

Fund Accounting, Income Types & Aspects Of A Grant

https://open.spotify.com/embed/episode/2Vf4igAfpXUiOHn0RY6ckW?utm_source=generator

<https://www.youtube.com/embed/aj6YJ5NWzOM?si=Me-Pn1w6BVnv59Sm>

Fund Accounting

NGOs follow Fund based Accounting for managing grants

- Fund accounting is an accounting system for recording resources (fund) where its use has been limited by the donor.
- This accounting system emphasises accountability/productivity over profitability which is the accounting basis for profits
- A separate budget is established for each fund.
- Fund accounting utilises good internal control and reporting systems

Income of IPs-Types of Funds

Income of charitable institutions being headless is reported under following categories:

- Aggregate Income from property held in trust (Schedule AI)
- Voluntary contribution (Schedule VC)
- Capital Gains

Types of funds (specified by ICAI):

Unrestricted funds: Funds received with no specific restrictions categorised as:

- Corpus-non-refundable, non reducible, reinvestment obligation
- Designated/earmarked funds-appropriated and set aside for specific purpose/future, self imposed but not legally binding
- General funds-neither designated nor restricted and also surplus/deficit transferred from I&E

Corpus comply with Income Tax provisions - Section 11(5) modes of investment, Section 11(1)(d) not treated income.

Corpus donation to another registered entity not considered application.

Corpus application to be considered application in the year of replenishment.

Corpus should be shown as Capital and income earned shown in I&E.

Restricted funds:

- Project/program grants-Project Grants to be utilised as per terms and conditions of award, restriction on both utilisation and income earned from such funds. Principle of fund based accounting
- Endowment funds: fund amount cannot be utilised, only income utilised for general/specific purpose as per terms.
- Format of financial statements as per ICAI

Name of Entity _____

BALANCE SHEET AS AT _____

SOURCES OF FUNDS

Schedule

Current Year

Previous Year

- UNRESTRICTED FUNDS

Corpus Fund/General Fund/Designated Funds

- RESTRICTED FUNDS
- LOANS/BORROWINGS

Secured/Unsecured

- CURRENT LIABILITIES & PROVISIONS

TOTAL

APPLICATION OF FUNDS

- FIXED ASSETS

Tangible Assets/Intangible Assets/Capital Work-In-Progress

- INVESTMENTS

Long Term/Short term

- CURRENT ASSETS
- LOANS, ADVANCES & DEPOSITS

TOTAL

- Significant Accounting Policies and Notes on Accounts

Name of Entity _____

INCOME AND EXPENDITURE ACCOUNT FOR THE PERIOD/YEAR ENDED _____

INCOME Schedule

Schedule

Current Year

Previous Year

- Income from operations, Fee & Subscription
- Grants & Donations, Other Income
- TOTAL (A)

EXPENDITURE

- Materials consumed, Employee Benefit Expenses
- Administrative and General Expenses, Finance costs
- Depreciation & Amortisation Expenses
- Other Expenses
- TOTAL (B)
- Balance being excess of Income over Expenditure (A-B)
- Transfer to Designated fund, Building fund/ Others (specify)
- Balance Being Surplus (Deficit) Carried to General Fund

Accounting treatment for grants to NGOs

Grant is trust money. 3 options followed as per convention:

Option 1: Grant treated only as income.

Option 2: Grant treated only as liability.

Option 3: Grant treated as income to the extent of expenditure-hybrid method.

AS 9 mentions income recognition to the extent of expenditure for grants applicable if there is business/commerce etc.

Follow the principle of prudence in selecting the right option.

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