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FINANCIAL ADMINISTRATION

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&

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*Question Bank cum Chapterwise Reference Book
Including Many Solved Question Papers*



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QUESTION PAPER

(June – 2019)

(Solved)

FINANCIAL ADMINISTRATION

Time: 3 Hours]

[Maximum Marks: 100

SECTION - I

Answer the following questions:

Q. 1. Discuss the scope of financial administration in India.

Ans. Ref.: See Chapter-1, Page No. 2, 'Scope of Financial Administration (FA)'.

Q. 2. Describe the various determinants of public expenditure.

Ans. Ref.: See Chapter-10, Page No. 35, 'Determinants of Public Expenditure' and 'Impact of Public Expenditure'.

Q. 3. Examine the advantages and limitations of deficit financing.

Ans. Ref.: See Chapter-14, Page No. 50, 'Deficit Financing : Concept and Meaning', Page No. 51, 'Advantage of Deficit Financing' and 'Limitations of Deficit Financing'.

Q. 4. Discuss the duties and powers of the Comptroller and Auditor General with regard to accounts and audit.

Ans. Ref.: See Chapter-23, Page No. 95, Q. No. 2 and 3.

SECTION - II

Answer the following questions:

Q. 5. Explain the objectives of fiscal policy.

Ans. Ref.: See Chapter-6, Page No. 22, 'Introduction', 'Fiscal Policy: Meaning' and 'Objectives of Fiscal Policy'.

Q. 6. Briefly describe indirect taxes.

Ans. Ref.: See Chapter-13, Page No. 46, 'Indirect Taxes'.

Q. 7. Write a note on Committee on Public Undertakings.

Ans. Ref.: See Chapter-19, Page No. 77, 'Committee on Public Undertaking (COPU)'.

Q. 8. Discuss the principles of urban local finance.

Ans. Ref.: See Chapter-26, Page No. 109, Q. No. 2.

Q. 9. Distinguish between development and non-developmental expenditure.

Ans. Ref.: See Chapter-9, Page No. 33, 'Development and Non-development Expenditure' and Page No. 34, Q. No. 4.

Q. 10. Highlight the sources of revenue of rural government in India.

Ans. Ref.: See Chapter-27, Page No. 114, 'Rural Government: Sources of Revenue' and Page No. 117, Q. No. 3.

Q. 11. Explain the evolution of budgetary system in India.

Ans. Ref.: See Chapter-8, Page No. 29, 'Evolution of Budgeting System in India' and 'Principles of Budgeting'.

Q. 12. Discuss the significance of financial administration.

Ans. Ref.: See Chapter-1, Page No. 1, 'Financial Administration : Meaning' and 'Financial Administration : Importance'.

SECTION - III

Answer the following questions:

Q. 13. "Public debt can be classified in many ways." Discuss.

Ans. Ref.: See Chapter-15, Page No. 55, 'Classification of Public Debt'.

Q. 14. Enumerate the concept of financial autonomy.

Ans. Ref.: See Chapter-25, Page No. 103, Q. No. 1.

Q. 15. Define accounting and discuss its importance.

Ans. Ref.: See Chapter-21, Page No. 84, 'Accounting : Definition and Importance'.

Q. 16. What are the functions of Estimates Committee?

Ans. Ref.: See Chapter-19, Page No. 77, 'Estimate Committee'.



QUESTION PAPER

(December – 2018)

(Solved)

FINANCIAL ADMINISTRATION

Time: 3 Hours]

[Maximum Marks: 100

(Weightage: 70%)

Note: Answer the questions as per the instructions given in each section.

SECTION - I

Answer the following questions:

Q. 1. Discuss the scope of financial administration.

Ans. Ref.: See Chapter-1, Page No. 2, 'Scope of Financial Administration (FA)'.

Q. 2. Describe the four phases of budgetary cycle.

Ans. Ref.: See Chapter-8, Page No. 30, 'Budgetary Cycle'.

Q. 3. Explain the advantages and limitations of deficit financing.

Ans. Ref.: See Chapter-14, Page No. 50, 'Deficit Financing : Concept and Meaning', Page No. 51, 'Advantage of Deficit Financing' and 'Limitations of Deficit Financing'.

Q. 4. Examine the financial administration of urban government and highlight the gap between municipal services and resources.

Ans. Ref.: See Chapter-26, Page No. 107, 'Introduction', Page No. 108, Q No. 1, Page No. 109, Q. No. 2 and Page No. 111, Q. No. 6.

SECTION - II

Answer the following questions:

Q. 5. Discuss the salient features of a mixed economy.

Ans. Ref.: See Chapter-3, Page No. 10, 'Mixed Economy – Concept and Salient Features'.

Q. 6. Examine the Centre-State financial relations.

Ans. Ref.: See Chapter-5, Page No. 19, 'Centre-State Financial Relations : A Critical Appraisal'.

Q. 7. How has fiscal policy contributed in reducing inequalities in income?

Ans. Ref.: See Chapter-6, Page No. 24, Q. No. 4 and Page No. 23, 'Fiscal Policy, Equality and Social Justice'.

Q. 8. Enumerate the problems and benefits of implementation of zero base budgeting system.

Ans. Ref.: See Chapter-12, Page No. 41, 'Concept and Meaning of Zero Base Budgeting' Page No. 43, 'Implementation of Zero Base Budgeting—Benefits and Problems'.

Q. 9. Describe the important tools of legislative control over public expenditure.

Ans. Ref.: See Chapter-18, Page No. 71, Q. No. 2.

Q. 10. Analyse the role of Comptroller and Auditor General in democracy.

Ans. Ref.: See Chapter-23, Page No. 95, Q. No. 3.

Q. 11. Explain the various types of audit

Ans. Ref.: See Chapter-22, Page No. 89, 'Types of Audit'.

Q. 12. Discuss the significant methods of ensuring financial autonomy and accountability in public enterprises.

Ans. Ref.: See Chapter-25, Page No. 102, 'The Methods of Ensuring Financial Autonomy' and 'Accountability in Public Enterprises' and Page No. 104, Q. No. 4.

SECTION - III

Answer the following questions:

Q. 13. What are the basic principles of fiscal federalism?

Ans. Ref.: See Chapter-4, Page No. 16, 'Principles of Federalism'.

Q. 14. Enumerate the functions of budget.

Ans. Ref.: See Chapter-7, Page No. 25, 'Functions of Budget'.

Q. 15. Differentiate between statutory and internal audit.

Ans. Ref.: See Chapter-22, Page No. 90, Q. No. 2.

Q. 16. Discuss the major steps in performance budgeting.

Ans. Ref.: See Chapter-11, Page No. 38, 'Steps in Performance Budgeting'. ■ ■

Sample Preview of The Chapter

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FINANCIAL ADMINISTRATION

FINANCIAL ADMINISTRATION: BASICS AND OBJECTIVES



Nature and Scope of Financial Administration

INTRODUCTION

Financial administration forms the most important part of public administration. It can be compared to the blood running in a body of a human being. Just as no body can survive without blood, in the same way no government can run without the financial administration part of it. The government can be efficient only if the financial system operating in the country is effective and result-oriented. No office, industry or enterprise can work if there was no provision of money and the money matters are discussed and operated at the financial administration level only. With the advent of new era that of “industrial revolution”, a new meaning has been given to the concept of financial administration. With the changes taking place the concept has also changed and of course for the betterment of the society.

CHAPTER AT A GLANCE

FINANCIAL ADMINISTRATION: MEANING

It can be explained as the activities which further help in the availability of money and resources to the different branches of an organisation so that the objectives laid down are well carried out. Irrespective of the department in the government sector money is available to one and all. This can be railways, roads, health, agriculture and many more.

As per L.D. White, “fiscal management comprises of operations which are meant to have funds available to the officials and to see that the funds are used most appropriately”. And according to G.S. Lall “the Financial Management relates with the aspects of financial management of the state.

The public and private finance are two different concepts. In case of public finance there is an adjustment of income made to expenditure and in case of private finance there is adjustment of expenditure to income. There is popular control in former case and corporate control in the latter case. Public finance holds elastic resources and limited resources are held by private finance. Public finance has a tendency towards deficiency and private finance has only tendency towards balanced budgets.

FINANCIAL ADMINISTRATION: IMPORTANCE

It was during the advent of industrialisation that the role of government increased by leaps and bounds. Further financial administration gained a lot of importance. It has meant to find out various ways and means to help find resources so that, ever increasing demands are met. There has been a rise in the performance budgeting. It has helped manifold in the achievements of financial administration in meeting the challenges and tasks set.

Therefore, it is very important that public administration and financial administration goes hand in hand.

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NATURE OF FINANCIAL ADMINISTRATION

1. Traditional View: The people who are in favour of this view argues that the Financial Administration is the total of activities which are undertaken in case of generation, regulation and disbursement of monetary resources required for the upliftment of public organisations. The financial administrator needs to organise and formed all financial activities in public organisations so that public policies are implemented in the most appropriate manners.

2. Modern View: As per the holders of philosophy of modern view the FA forms inner part of overall management process of public organisation instead of only involved in raising or distributing public funds. The major roles played by financial administration are as under:

(a) Equalising Role: The FA is responsible to curbing the rift between rich and the poor.

(b) Functional Role: New policies are looked into in order to maintain a balance between high economic growth and employment to all.

(c) Activating Role: Under this role there is a provisions for study of those steps which helps in an easy flow of investment on the country and the means used to help inflow of income for national use.

(d) Stabilising Role: The main work of financial administrator is to stabilise the price level and try to control inflation using monetary policies.

(e) Participatory Role: The state is involved in looking after the social welfare of the community. This can be directly or indirectly.

SCOPE OF FINANCIAL ADMINISTRATION (FA)

The finance department and its subordinate agencies work for the

- (a) Collection, Preservation and disbursement of public funds.
- (b) Coordinates between public revenue and its expenditure.
- (c) The credit operations are managed.
- (d) The financial affairs of the government are controlled.

The financial department looks after financial management and not only financial administration. It deals with the economic decision-taking part of the government.

The scope of FA can be summarised as preparing of estimates, appropriation of funds, control on expenditure, accounting of funds, auditing, reporting and finally reviewing.

There are some core areas which are concerned with financial administration. These are:

1. Financial Planning: It is a misnomer that budgeting is only planning. But is true sense it includes whole range of government policy and the relationships which it contains because of planning with the different policies.

2. Budgeting: It is the most important part of financial administration or in other words focus the nodal point. It consists of principles and practices required for making a neat budgetary system.

3. Resource Mobilisation: This part deals with taxes which are collection or imposition of taxes. Other than these taxes evasion and having growth in parallel economy are the main features.

4. Investment Decisions: A great amount of investments are alone in the public sector because of which it becomes imperative that the knowledge of investments is must for the financial administrative officers.

5. Expenditure Control: In every country one faces the problem of resources deficiency and that too in today's time with so much of recessions in the countries. Therefore, it is must that the expenditure done is with a great control to save the economy of the country.

6. Accounting, Reporting and Auditing: C & AG and Audit department of our country sees to this aspect of finance.

Composition of Financial Administration: The three elements of public finance are: (a) Public Revenue, (b) Public Expenditure, (c) Public Debt. Any system in order to run needs manpower, a structure set to run the working atmosphere and a set system with a procedure. The financial administration can be identified with the elements as below:

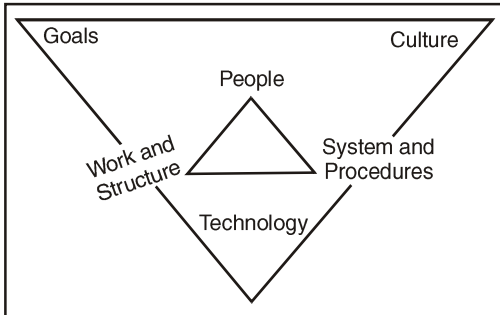
(a) Human Element: These can be the tax payers, fee remitters, suppliers employees, politicians or enterprises, customers and common people.

(b) Work and Structures: The legislatives and the members of financial committees, the cabinet, the finance department, the administrative department, the executive department and the audit department, forms the structure of FA.

(c) Systems and Procedures: This comprises of a planning system, a budgeting system and procedure and auditing system.

There exists a sub-system which consist of the goals as defined by financial administration and at the same time the values, rules, thought etc. contained in

the culture of financial administration and interrelated as described in the figure below:



CHECK YOUR PROGRESS

Q.1. Explain the meaning of Financial Administration.

Ans. No organisation can run without finance and in order to have the smooth running of finance part of any organisation financial administration is of prime importance. There are basically a group of activities as to how many can be available.

Q. 2. List any three points of distinction between public and private finance.

Ans. The Public finance has popular control whereas private finance hold corporate control. Public finance has a tendency towards deficit and private finance has a tendency towards balanced budgets and lastly, public finance has a direction of expenditure towards public service whereas private finance has towards profit maximisation.

Q. 3. Why has the study of Financial Administration become important in recent times?

Ans. In the previous days the main work or responsibility of Financial Administration was disbursement of funds, but in today's time it has the other responsibility of looking after the administrative part of it. It is the main instrument of the government. Not only this, innovations have come up in the budgetary system.

Q. 4. What, according to traditional view, is the role of financial administration?

Ans. As per the traditional view, the role of financial administration is of making arrangement for the flow of funds. Mechanism for regulatory system. It is supportive system and has value neutral stance.

Q. 5. Discuss any two roles of financial administration as propounded by modern public finance theorists.

Ans. 1. Equalizing Role: The main focus is on having equal opportunities for rich and the poor.

2. Activating Role: In order to have increment in the national income steps taken are to have smooth and easy flow of money.

Q. 6. What are the financial processes and institutions involved in legislative financial control?

Ans. In order to have legislative financial control there needs to be proper financial planning where finance is planned. The estimates are made. Then the sanction of appropriations are taken care of. Further, there is a control over the expenditure and finally the auditing and accounting of the expenditure takes place.

Q. 7. Highlight the comprehensive view regarding the scope of Financial Administration.

- Ans.**
- (a) Financial Planning
 - (b) Budgeting
 - (c) Resource Mobilisation
 - (d) Investment Decision
 - (e) Expenditure Control
 - (f) Accounting and Auditing.

Q. 8. What according to POSDCORC, view are the major elements of financial administration?

Ans. Some thinkers, other than Luther Gulick, have depicted POSDCORC view as below:

- P—Financial Planning
- O—Organisation (Finance Ministry)
- S—Financial Personnel
- D—Direction such as financial advice
- CO—Coordination of Income and Expenditure
- R—Financial Reporting
- C—Control that is executive, audit and legislative.

Q. 9. Identify the elements of an organisational system.

- Ans.** The main three elements are:
- (a) Human element
 - (b) Work and structure
 - (c) Systems and Procedure.

SOME IMPORTANT QUESTIONS

Q. 1. Why the importance of finance cannot be over-emphasised?

Ans. Importance of finance cannot be over-emphasized. It is, indeed, the key to successful business operations. Without proper administration of finance, no business enterprise can reach its full potentials for growth and success. Money is a universal lubricant which keeps the enterprise dynamic-

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develops product, keeps men and machines at work, encourages management to make progress and creates values. The importance of financial administration can be discussed under the following heads:

(i) One of the most important reasons of failures of business promotions is a defective financial plan. If the plan adopted fails to provide sufficient capital to meet the requirement of fixed and fluctuating capital and particularly, the latter, or it fails to assume the obligations by the corporations without establishing earning power, the business cannot be carried on successfully. Hence, sound financial plan is very necessary for the success of business enterprise.

(ii) Sound financial planning is necessary for the smooth running of an enterprise. Money is to an enterprise, what oil is to an engine. As, Finance is required at each stage of an enterprise, i.e., promotion, incorporation, development, expansion and administration of day-to-day working etc., proper administration of finance is very necessary. Proper financial administration means the study, analysis and evaluation of all financial problems to be faced by the management and to take proper decision with reference to the present circumstances in regard to the procurement and utilisation of funds.

(iii) Financial administration provides complete co-ordination between various functional areas such as marketing, production etc. to achieve the organisational goals. If financial management is defective, the efficiency of all other departments can, in no way, be maintained. For example, it is very necessary for the finance-department to provide finance for the purchase of raw materials and meeting the other day-to-day expenses for the smooth running of the production unit. If financial department fails in its obligations, the production and the sales will suffer and consequently, the income of the concern and the rate of profit on investment will also suffer. Thus, Financial administration occupies a central place in the business organisation which controls and co-ordinates all other activities in the concern.

(iv) Almost, every decision in the business has taken in the light of its profitability. Financial administration provides scientific analysis of all facts and figures through various financial tools, such as different financial statements, budgets etc., which help in evaluating the profitability of the plan in the given circumstances, so that a proper decision can be taken to minimise the risk involved in the plan.

(v) It has been recognised, even in India that the financial managers play a very important role in the success of business organisation by advising the top management the solutions of the various financial problems as experts. They present important facts and figures regarding financial position and the performance of various functions of the company in a given period before the top management in such a way so as to make it easier for the top management to evaluate the progress of the company to amend suitably the principles and policies of the company. The financial managers assist the top management in its decision-making process by suggesting the best possible alternative out of the various alternatives of the problem available. Hence, financial management helps the management at different levels in taking financial decisions.

Q. 2. What is the importance of Financial Statements?

Ans. Accounting is considered as complicated yet a necessity that keep people's financial affairs relatively clean. For the beginner who is just getting started, the process may not be the first obstacle. Often, it is difficult to understand the special language used by accountants and those that work around them. In other words, one must made through the jargon in order to understand what's going on. The first step in gaining understanding of accounting is to break concepts down to one fundamental point: financial statements. Corporations are extremely fond of financial statements – after all, they are required to have them. Financial statements are, in a broader sense, just timely statements of the financial situation of an organisation.

