

Government of Pakistan
Finance Division
(Budget Wing)

F.No.1(3)CAO(MoF)/Vol-IV/2024-25

Islamabad, 16th October, 2025

OFFICE MEMORANDUM

Subject: **PROCEDURE FOR BUDGETING AND ACCOUNTING OF CAPITAL ACCOUNT**

The undersigned is directed to refer following constitutional and rule position to streamline the Budgeting and Accounting of Capital Expenditure:

1. **Article 80** of Constitution provides that:

(1) The Federal Government shall, in respect of every financial year, cause to be laid before the National Assembly a statement of the estimated receipt and expenditure of the Federal Government for that year, in this Part, referred to as the Annual Budget Statement.

(2) The Annual Budget Statement shall show separately—

(a) the sums required to meet expenditure described by the Constitution as expenditure charged upon the Federal Consolidated Fund; and

(b) the sums required to meet other expenditure proposed to be made from the Federal Consolidated Fund; and

shall distinguish expenditure on revenue account from other expenditure.

2. **GFR 134- Capital and Revenue Account**

(1). Expenditure of a capital nature is broadly defined as expenditure incurred with the object of either increasing concrete assets of a material and permanent character, or of extinguishing or reducing recurring liabilities, such as those for future pensions by payment of commuted value. Expenditure on a temporary asset cannot ordinarily be considered as expenditure of a capital nature.

(2). Expenditure of a capital nature as defined above, incurred upon a scheme or project may not, however, be classed as capital expenditure in the Government account unless the classification has been expressly authorized by general or special orders of Government. Ordinarily, such classification will not be permitted unless-

(i) It is essential for the exhibition of financial results of any special service or undertaking on the basis of generally accepted commercial principles or in some other conventional manner, either that the cost of the service or under-taking may be ascertained or that the full implications of any policy may be clearly demonstrated; or

(ii) the expenditure involved is so large that it cannot reasonably be met from ordinary revenues,

(3) When it has been decided by Government that the expenditure on a scheme for the creation of a new or additional asset should be classed as capital expenditure, and that separate capital and revenue accounts should be kept of such a scheme, the allocation of expenditure to capital and revenue should be determined in accordance with such detailed rules as may be prescribed by Government according to the circumstances of the department or undertaking in which the expenditure is incurred. The following are the main principles applicable to the treatment of the expenditure in the estimates and accounts:-

(i) capital bears all charges for the first construction and equipment of a project as well as charges for intermediate maintenance of the work while not yet opened for service and bears also charges for such further additions and improvements as may be sanctioned under rules made by competent authority;

(ii) Subject to clause (iii), revenue should bear all subsequent charges for maintenance and all working expenses. These embrace all expenditure on the working and upkeep of the project and also on such renewals and replacements and such additions, improvements or extensions as under rules made by Government are debit-able to the revenue account:

(iii) in the case of works of renewal and replacement, which partake both of a capital and revenue, nature, the allocation of expenditure should be regulated by the broad principle that Revenue should pay or provide a fund for the adequate replacement of all wastage or depreciation of property originally provided out of capital grants and that only the cost of genuine improvements, whether determined by prescribed rules or formulae, or under special orders of Government may be debited to Capital. Where under special orders of Government a Depreciation or Renewals Reserve Fund is established for renewing assets of any commercial department or undertaking, the distribution of expenditure on renewals and replacements between Capital and the Fund should be so regulated as to guard against overcapitalization on the one hand and excessive withdrawals from the Fund on the other;

(iv) expenditure on account of preparation of damage caused by extraordinary calamities, such as flood, fire, earthquake, enemy action, etc., should be charged to Capital or to Revenue, or divided between them, in such way as may be determined by government according to circumstances of each case; and

(v) Capital receipts in so far as they relate to expenditure previously debited to Capital, accruing during the process of construction of a project should be utilized in reduction of capital expenditure. Thereafter their treatment in the accounts will

depend on circumstances, but except under special rule or order of Government they should never be credited to the ordinary revenue account of the department or undertaking.

(4) Expenditure debit-able to capital will be booked under the appropriate capital head of accounts prescribed within or outside the revenue account, according as the funds required to meet such expenditure are provided from ordinary revenues or from other sources including borrowed money. As a general rule, the capital cost of all comparatively small schemes will be met from ordinary revenues. Borrowed money and other resources outside the revenue account will not ordinarily be spent for unproductive purposes unless the following conditions are fulfilled, viz:-firstly that the objects for which the money is wanted are so urgent and vital that the expenditure can be neither avoided, postponed nor distributed over a series of years, and secondly that the amount is too great to be met from ordinary revenues.

(5) Except under special orders of Government, no expenditure previously met from ordinary revenue may be transferred to a capital head outside the revenue account.

3. Accounting Policies and Procedure Manual has defined the Capital expenditure under para 2.6:

(i) for the purposes of budgeting, expenditure met from capital receipts, as given by a particular grant number in the Chart of Accounts.

(ii) In accounting terms, expenditure incurred for the purpose of acquiring, constructing or enhancing physical assets or on schemes of capital outlay, as given by the object code in the Chart of Accounts.

4. In the light of above constitutional and rules position, the budget is classified in three types:

(i) Charged Expenditure (ii) Revenue Expenditure and (iii) Capital Expenditure

i. Charged Expenditure

Expenditure Charged upon the Federal Consolidated Fund are clearly defined in Article 81 of the Constitution and reflected in budget books under different demands with the Fund Code FC24 e.g. FC24S11-Supreme Court.

ii. Revenue Expenditure

Expenditure on Revenue Account are reflected under different demands with the Fund Code FC21 for Voted Current Expenditure on Revenue Account e.g. FC21M01-Commerce Division and FC22 for Voted Development Expenditure on Revenue Account e.g. FC22A01-Development Expenditure of Aviation Division.

iii. **Capital Expenditure**

Expenditure on Capital Account are reflected under different demands with the Fund Code FC11 for Voted Current Expenditure on Capital Account e.g. FC11F17-Federal Misc. Investments and other Loans and Advances and FC12 for Development Expenditure on Capital Account e.g. FC12C17-Capital Outlay on Development of Atomic Energy.

5. It is mentioned here that the funds for Civil Works were allocated against Housing and Works Division for execution of works through Pak. PWD. On winding up of Pak. PWD the civil works have been transferred to concerned division for execution through CDA etc.

6. To streamline the Budgeting and Accounting of Capital Expenditure, it has decided that the fund code may be used for reflection of Civil Works and other capital nature of expenditure on Capital Account. Fund codes FC11 and FC12 shall be used for budgeting of civil works and capital nature of expenditure. Funds shall be allocated to divisions in one demand for Expenditure on Revenue Account and Capital Account with the help of Fund codes FC21 for current revenue expenditure and FC11 for current capital expenditure, similarly, FC22 for development revenue expenditure and FC12 for development capital expenditure. PSDP expenditure is also a Capital nature of expenditure except expenditure for capacity building and other not increasing/creating assets. Fund code FC12 shall be used for PSDP expenditure of capital nature.

7. It is therefore, requested that necessary segregation between revenue and capital expenditure may be made under intimation of Director, Budget Computerisation, Budget Wing, Finance Division, please.



(Waheed Ahmed)

Chief Accounts Officer (MoF)

All PAOs of Federal Government

Copy to Office of the;

1. AGPR, Islamabad.
2. Director Budget Computerisation, Budget Wing, Islamabad
3. Webmaster for uploading at Finance Division website.