to the Government according to his ability to pay, that is, in proportion of the income or revenue.

2. **Principle of Certainty**

Another important principle of a good tax system on which Adam Smith laid a good deal of stress is the canon of certainty. To quote Adam Smith, 'The tax which each individual is bound to pay ought to be certain and not arbitrary. The time of payment, the manner of payment, the quantity to be paid ought all to be clear and plain to the contributor and to every other person.

3. **Principle of Convenience**

According to the third canon of Adam Smith, the sum, time and/manner of payment of a tax should not only be certain but the time and manner of its payment should also be convenient to the contributor. If land revenue is collected at the time of harvest, it will be convenient since at this time farmers reap their crop and obtain income.

4. Principle of Economy (Tax Buoyancy)

The Government has to spend money on collecting taxes levied by it- Since collection costs of taxes add nothing to the national product, they should be minimized as far as possible. If the collection costs of a tax are more than the total revenue yielded by it, it is not worthwhile to levy it.

71. Productive and Unproductive Expenditure (Developmental & Non Developmental):

• Public expenditure is productive which create some tangible assets in the economy and enable it to produce more in future.

• Productive capacity of an economy does not depend only upon the quantum of its productive assets but also upon their quality, use-allocation & actual utilization.

• Public expenditure on creation & maintenance of some assets may be commercially non-productive, but add to the 'total factor productivity' of the economy. Ex: Infrastructure facilities, building of human wealth, improving quality of life of masses etc. Public assets need not only be in some tangible assets.

Transfer and Non-Transfer Expenditure (Grants & Purchase Price):

• Transfer expenditure is a payment without corresponding receipts of good & services by the State. The Government simply transfers its own right or claim to the use of goods & services to recipients of these disbursements. The State may impose some conditions regarding its use by the recipients. Ex: Interest payments, old age pension, unemployment benefits etc.

• Non transfer expenditure is where State pays for its purchase of goods & services. The prices paid for its purchase may be different from the competitive market rates.

72. Controller General of Accounts (CGA), in the Department of Expenditure, Ministry of Finance, is the Principal Accounting Adviser to Government of India and is responsible for establishing and maintaining a technically sound Management Accounting System.

The Office of CGA prepares monthly and annual analysis of expenditure, revenues, borrowings and various fiscal indicators for the Union Government. The Annual Appropriation Accounts (Civil) and Union Finance Accounts are submitted to Parliament under Article 150 of the Constitution. Along with these documents, an M.I.S Report titled 'Accounts at a Glance' is prepared and circulated to Hon'ble Members of Parliament. Thus, the office of CGA is responsible for preparation and submission of the accounts of the Union Government along with exchequer control and internal audits.

Controller General of Accounts (CGA) in Ministry of Finance heads the organisation and is responsible for administering this system.

CGA: Mandate

Controller General of Accounts derives his mandate from Article 150 of the Constitution. This statutory mandate as incorporated in the **Allocation of Business Rules 1961** brings out the duties and responsibilities of CGA as below:

(a) General principles of Government accounting relating to Union or State Governments and form of accounts, and framing or revision of rules and manuals relating thereto;

(b) Reconciliation of cash balance of Union Government with Reserve Bank in general and, in particular, of Reserve Deposits pertaining to Civil Ministries or Departments;

(c) Overseeing the maintenance of adequate standards of accounting by Central Civil Accounts Offices;

(d) Consolidation of monthly accounts, preparation of review of trends of revenue realization and significant features of expenditure etc. and preparation of annual accounts

73.

(1) The funds were considered as spent for Government of India and recorded in Government Accounts of the Union Government the day the Intergovernmental advice was issued and executed by the Union Government to the States.

(2) No, Utilization Certificate was not correct as the funds were not utilized for the intended purposes when UC was issued. UCs envisage that the funds were utilized for intended purposes and when the UCs ere given the utilization was not complete.

(3) The funds released by the Union Government and was considered as spent when it went out of Government Accounts. The funds were lying unproductively in the bank accounts of autonomous bodies and since the money is out of Union Accounts, the Government would need to resort to high cost borrowing to bridge the fiscal deficit of the country.

(4) The review mechanism designed in the Scheme is aligned to federal structure and ensures that scheme objectives are aligned. The proposal is formulated by the State Government in line with the overall scheme objectives and then the same is reviewed by the Union Government to ensure that the proposal is aligned to the overall scheme guidelines.

74. (1) The PAO was right in returning the bill to the DDO as a payment cannot be processed in absence of adequate budgetary provisions. The Budgetary Control is the first control and check to be made by a PAO before passing any bill in the system.

(2) RE ceiling by itself is not executed unless it is supported by a valid Supplementary or a re-appropriation order. Ceilings are just an indicative number and would need to be executed through a supporting order. In the instant case, the budget augmentation can be done only through a Supplementary or re-appropriation and till the time the budget was not augmented, PAO was not supposed to pass the bill.

(3) PAO is the last check in the payment process and needs to scrutinize the expenditure proposal independent from the sanctioning authority. PAOs should be independent of sanctioning authority and needs to perform a proper scrutiny of financial proposal before passing the bill in the system.