SUGGESTED FRAMEWORK OF ACCOUNTING AND FINANCIAL REPORTING BY NGOs

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1. It is assumed that the title "Framework for Accounting and Reporting" would mean the methodology for the content in the preparation of financial statements ant the reporting thereon. Unlike the Companies Act or the specific laws governing statutory corporations which prescribe the form, content and the disclosure requirements of the entity, the laws governing the non-profit institutions such as the Societies Registration Act, 1860 or the state laws governing such Societies or rules framed thereunder, generally do not have such provisions. Consequently, the framework for accounting is need based, influenced by the Administrators and the Accountants – the way in which they have perceived the requirements.

2. I believe that the discussion would be focused on non-profit institutions carrying on activities which are of non-commercial purposes in nature. Therefore, this paper will not deal with accounting and reporting of commercial activities carried on by non-profit institutions. The participants in this consultation are all quite knowledgeable about the accounting principles and procedures followed by non-profit institutions. Therefore it would only be appropriate that issues that call for clarity and improvement are debated and useful conclusions are reached for the benefit of non-profit institutions. In order to raise issues that are relevant, it becomes necessary to take cognizance of the nature of the entities, laws which affect their functioning and the effect on the community or persons having a stake–not monetary–in its activities.

3. The non-profit institutions vary in the nature of the activities as well as the size. The activities can be in the nature of education - formal or informal, medical relief, relief to the poor, welfare funds, mutual associations such as clubs, sports activities and resident welfare associations. The activities touch upon the basic needs of the community. Therefore, it would not be proper to assume or suggest a rigid method or format in which the accounts are to be drawn and reported upon. In the circumstances, it is only useful and proper to discuss the principles in which they are to be based. While the fundamental accounting assumptions of a) going concern and b) consistency are squarely applicable, the third assumption relating to accrual is not strictly applied in terms of accounting, but they are to be achieved through off the balance sheet disclosures. Taking into consideration the community to which it is addressed, it is important that the accounts are easy to understand and maximum disclosures are made, so as to ensure a high degree of transparency in reflecting the activities.

4. **Application of Accounting Standards:**

The Institute of Chartered Accountants of India (ICAI) has clarified that exclusion of an (not-for-profit)entity (from the applicability of the standards) is permissible only, if no part of the activity (of the entity) is commercial, industrial or business in nature (Sept.1995). However, all may agree that voluntary compliance (to the extent applied) would considerably enhance the credibility of the statements. Perusing the standards from 1 to 22, it would be seen that except those which relate to accounting for (i) Construction Contracts (AS-7), (ii) Accounting for Research & Development (AS-8), (iii) Accounting for Amalgamation (AS-14), (iv) Earnings per Share (AS-20) (v) Consolidated Financial Statements (AS-21) and Accounting for taxes on income (AS-22), all others can be applied to the extent they are relevant to the circumstances. The applicability of various standards are briefly given in the annexure.

REPORTING:

5. Reporting is of two types. One is by the Management and the other is by the Auditor. While the Companies Act contains a mandatory provision requiring the Board of Directors to attach a report (to the financial statements) in the manner specified, there is no such obligation for non-profit institutions. However, it is quite essential for the management to make and circulate a report to the members in order that their understanding of the financial statements is made easy as well as achieve the objective of transparency in their activities. It is not necessary that there should be a legal requirement for such a report in order to achieve credibility in the eyes of the community and the public at large.

6. Coming to the auditors' report, the absence of a "statutory" form of reporting should not dissuade the managements to require (in the terms of management) the auditor to give a report, more or less in the form in which such reports are addressed to the shareholders of a corporate body. Here again, the report assures the reader - whether he be a member of the entity, representative of the Government or donor agency that the accounts are among other things, free of material mis-statement. ICAI has recently directed the members to indicate the management's responsibility in the preparation of the statement as well as outline the scope of audit and the responsibility of the auditors. Accordingly, it is suggested that the auditor would give a report similar to the one addressed by them to the shareholders of a company, so that the confidence level is kept at a high level of acceptance. No doubt the auditors are required to give a report on the statement of accounts in Form 10B of the Income Tax Rules, as an annexure to the return of income filed by a Society or Trust. This being restricted to tax purposes, it cannot be deemed sufficient for other purposes.

Accounting Standard Number	Title	Remarks
AS-1	Disclosure of accounting policies	Disclosure required for a proper understanding of the statements
AS-2	Valuation of Inventories	Basic principles of valuation at cost or at market value
AS-3	Cash Flow Statement	LArgely achieved by preparation of a

		Receipt and Payment account in the case of small and medium sized entities. It may be useful to adhere to As-3 in a modified manner for a large entity.
AS-4	Contingencies and events occuring after the balance sheet date	Even if cash basis of accounting is followed, disclosure by the management, either in their report or in the notes on accounts would be relevant
AS-5	Prior period items and changes in accounting policy.	Any unusual or extraordinary item or change in the policy needs disclosure
AS-6	Depreciation accounting entities	Can be applied by all non-profit entities
AS-9	Revenue recognition	The principles adopted can be suitably disclosed
AS-10	Accounting for fixed assets	The basic principles are to be followed
AS-11	Accounting for effects of changes	Applicable to the extent necessary in foreign exchange rates
AS-12	Accounting for Government	Quite useful and appropriate Funds
AS-13	Accounting for Investments	It is only proper to make disclosures as suggested and provide, for fall in investments, as otherwise the balance sheet will not disclose a true picture.
AS-15	Accounting for Retirement benefits in the financial statement of the employers	Keeping in view that employees are generally covered under retirement benefits, proper evaluation of the liability and disclosure thereof is essential. AS-16 Borrowing costs The

		principles apply.
AS-17	Segment reporting	In case of entities carrying on more than one activity which are distinctly different from each other, it would be useful and proper to disclose the results of the activity through a separate Income and Expenditure account.
AS-18	Related party disclosure	Reference can be had to the requirements in Form 10B - report forming part of income tax return - where disclosure is required of payments to founders, managers and those coming within the purview of Sec.13 of the Income Tax Act. A similar Disclosure forming part of the accounts is highly recommended from the point of view of transparency.
AS-19	Leases	Applicable in rare cases