

CHAPTER 10**Suggestive Practices on
Financial Reporting**

*“Of all the things you wear, your expression is
the most important.”*

Janet Lane

10.01 The reports we generate happen to be the expression of the NGO before the outer world. NGOs do not have any statutory obligation towards the form and content of the financial statement. The law governing charitable institution are more than 100 years old and they do not have any prescribed framework for preparation of financial statements, as is the case for companies registered under The Companies Act, 1956. The SAS 4 & 5 in this book provides guidance in this regard. However the contents of this chapter should also help in conceptual and enhancing the quality of financial reports.

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10.02 The preparation of financial statements in a transparent, intelligible and user friendly manner is very important. A lot of people, depend on the results/performances of the charitable organisations. A lot of

people as well as the society at large also have a right to be apprised of the financial state of affairs. Some of the important stakeholders of charitable organisations are as under :

- i) **The General members :** The general members in some sense are the real owners of the organisation. The general members have the right to be informed about the financial affairs of the organisation, assuring them that it is working towards the vision and mission. And the assets of the societies are properly managed and protected.
- ii) **The Management Committee :** The management committee or the trustees need to analyse the financial functions in order to take future decisions as well as review the current activities. In a charitable organisations all the trustees or board members may not possess financial background. Therefore, it is important annual statements are prepared in an comprehensive as well as understandable form.
- iii) **The Beneficiaries :** The beneficiaries are the most important stakeholders but unfortunately very little information is disseminated to them. The development sector is trying to come up with various measures of participation of the beneficiaries in the financial functioning of the organisation. Some organisations have started preparing village level statements which are displayed in each village in the local language.
- iv) **The Donors :** The donors being the source of finances have a right to the annual statements assuring them that their funds were properly utilized. Proper preparation of statements will also help in impressing the prospective donors.
- v) **Government Agencies :** The Trust laws or the Societies Registration Act have not

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prescribed any criteria for the presentation of annual accounts. But various other Government Agencies such as Ministry of Home Affairs for FCRA and the Income Tax department have specific reporting requirement.

Balance Sheet can be prepared in two forms : The traditionally horizontal and the trendy vertical.

10.03 The assets and liabilities side of the balance sheet can be classified as under :

Assets

- Fixed Assets
- Investments
- Cash and Bank Balances
- Loans and Advances
- Other Current Assets
- Losses & Expenditures (to be carried over)

Liabilities

- Corpus Fund
- General Fund (unrestricted funds)
- Restricted Funds (funds earmarked for specific purposes)
- Designated Fund
- Endowment Fund
- Assets Fund
- Unutilised grants
- Loans (Secured/unsecured)
- Current liabilities

10.04 Balance Sheet can be prepared in two forms : The traditionally horizontal and the trendy vertical.

Most charitable organisation's Balance Sheets are prepared in the Horizontal form. This has two sections : right and left. Assets are shown on the right side and liabilities are shown on the left. The vertical form of Balance sheet is mostly prepared by the corporate sector and is rarely seen in the charitable organisation. It has two sections : Sources of Funds and Application of Funds. In any case the Auditor should ensure proper clarification of the following :

- i) **Corpus Fund** : Corpus fund is analogous to the equity share capital of a company. But, since profits cannot be distributed in a charitable organisation, no member has a right or claim over the corpus fund. Corpus fund should be properly classified and the addition and earning from corpus fund should be clearly stated.
- ii) **General Fund** : General fund is the unrestricted fund available with the organisation. Such fund should be distinguished from designated funds.
- iii) **Restricted Fund** : Restricted funds are the fund which can be used for a particular purpose (s) as may be specified by the donors or any law.
- iv) **Designated Fund** : Designated fund is the fund set aside by the trustees/board of directors out of unrestricted or general funds for future purposes a project of the organisation. Designated funds are different from the restricted funds, in the sense that the restriction is not external or imposed by the donors. Such funds should be separately classified in the balance sheet.
- v) **Endowment Fund** : Endowment fund are another category of restricted fund, where the fund is kept intact but the income earned from it is required to be used for a specific purpose as per the restriction created by the donors or trustees/board members

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- vi) **Assets Fund** : Many charitable organisation write off 100% of their capital expenditures in their Income & Expenditure accounts. As a result, the capital asset is extinguished from the books of account. But to give a proper reflection of the state of affairs, the assets are shown in the Balance Sheet by creating asset fund on the liability side. These assets fund are gradually reduced by deduction of depreciation from both the sides of the balance sheet.
- vii) **Fixed Asset** : Fixed asset are required to be segregated in terms of the corpus assets and the assets purchased for project purposes. Project assets normally should be supported by asset fund on the liability side. The balance sheet with the help of suitable schedules should provide all the details in this regards.
- viii) **Investment** : Investment of a charitable organisation may represent the unutilised closing balance of various project funds. The investment may also represent long time corpus fund or endowment funds. The balance sheet should provide with the help of necessary schedule with proper segregation in this regard. Even project investment should be shown separately for each project.
- ix) **Loans & Advances** : Loan and Advances in a charitable organisation could include revolving fund loan and advances made for project purposes. There may be advances of administrative nature such as staff advances, travel advances, etc. Proper segregation with the help of schedules of all such advances should be shown.
- x) **Cash & Bank Balances** : Cash and Bank Balances should reflect the closing balances of all the bank accounts at the head office as well

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as the project places. Similarly cash in hand should also reflect the break-up at various places.

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- 10.05** i) A note should be provided in the method of accounting and accounting assumptions taken.
- ii) In certain project based charitable organisations, the assumption of going concern may not be relevant. This can happen in the case of charitable organisations funded by a single donor. If the project funds are stopped then the project as well as the organisation may cease to exist. Similarly, under FCRA laws, the charitable organisation may be banned from receiving foreign grants. The Auditor should see that proper notes are given.
- iii) The Auditor in its report should report that the expenditures were in conformity with the objects of the society such as :
- a) Working for the relief of the victims of natural calamities.
 - b) For empowerment and rehabilitation of poverty stricken and street children into the main stream of the society.
 - c) Work towards gender equity and women development.
 - d) Work towards the welfare of urban slum dwellers.
- iv) The Auditor's report should provide that
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the project taken on behalf of the donors were implemented according to the approved budgets within the permissible limits of variance.

- v) A note should also be provided on the contribution received in kind and the method of accounting and valuation followed.
- vi) A note with regard to income generated by the communities and the local contributions received should be provided
- vii) A note of project assets distinguishing them from the corpus asset should be provided.

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