INCOME VERSUS FUND

(In case of "Not-for-Profit" Organisations)

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"NOT-FOR-PROFIT" ORGANISATIONS (herein after referred as NPOs) are born either under Societies Registration Act or under Section 25 of the Companies Act, 1956. It can also be registgered as a trust.

The objects for which they started will be found in their formation documents. We can also find certain other classes in their documents like (i) the Society/Trust/Institution shall not distribute profits or declare dividends to the members out of the surplus, (ii) at the time of dissolution of the Society/Trust/Institution, the assets and liabilities as it stands on the date of dissolution, will not be distributed among the members but will stand transferred to another Society/Trust/Institution which has similar Aims and Objects.

These kind of bodies are generally for a philanthropic cause, service rendering institutions.

For their operations and programmes they do have many kinds of receipts like Membership Fee, Specific Funds for specific programmes, Endowment for certain objects, Corpus Fund (the income from which could be used for the Objects of the Institution) General Donations etc.

For a professional Accountant, it is important to know that all Receipts do not constitute income. Some are Capital Receipts and some are Revenue Receipts. Specific Funds (Earmarked Funds) and Endowment Funds received will be in the nature of "RESTRICTED FUNDS" (Capital Receipts) and General Donations are in the nature of "UNRESTRICTED FUNDS" (Revenue Receipts).

Knowledge of this helps in giving a proper accounting treatment and disclosing it properly (professionally) in the Financial Accounting Statements of NPOs.

Where the funds are given for a specific programme, the recipient trust is ordinarily expected to render accounts as to the manner in which the funds are spent. In case of foreign contributions, there is even the possibility of inspection by the contributor or check by a monitoring agency to oversee the spending of such amount. In quite a few cases the committed amounts are distributed in instalments depending upon the use to which they are put. In all these cases, one can only assume that the institution acts as a trustee for different trusts created by each contributor in respect of such programme. There is no discretion left to the trustees to spend it in any manner they like. It cannot be taken to the corpus of the trust fund. It cannot be used for any other purpose.

As pointed out by the Supreme Court in CIT vs. Trustee of Nizam's Family Trust (1986) 162 ITR 286 that "just as there maybe a trust within a trust, there may be two or more different trusts created under a single document."

There is no discretion left for the trustee to spend the funds in any manner other than under the condition for the grant. In fact it is only acting as a conduit pipe or post office for the funds so marked.

If correct accounting procedure is followed, many of the trusts which are burdened with the problem of reconciling with the requirement of 85 percent spending of income will find that there is no difficulty if such a requirement has to be considered with reference to each such programme. If in a particular case the funds received for a programme cannot be spent during the year it will invariably be spent in the succeeding year and hence, the requirement will be met in view of the provision in clause (ii) of the Explanation to Sub- Sec (1) of Sec. 11. Moneys in the pipeline will also not be considered as income under the self-same explanation.

If a contribution is received for a school building, this is again a separate endowment though it is one of the general objects permitted for the trust. The corpus fund for the school building as and when received can be credited to the school fund and moneys drawn out of such funds as and when the school building come up. The account will remain as school building fund while the cash contribution will become an asset as a school building. In such cases even separate accounts in the form of subsidiary accounts separately closed will be justifiable. In order words, the principle of one trustee to different trusts as pointed out by the Supreme Court in Nizam's Trust Case (supra), has to be strictly applied as required under law. In fact, the strict requirement of trust law would necessitate such treatment.

Keeping in view the fund accounting, the presentation in the financial statements can be as per the model shown hereinafter.

Model Financial Statement

FINANCIAL STATEMENTS

OF

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(Name & Address of the Organisation)

FOR THE YEAR ENDED 31ST MARCH 20XX

(CONSOLIDATED)

By

(CHARTERED ACCOUNTANT)

Model Financial Statement

(AUDITOR'S FIRM LETTER HEAD)

AUDITOR'S REPORT

FOR X Y Z & CO.
CHARTERED ACCOUNTANTS

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(X Y Z)
PARTNER / PROPRIETOR

PLACE DATED__________________

Model Financial Statement

(Name and Address of the Organisation)

SIGNIFICANT ACCOUNTING POLICIES

1) SYSTEM OF ACCOUNTING :	"CASH SYSTEM" is followed. All transactions are recorded on Cash Basis as and when effected.
2) FIXED ASSETS :	Fixed Assets are stated at cost (Historical cost). No revaluation has been made during the year.
3) INFLATION :	Current Costs are not adjusted to reflect increase in cost due to inflation .
4) SPECIFIC GRsANTS :	Since grants from 'HIVOS' are specific grants given for specific purpose, it is shown separately under the head "UNDISBURSED GRANTS / FUNDS" to reflect the balance available in hand and to be applied in the following year for the purpose for which it was given.

"Restricted Fund" is a Specific Grant for a specific programme from a Resource Agency or individual to an organisation which should be applied/utilised towards a purpose which is pre-decided. They cannot be considered as Income of the organisation. It pre-supposes that :

a) Project funds are required to be spent within the specified time frame.

b) A segregated fund accounting is required and unspent balances to be shown separately in the Balance Sheet as **Liability.**

c) Unspect balances to be returned to the Donor or adjusted with the following project or spent as mutually agreed and

d) Periodic line item for financial reporting is required (this may be monthly, quarterly, annually etc.,)

These may be earmarked for certain programme purposes, projects, geographical locations. (The approved/sanctioned Budgets constitute "Restricted Funds").

"Unrestricted Funds" are those contributions made available for use at the full discretion of the Board and is also referred to as **"General Fund"**. These grants are not earmarked for a particular use. They constitute Income of the organisation.

In terms of **"Standard Accounting Principles"** and Generally Accepted Accounting Practices, **"Fund Approach Accounting Principle"** is followed for Restricted Funds received by the organisation whereas **Income Approach Accounting Principle** is followed for Unrestricted Funds received by the organisation.

Restricted fund is an obligation, a liability, whereas Unrestricted Fund is an Income of the Organisation.

The undisbursed/unspent Restricted Fund balance is shown as a liability in the Balance Sheet of the organisation, whereas General Income is shown as Income in the Income and Expenditure account and the unspent balance gets mixed in General Fund which is available in the hands of the Board to spend as per their discretion.