ACCOUNTS

AND

FINANCIAL MANAGEMENT

FOR

NON PROFIT ORGANIZATIONS

By

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Author speaks . . . . . .

There is a great deal of ignorance in the charity sector on the laws affecting the accounts of charitable institutions mainly because they are trained more in charity management and less in financial administration. Basic minimum knowledge of accounts is a must for everyone even if one does not want to handle accounts since all of us have to provide valid supporting documents for all the expenses we make in order to claim tax exemption from the government.

I made an effort in 2004 to share my working experience of seven years in a bank and since then I have conducted seminars for over fifty batches: six days program on accounts and financial management as well as one day program on financial administration on a regular basis. This seventh edition of my book evolved as a result of my experiment on all those who attended those seminars. It is prepared as a text book for such a compact training module and not as a reference book.

I do not expect anyone to learn all the rules of accounting and skills of financial administration in such a short time. My aim is to provide a solid base and confidence to those who are given the responsibility of keeping the accounts without any experience. Hence, in this book you will find everything a financial administrator ought to know regarding financial management of a non-profit organization. Yet, a minor drawback on income tax will always remain since income tax rules keep changing every year, though not drastically.

I express my sincere gratitude to all those who inspired me to continue this work by attending the seminars. This book which began as a 24 page booklet in 2008 has seen six more revised editions in ten years, in itself is the proof of its usefulness.

I have dedicated each edition of this book to Bp Felix Toppo SJ, now the Archbishop of Ranchi; my teacher in the novitiate, who, after becoming the bishop of my diocese chose to become my first student in my first five day course without missing a single session.

22.2.22 **Alex Mascarenhas SJ**

TABLE OF CONTENTS

There is no necessity to maintain accounts of expenses if we are willing to pay income tax on every rupee we receive irrespective of its purpose and the sources of income are legal and identifiable.

Income tax is levied only on the income and never on the expenditure. As responsible citizens it is both our duty and obligation to pay taxes. Government is not bothered how the tax paid money is utilized or spent by the citizens as long as it is used on legal activities.

Charitable institutions (also known as Non Profit Organizations or NPO) receive donation from the public donors for charitable activities and enjoy tax exemption from the govt. under certain conditions. Hence, they have a two-fold obligation- moral as well as legal, towards both their donors and the govt. to maintain their accounts satisfying both moral and legal requirements. They are not the beneficiaries of the funds they receive; they hold it with them in good faith as custodians.

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01. Cash System

Single entry cash system is the simplest accounting system. In this system cash book is the most important book of accounts and at times the only account book where all the receipts are recorded in the left column and the payments in the right column. It is essentially a receipt payment account.

1A: Payments

Any type of payment essentially requires three supporting documents:

a. Bill to support or justify the payment
b. Voucher to certify the payment and
c. Money receipt to testify the payment

Yet, in most of the cases, we can manage our payment related paper work with 3 in 1 documentation method.

1A1 Bill: Bill is the first document in accounts that supports or justifies payment. Hence, it must provide all the details of the material supplied or services provided. It must necessarily contain the name and address of the supplier or service provider and the signature of the authorized person with date of raising the bill. Under the proposed Direct Tax Code, original bills over ₹ 200/- for all payments must be preserved for verification by the authorities.

Genuine bills must be insisted upon for amounts in thousands of rupees. For smaller amounts less than ₹5000/- at least a rubber stamp with the name and address of the service provider must be obtained in the absence of a printed bill. Only as a last resort, at least the name and address of the service provider with signature must be obtained on our own voucher giving all the details.

Bills are mainly of four types- Cash Bills, Credit Bills, Re-imbursement Bills and Indirect Bills.

[a] Cash Bill: It is always printed as 'Cash Memo' or 'Cash Bill' or 'Cash Receipt' with the name and address of the service provider. It must essentially have a serial number and a verifiable record that goes to the cash book of the service provider.

Cash bill also doubles up as a money receipt or proof of payment. Hence, such a bill should not have anything printed on it raising doubts about spot cash payment.

Genuine cash bill does not require signature on a revenue stamp. Cash can be received up to 2 lacs. Cash receipts over 2 lacs attracts 100% penalty and cash payment over ₹10000 is not allowed as an expense. A sample cash bill will look like this-

BATTHISLAL & SONS Painthisdas Square, Chhattisgarh				
Bill No………	**CASH MEMO**		Date………..	
Sl	Particulars	Qty	Rate	Amt
1 2 3 4 5				
	Total			₹
+GST ……..% = ₹		G.TOTAL		₹
GSTIN No……………			Signature	

[b] Credit Bill: As understood in practice, it has many forms, though not all of them are credit bills technically. Quotation or Estimate is just a proposal; it does not mean supply of goods. Invoice or Challan is made for goods in transit. These can be treated as bills only after delivery is confirmed. But once invoice is raised, it attracts GST.

Technically, credit bill is raised after the delivery. But in practice, it is not required for an invoice. Such bills usually have a reference number. They cannot be entered in the cash book.

All the above bills are accepted as support for payment and must be supported with proof of subsequent payment.

[c] Reimbursement Bill: It is raised by the person reimbursing the expenses incurred for a particular eligible purpose or submitting an account against the advance taken. It is a sum of many small expenses for which bills may or may not be available. Hence, the claimant must draw up a formal bill by providing all the details and supporting evidence if any, as shown in the sample.

Note: Traveling expense bill needs detailed account with support while proof of payment in the voucher alone is enough for traveling allowance. Latter is determined by fixed rules and is paid irrespective of whether that much amount is spent or not.

Loyola School Beldih, Jamshedpur 831001 Seminar Bill of Fr Alex Mascarenhas SJ		
Date	Particulars	Amt
May 20	Train ticket: Tata-Chennai+ Booking: PNR...	457
June 05	Journey Exp: Jamshedpur-Chennai	200
7	Taxi fare: Chennai Central – Loyola College	150
8	Local Travel at Chennai for 12 days	440
9	Personal expenses: at Chennai	168
10	Seminar Fee- b & l: 10th to 20th May	3000
13	Train ticket: Chennai-Tata: PNR…………..	427
20	Journey Exp: Chennai-Tata	160
	Total received ₹	**5002**
In words: Rupees Five thousand and two only Date:12.7.2014 Signature		

[d] Indirect Bill: When money is spent on behalf of others using institute's funds, to be recovered subsequently and accounts are maintained on their behalf, it is a receivable amount in the institution's accounts which becomes zero upon receiving it. But it is an expense in the final beneficiary's account. Hence, the original bills for such payments must be forwarded to the final beneficiary by keeping their photocopies or the voucher signed by their representative drawing money from the institution for the records.

There may be times when the original bill cannot be sent to the beneficiary. It may be a combined bill with some purchases for one's own organization or purchases for more than one dependant units or when others are required to pay only a part of the payment. In all such cases a detailed reimbursement bill must be raised as shown at 1A1[c] giving in clear terms the exact amount each one has to pay. Print-outs of only those computer systems that do not allow subsequent alteration of data do not require any signature. All other computer prints must necessarily be authenticated with signature.

For grants and loans, request letter for a grant from the beneficiary or application for loan (duly approved by the governing board, if it is a society or trust) together with the resolution of the paying society serves the purpose of support for payment instead of a bill.

1A2 Voucher: Voucher is our certificate of payment, giving all the details like- account to which it has to be charged, purpose and date of payment and signatures of both the paying and approving authority.

Vouchers are essentially required to be numbered serially to avoid subsequent manipulations. Receipt vouchers need not be prepared when the receipt books give all the details and the collection registers are totaled and matched with the cash book entries periodically.

Vouchers are broadly classified into four types-

1. Receipt Vouchers for receiving cash or cheque.
2. Payment Vouchers for payments in cash or by cheque.
3. Journal Vouchers for internal adjustments without any involvement of actual cash or cheque payment.
4. Contra Vouchers for transfer of money between cash and bank or among different bank accounts.

Following is a sample voucher –

<table>
<tr><td colspan="2" align="center">Jamshedpur Jesuit Society
H-15, Loyola Nivas, St Mile Rd, Sakchi Jamshedpur
Voucher No: 0123   Date: 31.7.2014
Account Head: CONFERENCE & SEMINARS</td></tr>
<tr><td align="center">Particulars of Payment</td><td>Amt</td></tr>
<tr><td>Seminar fee ₹3000, train fare ₹884 travel exp. ₹1118 paid to Alex Mascarenhas, to attend seminar from 10th to 20th May, 2000 held at Loyola College, Chennai</td><td>₹5002</td></tr>
<tr><td colspan="2">In words: Rupees Five thousand and two only

Receiver’s Signature   Approved by</td></tr>
</table>

Bills at times provide all the required details. Such bills may be considered as vouchers themselves avoiding duplication of paperwork where the approving authority signs on the face of the bill. Re-imbursement bills too may be prepared on the voucher if all the details can be accommodated in it together with all the relevant supporting bills. When the required details are not available in the bill or when multiple bills are to be combined together under one account head, voucher must be prepared separately in addition to the bills.

1A3 Proof of Payment: Except for a genuine cash memo, all other bills require proof of payment by way of money receipt if the bill is paid subsequently in cash or by a bearer cheque. If it is not possible, at least a signature with the wordings ‘received full payment in cash’ must be obtained from the person receiving cash on the bill itself. If the amount is ₹5000 or more, signature must be obtained on a revenue stamp of rupee one.

No proof of payment is required for ‘Account Payee’ cheque or bank draft payments for any amount. If payment is made by a bank draft, photocopy of the bank draft is accepted as proof of payment. Bills over ₹10000 must be paid only through ‘Account Payee’ cheques. Non insistence of genuine bills and giving cheques in any name other than the name appearing on the bill encourages tax evasion and so invites trouble to our accounts during income tax scrutiny.

1A4 Receipt: While receiving cash, receipt must be issued on the spot since it is the only proof for verification. It is a legal requirement that serially numbered carbon copy receipt books are used. Cancelled original receipts must be preserved with the carbon copy as proof of cancellation to avoid manipulations.

Counterfoil fee book system is certainly convenient for both the parents as well as the school. But it is open to manipulation particularly when the person collecting money and the person keeping the account are the same. It is ideal only when the bank is collecting the fees or there is a double check system of receiving cash at the counter.

For fee collection in schools or in any educational institutions there should be three essential records even if they look repetitive-

1. Serially numbered carbon copy receipt books for proof of payment by the students or their guardians,
2. Daily collection register where receipts are listed in a serial order with columns for different types of fees for effective cash control
3. Class-wise fee register for monitoring fee collection.

Receipts usually go to the cash book individually. If cash is collected repetitively through a number of receipts per day as in fee collection in schools, the daily totals as per the collection register will go to the cash book. Daily collection register totals may also be taken for longer periods within a month and transferred collectively to the cash book according to one’s own convenience like weekly or fortnightly or monthly but not beyond a month.

1B: Cash Book

It is a detailed account of cash flow - of all types of receipts and payments, both in hand and at bank in the order of date sequence and not an account of income and expenditure. It can be of single column, only for cash in hand or of double column for both cash in hand and cash at bank as per the convenience of the institution.

Cash book must be maintained on a daily basis preserving support and evidence for every payment made and recording the receipts or issuing instant receipts for all cash received. Physical verification of cash at hand on a regular basis or at convenient periodical intervals not over a month is very much essential since there is no other way of checking the correctness of cash balance. For practical convenience, it is better to maintain separate books for hard cash and bank transactions.

There is no substitute for the cash book, if hard cash transactions cannot be avoided. It is the minimum requirement in any system. Without the cash book, accounts are liable to be rejected outright by the Assessment Officer during the scrutiny.

Cash book may be dispensed with only when all the transactions are effected through bank account and petty cash requirements are taken care of by an imprest cash system drawing exact cash from the bank equivalent to the imprest bills submitted each time. Such a system is ideal only when pure cash transactions are kept to the minimum routing maximum possible transactions through bank.

1B1 Single Column Cash Book:

Single column cash book records only 'cash-in-hand' transactions. All cash receipts are recorded in the first column and cash payments in the second column in the order of their occurrence.

Transaction Type	Rec.	Pyt.
1. OPENING BALANCE	50000	x
2. Cash Deposited in Bank	x	40000
3. Cash Taken from Bank	15000	x
4. Cash Payments	x	20000
5. Cash Receipts	25000	x
6. **Expenses on Credit**	x	x
7. **Direct Receipt in Bank**	x	x
8. **Direct Payment from Bank**	x	x
9. CLOSING BALANCE	x	30000
TOTALS	90000	90000

Note:

1. Bank receipts, cheque payments and credit purchases cannot be recorded in the single column cash system.
2. Closing balance = Opening balance + Receipts totals – Payment totals; it must be physically verified.

1B2 Sample Single Column Cash Book:
This system may be used for small projects where all the transactions are done in hard cash and everything goes under a single project head in the main accounts as shown in this example

Date	**Particulars**	Rec	Pyt
Jun,1	Opening Balance	**6238**	
4	Subsidy from HO	25000	
5	Fees Collection	12900	
6	Library & Office Exp		1790
9	Diesel-Jeep & Generator		2530
11	Seminar Receipts	1500	
11	Seminar Expenses		4500
12	Garden Work		550
13	Sports Day Contribution	2250	
13	Sports Day Awards		4000
15	Village Education Program		5500
15	Advance Given		3500
18	Books for Teachers		554
21	Supplies- Maint. & Office		1790
25	Telephone bill		555
30	Sal & Hon		21435
30	Staff Savings [PF kept back]	3280	
30	Advance Refunded	3500	
30	Computer repair		2235
30	Subst. Exp		2500
	Closing Balance		**3229**
	TOTALS	54668	54668

It is certainly possible to accommodate bank transactions in a single column cash system by converting every bank transaction into cash and recording it twice both under receipt and payment. This is tolerable when the bank transactions are just one or two each month. But it leads to confusion and is impracticable as well when the transactions are more, since it multiplies the cash transactions for all the bank transactions and artificially increases the receipts turnover.

1B3 Double Column Cash Book: Double column cash book maintains 'cash-in-hand' transactions and 'cash-at-bank' transactions in separate columns. Besides this difference, it maintains all other features of a single column cash book.

In a double column cash book, pure cash transactions are recorded in the cash column and bank transactions are recorded separately in the bank column both for receipts and payments respectively. Expenses on credit cannot be recorded in this system also, unless and until they are actually paid either in cash or by cheque. They can be recorded only under double entry journal system.

Opening and closing balance of both cash and bank must be matched strictly as in single column system.

Transaction Type	Receipts		Payments	
	Cash	Bank	Cash	Bank
1. OPENING BALANCE	50000	10000	x	x
2. **Cash Dep. in Bank**	x	**40000**	**4000**	x
3. **Cash Taken from Bank**	**15000**	X	x	**15000**
4. Cash Payments	x	X	20000	x
5. Cash Receipts	25000	X	x	x
6. **Expenses on Credit**	X	X	x	x
7. Direct Receipt in Bank	X	30000	x	x
8. Direct Pyt. from Bank	X	X	x	45000
9. CLOSING BALANCE	X	X	30000	20000
TOTALS	90000	80000	90000	80000

Cash deposit in bank and cash withdrawal from bank at 2 & 3 are called contra entries since they cancel each other. They are recorded in both cash and bank columns simultaneously.

Contra entries do not affect the actual cash held by the institution. Hence, they do not go to any ledger accounts; they just inter-change the position of cash either from cash to bank or from bank to cash without affecting the actual receipts or payments. In a contra entry if cash reduces, bank balance increases to the same extent and if cash increases, bank balance reduces to the same extent.

It is possible to manage more than one bank account in a double column cash book by inserting an extra column each in receipt and payment side.

Double column cash book may be used for small recurring projects with a necessity to maintain a bank account where everything is charged to a single project account as detailed below.

1B4 Sample Double Column Cash Book:

Even the double column cash book system at times is not enough if head-wise project cost need to be maintained or where the accounts are computerized. It also has the limitation of recording adjustments not affecting cash or bank. It also makes the use of multiple bank accounts difficult. An analytical cash book takes care of only the first part.

Dt	Particulars	Receipts		Payments	
		Bank	Cash	Bank	Cash
1	Opening Balance	112000	6238		
2	FD made			100000	
4	Subsidy from HO	25000			
5	Fees Collection		12900		
6	Office Expenses				1200
6	Garden Expense				590
9	Diesel for Jeep				1435
11	Workshop on Training		1500		
11	Workshop on Training				4500
11	Diesel for Generator				1095
12	Repairs to school bldg.				1225
13	**Cash drawn from Bank**		**15000**		
13	**Cash drawn from Bank**			**15000**	
13	Sports Day- Awards		2250		
13	Sports Day- Awards			4000	
15	Village Ed Program				5500
15	Advance to Teachers				3500
21	**Deposited in Bank**				**7000**
21	**Deposited in Bank**	**7000**			
21	Office Expense				1000
21	Books for Teachers				344
21	Fees Collection		9550		
25	Telephone bill paid			555	
30	Advance Refunded		3500		
30	Salary				12155
30	PF			3280	
30	Honorarium				6000
30	Comp. repair			2235	
30	Substitution Exp				2500
31	Bank Interest	345			
31	Closing Balance			19275	2894
	TOTALS	144345	50938	144345	50938

1B5 Analytical Cash Book: Analytical cash book removes the drawbacks of both the single / double column cash books. It may be used for recurring projects including subsidized schools where regular monthly reporting requires head-wise classification of accounts but with a limited account heads, for better clarity and control. It will still have the limitation of recording journal entries without any cash or bank transactions.

Analytical cash book is an indirect introduction to the world of double entry journal system. Here every receipt and payment of the cash book is also recorded a second time in the respective account column. If every income is a credit; its opposite effect- receiving cash in the cash book becomes debit which completes the journal. But it also contains credits that are not income. Similarly every expense is debit; its opposite effect-cash payment in the cash book is credit which completes the journal. But every debit need not be an expense either.

Contra entries- cash taken out from bank and cash deposited in bank are not receipts and payments in actual sense. They cannot be shown under any ledger account. Hence, the receipts and payments in an analytical cash book do not add up to match the ledger totals taken together.

For a sample analytical cash book and a detailed discussion with a worked out example refer App.12E.

1B6 Imprest Cash: Imprest cash is the fixed amount of money kept with someone else other than the cashier to take care of petty payments at multiple points. It is counted as part of the cash. Imprest cash balance with such persons and the totals of the bills paid against imprest at any time must always equal the total imprest amount.

When multiple persons are required to handle cash, it is advisable that the cashier handles the cash and others use the imprest cash for all their payments, take regular re-imbursement from the cashier and maintain the fixed imprest balance on a continuous basis.

When fee is collected by someone other than the cashier, let the entire amount of fee collection come to the cashier at fixed intervals and all the payments be made only by the person responsible for those payments. If authorized bills are paid from the fee counter under compelling situations, let the amount be replaced by collecting the bill amount from the cashier or accounted while giving the periodic account.

The practice of taking round amount from the counter now and then without matching it with the periodic collection creates accounting hazards and must be avoided at all costs.

1B7 Negative Cash:

Negative cash cannot be justified for any reasons, whatsoever for the simple reason that it is impossible to pay from the cash box more than what is actually received in it. It gives self evidence against error in the books of accounts.

Negative cash often crops up when receipts are confused with receivable income and payments with payable expense. There is also receivable income but not received and payable expense but not paid. They cannot come into the cash book. Cash book will also have receipts that are not income and payments that are not expense. Cash book will have actual inflow and outflow of cash.

Some obvious mistakes that result in a negative cash are -

- Bills for purchase on credit entered in cash book
- Credit bill accounted without adjusting the advance
- Expense bill entered twice in the cash book
- Income transaction missed out in the cash book
- Common cash box kept for multiple cash books
- Payments accounted out of unaccounted receipts

Unaccounted cash is a necessary evil. Priority must be given to avoid it at all costs. Only when it is unavoidable, ways and means have to be found to tackle it without compromising with the legal requirements; it may invite serious trouble to our accounts later on. There is no way we can justify what is illegal even if it is unavoidable.

1C: Receipt Payment Account

1C1 RPA:

Cash system gives only a RPA statement but not income expenditure account or balance sheet. An ideal RPA statement is prepared as follows:

Receipt side of RPA shows-

- The opening cash balance
- The opening bank balance
- Total receipts under each of the individual accounts

Payment side of RPA shows-

- Total payments under each of the individual accounts
- The closing cash balance
- The closing bank balance

RPA totals must match with the total cash flow from hand and bank less internal transfers. This statement can give the balances outstanding in income and expenditure accounts in addition to cash and bank balances but not the balances outstanding in any other asset or liability accounts that need to be carried over to the next financial year.

1C2 Sample RPA Statement:

Receipts	Amt	Payments	Amt
Op Cash Bal	**2238**	Sal & Hon	26360
Op Bank Bal	**2345**	Maintenance	8153
Fees General	13240	Transport	6730
Fees Monthly	46000	Communication	1335
Subsidy from HO	25000	Academic	12345
Grants	16100	Activities	24125
Interest	125	Office Exp	986
Misc. Income	7300	Electricity	3810
		NF Education	6720
Scholarship Fund	2000	Scholarship Fund	550
		Receivable A/c	4000
Advances	4500	Advances	4500
FD matured	2000	**Cl Cash Bal**	**7100**
		Cl Bank Bal	**14134**
TOTAL	120848	TOTAL	120848

Preparation of the balance sheet under RPA depends on the outstanding balances in the previous balance sheet and the current receipts and payments in each of the ledger account. Income, expense, cash and bank balances are taken straight from RPA. Liability balances are obtained by adding the receipts and reducing the payments from the previous balance and vice versa for asset balances. But this method does not work with events that have double dependant transactions. Some RPA consider investments also as an integral part of the cash and hence they form part of the opening and closing balances.

When there are too many ledger accounts whose balances need to be carried over and involve entries like buying things on credit with multiple bank accounts, we cannot manage with single entry cash system of keeping accounts. We need double entry accounting system to take care of the complex reality of accounts.

02. Journal System

Every financial benefit will have a receiver [debit] and a giver [credit]. This is known as the **law of double entry**. If debit represents the action credit represents the purpose of that action. Hence, the totals of debits and credits in any financial statement are always the same.

Cash system uses receipts and payments while journal system uses debits and credits. But, neither every debit is expense nor is every credit income; they have different usage under different accounts.

2A: Journalization

Strictly speaking journal is not a book of account, it is just a log book of daily financial transactions where their equal and opposite effects- debit and credit are recorded in the order of their occurrence.

All financial transactions are first recorded in the journal with their dual aspects and then duplicated a second time in the respective ledger accounts; debit in debit side and credit in credit side. (In computerized accounts this classification is done by the computer.) The most important thing in this recording process is the identification of the debit and the credit effects accurately.

2A1 Simple Journal: Usually journal transaction will have just two effects irrespective of the amount involved, based on the **action** and its **purpose**: one is called as **debit** or **Dr** and the other as **credit** or **Cr**. A few examples are listed here:

Transactions	Rec-Dr	Pyt-Cr	Acc-Dr	Acc-Cr
Donation received by **chq.**	Bank	x	X	Donation
Fees received in **cash**	Cash	x	X	Fees
Salary payment by **chq.**	X	Bank	Salary	x
Charity payment in **cash**	X	Cash	Charity	X
Adv. for travel in **cash**	X	Cash	Advance	X
Travel bill adjusted for **adv.**	X	x	Travel	Advance
Fees paid from **Dvt. Fund**	X	x	Dvt. Fund	Fees
Cash deposited in **Bank**	Bank	Cash	X	X

2A2 Compound Journal: At times journal transactions will have more than two effects but give the same total on both sides. Such a transaction may be termed as a compound journal.

Ex: Travel bill paid for ₹3650 after adjusting advance paid earlier ₹3000

Travel a/c Dr 3650, Advance a/c Cr 3000, Cash a/c Cr 650

This compound transaction may also be split into two simple transactions and then recorded with their debit and credit effects in two ways-

Travel a/c Dr 3650 To Cash a/c 3650	&	Cash a/c Dr 3000 To Advance a/c 3000

OR

Travel a/c Dr 650 To Cash a/c 650	&	Travel a/c Dr 3000 To Advance a/c 3000

2B: General Ledger

All journal transactions of a particular type are grouped together according to the needs of the organization and the prescribed accounting standards. These groups are known as Ledger Accounts. For ledger accounts of assets and receivables, additional registers also have to be maintained to provide all the details like date of acquiring the asset, its cost price, annual depreciation if any, insurance details, ownership records, etc in order to keep a better track on them.

General Ledger is a book or collection containing all individual ledger accounts irrespective of their nature or purpose. All ledger accounts are classified into four exclusive groups according to their purpose- Asset, Liability, Income and Expenditure Accounts.

2B1 Asset Accounts:

Assets have a real value even though a certain amount of money is spent on acquiring them. They either provide liquidity to the institution or can be liquidated later. Investment assets deliver returns. Their balances are carried over to the next financial year as long as they remain with the organization.

Ex: Cash, Bank, Investments, Land, Buildings, Equipments, Furniture, Vehicles, Library, Loans given and receivables, etc. A sample asset account ledger looks like this-

Date	Particulars	Dr	Cr
Apr,1	Opening Balance	400000	
	New asset acquired	100000	
	Asset disposed		200000
Mar,31	Balance c/o		300000
	Totals	500000	500000

Note: Asset registers need to be maintained separately for all asset classes like buildings, furniture, equipment, vehicles, investments, etc. and details of receivables also need to be maintained.

2B2 Liability Accounts:

Liabilities are any borrowings or payables which are to be repaid and designated funds which are to be utilized for the specified purpose subsequently. They give temporary liquidity to the institution till the funds remain with the institution. Their balances too are carried over to the next financial year as long as the liability remains with the organization.

Ex: Building Fund, Gratuity Fund, Loan taken and payable, Unpaid bills, etc. A sample liability account ledger looks like this-

Date	Particulars	Dr	Cr
Apr,1	Opening Balance		400000
	Amounts received		100000
	Amounts utilized	200000	
Mar,31	Balance c/o	300000	
	Totals	500000	500000

2B3 Income Accounts:

These are amounts received by the organization for its administrative and maintenance use during a financial year. If they are directly linked to the institution's main activity they are known as direct income; if not, they are indirect income. Their balances cannot be carried over to the next financial year.

Ex: All types of fees, General donations, Interest and dividends, Rental Income, etc. A sample income account ledger looks like this-

Date	Particulars	Dr	Cr
Apr,1	Opening Balance		Nil
	Inc received – cash		2000
	Inc received – chq		25500
	Inc received – Adj.		1500
Mar,31	Closing Balance	29000	
	Totals	29000	29000

2B4 Expense Accounts:

These are the amounts spent on providing administration to the organization during a financial year. If they are directly linked to the institution's main activity they are known as direct expense; if not, they are indirect expense. These balances too cannot be carried over to the next financial year.

Ex: Salary, Honoraria, Maintenance, Electricity, Travel, Transport, Office Expenses, Communication, Grants given, Legal Costs, etc. A sample expense ledger account looks like this-

Date	Particulars	Dr	Cr
Apr,1	Opening Balance	nil	
	Exp - Cash Pyt.	2000	
	Exp - Chq Pyt.	25500	
	Exp – Adj. Pyt.	1500	
Mar,31	Closing Balance		29000
	Totals	29000	29000

2C: Journalization Rules

Journalization rules classify ledger accounts into four types, irrespective of their groups with a unique rule for each of them:

TYPES	LEDGER	DEBIT	CREDIT
Personal	Liability Acc	Receiver	Giver
Nominal	Inc / Exp Acc	Expenses	Income
Real	Asset Acc	Comes In	Goes Out
Designate	Fund Acc	Utilization	Addition

2C1 Personal Accounts:

These are accounts in the name of 'legal juridical persons' [it means individual, official representative and association of persons] for amounts receivable or payable, due to others or due from others. They are running accounts for the continuous outstanding balance which may go into debit or into credit depending on who owes to whom.

Rule: Debit the receiver and Credit the giver.

- When Ram takes a loan from you in cash, he receives cash. So, **Dr Ram's a/c** and Cr Cash a/c
- When you take a loan in cash from Roy. Roy gives it to you. So, **Cr Roy's a/c** Dr cash a/c.
- When you get a loan from the diocese by cheque. Diocese gives it to you. So, **Cr Diocese's a/c** Dr Bank a/c
- When you buy provisions on credit from the shopkeeper, shopkeeper gives it. So, **Cr Shopkeeper's a/c** Dr Food Exp a/c
- When you pay the credit bill subsequently, shopkeeper receives it. So, **Dr Shopkeeper's Personal a/c** Cr Cash a/c

Note: In my books of account I am nobody; neither a receiver nor a giver. One who gives or receives decides the debit or credit.

2C2 Nominal Accounts:

These accounts exist only for one financial year. At the end of the financial year they are closed and their net difference is merged with the capital or surplus account. No balance in nominal accounts is carried over to the next financial year. All types of income accounts and expenditure accounts fall into this category.

Rule: Debit all expenses and Credit all incomes.

- Fee received by a school in cash is an income for the school. So, **Cr Fees a/c** Dr Cash a/c.
- Interest received on bank balance or FD in bank is an income. So, **Cr Interest a/c** Dr Bank a/c.
- Salaries paid to staff by cheque is an expense of the school. So, **Dr Wage a/c** Cr Bank a/c.
- Office stationery purchased by cash for office use is an expense. So, **Dr Office Exp a/c** Cr Cash a/c.
- Provisions bought on credit without spot payment are an expense. Hence, **Dr Food Exp a/c** Cr Supplier's personal a/c.

Note: Income accounts are always in credit balance; there can never be a debit entry in it. Likewise expense accounts are always in debit balance and there can never be any credit entry in it except for part or full re-imbursement of certain expenses.

2C3 Real Accounts:

These are accounts of concrete or abstract goods including intellectual property with a real value as long as they are in the possession of the organization. Though money is paid out for them, it is recoverable subsequently.

Rule: Debit what comes in and Credit what goes out.

- Cash donation received by us brings in cash. So, **Dr Cash a/c** Cr Donation a/c.
- Cheque for school fee received brings money in the bank account. So, **Dr Bank a/c** Cr Fee a/c.
- Cash paid for salary disbursal takes away cash. So, **Cr Cash a/c** Dr Salary a/c.
- Cheque given for buying a computer brings equipment in and takes money out of bank a/c. So, **Dr Equipment a/c Cr Bank a/c**
- If any un-repairable old computer is discarded computer goes out reducing the net-worth. So, **Cr Equipment a/c** Dr Capital a/c

Note: All real accounts are assets of the organization and ought to be in debit balance. A credit entry indicates its disposal.

2C4 Designate Accounts:
In theory there are no designated accounts. They are separated under a distinct category for the sake of clarity in applying the rule. They are created with a specific purpose and have to be utilized for the specified purpose. They remain as a liability as long as balance is available in them, they cannot go into debit balance.

Rule: Debit utilization and Credit accumulation.

- When cash is received for development fund, development fund is accumulated. So, **Cr Development Fund a/c** Dr Cash a/c
- When cheque is paid from social service fund, social service fund is utilized. So, **Dr Social Service Fund a/c** Cr Bank a/c
- When fees are adjusted from scholarship fund scholarship fund is utilized. So, **Dr Scholarship Fund a/c** Cr Fee a/c

Note: When assets are acquired out of a designate fund, it leads to double transaction: utilization of the designated fund and capitalization of the asset; each with its own debit and credit effects. (Ref 5B2)

2D: Journal Exercise

2D1 Worked-out Example:
Given below are a few examples to understand the double effects of the financial transactions:

Note:

1. No.1 & 2 are cash transactions. They can go to the cash book.
2. Items 3, 4 & 9 are bank transactions. They can go to bank book.
3. When an income is received in cash or by cheque, income account is credit but cash or bank receipt is debit.
4. Similarly, when an expense is incurred in cash or by cheque, expense account is debit but cash or bank payment is credit.
5. Items 5 & 6 are pure journal transactions without cash or bank.
6. Expense is consumption without any re-sale value; asset is a kind of utilization that brings back re-sale value.
7. Income is nonrefundable; Liability is refundable and so is carried over. Both will be always in credit balance.
8. Personal account balance alone oscillates between debit and credit depending on who owes to whom.
9. Items 7 & 8 are mixed transactions. They may go to the journal or split into cash/ non-cash and sent to cash and journal separately.

	Transaction	Double Effects	Dr	Cr
1	Paid cash for maint. & repairs 30000	Maintenance To Cash	30000	 30000
2	Received fees in cash 6000	Cash To Fees	6000	 6000
3	Borrowed 8000 from ABC by cheque	Bank To loan [ABC]	8000	 8000
4	Adv. To XYZ by chq 10 000 for travel.	Advance [XYZ] To Bank	10000	 10000
5	Received a jeep of 1.5 lacs as don.	Vehicle To Capital	150000	 150000
6	Furniture of 16000 Destroyed in fire.	Capital To Furniture	16000	 16000
7	Travel bill for 8500 & bal. cash returned by XYZ against his adv.	Travel Cash To Adv.[XYZ]	8500 1500	 10000
8	Op bal- Bldg 500000 Bank 1 000, Cash 9 000 & Capital fund 5 10 000 transferred	Building Bank Cash To Cap. Fund	500000 1000 9000	 510000
9	Cheque for 50000 for furniture bought.	Furniture To Bank	50000	 50000

2D2 Practice Exercise: Journalize the following transactions-

1. Cash ₹5000/- Bank ₹500000/- FD ₹200000/- Bldg Fund ₹50000/- & Devt Fund ₹50000/- and capital ₹605000/- carried over.
2. FD of ₹100000/- matured with interest of ₹10000/- and redeemed. Proceeds received in bank account.
3. FD of ₹200000/- matured with interest of ₹20000/- but renewed for another 2 years without redeeming.
4. Cash received from an old student ₹5000/- to buy a computer
5. Received computers worth ₹98000/- from the MPLAD fund.
6. Sold old bike worth ₹15000/- to the school peon for ₹9000/-
7. Discarded old computers worth ₹20000/-
8. Cash ₹45000/- received from HO as a temporary advance.
9. Paid cash ₹5000/- as an advance for travel
10. Paid cheque for material supply for ₹145000/- for construction
11. Bill for ₹4320/- against advance of ₹5000/-, refunded balance
12. Fees of ₹3450/- adjusted from the scholarship fund
13. Paid a bill of a unit for ₹12000/- by charging their account
14. ₹12345/- paid to the carpenter in cash for a table
15. Net salary of ₹98765/- paid through bank accounts

16. PF of ₹24000 and ESI of ₹4500 paid by cheques
17. Received cheque for ₹10000/- on account of the unit's balance
18. Cash subsidy of ₹15000 to unit paid after deducting their balance

2D3 Practical Rules: All financial events can be journalized using the four journalization rules as follows-

Event	Mode of Transaction	Dr Acc	Cr Acc
Receiving Income	Receiving in Cash Receiving by Cheque Receiving on Account	Cash Bank Acc	Inc Inc Inc
Paying Expense	Payment in Cash Payment by Cheque Payment on Account	Exp Exp Exp	Cash Bank Acc
Acquiring Asset	Acquiring in Cash Acquiring by Cheque Acquiring on Account	Asset Asset Asset	Cash Bank Acc
Disposing Asset	Disposing for Cash Disposing by Cheque Disposing on Account	Cash Bank Acc	Asset Asset Asset
Fund Collection	Receiving in Cash Receiving by Cheque Receiving on Account	Cash Bank Acc	Fund Fund Fund
Fund Payment	Payment in Cash Payment by Cheque Payment on Account	Fund Fund Fund	Cash Bank Acc
Giver	Receiving in Cash Receiving by Cheque	Cash Bank	Giver Giver
Receiver	Payment in Cash Payment by Cheque	Receiver Receiver	Cash Bank
CONTRA	Cash deposit in Bank Cash drawn from Bank	Bank Cash	Cash Bank

2D4 Bypassing the Journal: Cash Book (cash in hand and cash at bank) comes under the category of a dual book. It serves the purpose of both the basic book as well as the ledger account. Hence, in practice, journal may be bypassed for all types of cash and bank transactions; but not for 'non-cash' transactions.

When journal is bypassed for cash transactions, cash book itself becomes half journal cum ledger; the other half or the opposite effect of cash transaction needs to be posted directly in the respective ledger account from the cash book in such situations. The cash or bank entry and the opposite ledger entry together make the 'imaginary journal' which is bypassed. Needless to stress that journal exists in this case too, but is bypassed to reduce duplication.

Single entry cash system accounts only cash or bank transactions and so cash and bank books are always used as basic books bypassing the journal. Cash Book is exclusively meant for ‘cash-in-hand’ and ‘cash-at-bank’ transactions. Journal transactions involving cash and bank may be entered directly in the cash book with a single entry, without forgetting the fact that the opposite effect need to be entered in the ledger account subsequently.

Cash book could be of single column for pure cash transactions or double column for cash and bank separately as seen in the single entry cash system. Double column cash book is ideal for manual accounts where as single column cash book is ideal for computerized accounts.

Note:

- Always remember- “Journal is pasted as it is; debit in debit side and credit in credit side in the ledger accounts while cash-opposite effect is posted in the ledger account.”
- Cash book is a must. It can be dispensed with only when all transactions are routed through bank and imprest-cash.
- Bank book may be part of the cash-book or a second cash-book bypassing the journal or be treated as a ledger account according to one’s own convenience.
- **Our b**ank a/c and bank passbook always show opposite entries because bank balance is an asset in our accounts but a liability in the banker’s accounts.

Treasurer's Joy of Giving

We will have more space to receive

When more and more we give

For

God wants to give, give and forgive

While we get, get and forget

03. Books of Accounts

3A: Practice Exercise

Work out the Ledger Accounts for the following transactions without bypassing the journal for both the cash and bank transactions. [All amounts in rupees only]

Apr 01	Opening balances in Equipment 50000/- Land 1200000/- Building 4000000/- Capital Fund 7200000/- Furniture 100000/- Bank 1800000/- Cash 50000/- are carried over.
02	1200000/- from bank is put in FD and MF investments.
02	Received cash incentive 9000 on the above investments.
May09	Jeep worth 200000/- received as donation.
09	Maintenance bill paid in cash 10000/-
15	Provision made for 6000/- to establish a scholarship fund.
Jun 02	Donation chq received for 200000/- deposited in bank A/C
05	Scrap sold for 5000/- and money put straight into the bank
10	290000/- fees received in cash, deposited in bank 245000/-
15	4 lacs fees recd in bank, equipment bills pd in cash 25000/-
16	30000/- equip. bills pd in cash, 45000/- adv. pd by chq.
18	Cash awards given 10000/- Maint bill paid in cash 10000/-
20	Scholarship fund received 105000/- in cash.
20	Wages paid 13,000/- in cash.
21	Bldg. Construction bills paid by chq 1100000/-
21	Fees received from scholarship fund 10000/- by adjustment.
22	Cash paid for new furniture 10000/-
23	Cash withdrawn from bank 25000/-
23	Cash paid for new computer 20000/- and equipment 15000/-
23	Repair and maintenance bills paid 30000/-
23	Salary advances paid 30000/- Wages paid in cash 12000/-
25	Int. on FD for 20000/- and donation chq for 100000/- received
29	Travel bill adjusted against advance 10000/- given on 16/6
30	Salary of 305000/- pd by chq after deducting adv. of 65000/-
30	Chq pd for off. exp 35,000/- repairs 30,000/- travel bill 10000/-
30	FD for 200000/- matured and received in the bank for 201000/- with interest.
30	New FD is made for 200000/- by a cheque and cash incentive received 1000/-

3B: Journal

Date	Account	Dr	Cr
Apr,1	Equipment A/c	50000	
	Land A/c	1200000	
	Bldg A/c	4000000	
	Furniture A/c	100000	
	Bank A/c	1800000	
	Cash A/c	50000	
	To Capital A/c		7200000
May,2	Investment A/c	1200000	
	To Bank A/c		1200000
2	Cash A/c	9000	
	To Misc Inc A/c		9000
9	Vehicle A/c	200000	
	To Capital A/c		200000
9	Maintenance A/c	10000	
	To Cash A/c		10000
15	Acad Exp A/c	6000	
	To Sc'ship Fund A/c		6000
Jun,2	Bank A/c	200000	
	To Donation A/c		200000
5	Bank A/c	5000	
	To Misc Inc A/c		5000
10	Cash A/c	290000	
	To Fees A/s		290000
10	Bank A/c	245000	
	To Cash A/c		245000
15	Bank A/c	400000	
	To Fees A/c		400000
15	Equipment A/c	25000	
	To Cash A/c		25000
16	Equipment A/c	30000	
	To Cash A/c		30000
16	Advance A/c	45000	
	To Bank A/c		45000
18	Scholar. Fund A/c	10000	
	To Cash A/c		10000
18	Maintenance A/c	10000	
	To Cash A/c		10000
20	Cash A/c	105000	
	To Sc’ship Fund A/c		105000

20	Wages A/c To Cash A/c	13000	13000
21	Building A/c To Bank A/c	1100000	1100000
21	Scholar Fund A/c To Fees A/c	10000	10000
22	Furniture A/c To Cash A/c	10000	10000
23	Cash A/c To Bank A/c	25000	25000
23	Computer A/c Equipment A/c To Cash A/c	20000 15000	35000
23	Maintenance A/c To Cash A/c	30000	30000
23	Advances A/c Wages A/c To Cash A/c	30000 12000	42000
25	Bank A/c To Interest A/c	20000	20000
25	Bank A/c To Donation A/c	100000	100000
29	Travel A/c To Advances A/c	10000	10000
30	Wages A/c To Advances A/c To Bank A/c	305000	65000 240000
30	Office Exp A/c To Bank A/c	35000	35000
30	Maintenance A/c To Bank A/c	30000	30000
30	Travel A/c To Bank A/c	10000	10000
30	Bank A/c To Investment A/c To Interest A/c	201000	200000 1000
30	Investment A/c To Bank A/c	200000	200000
30	Cash A/c To Misc Inc A/c	1000	1000

3C: Cash & Bank Book

In this exercise we have both cash at hand and at bank. Though we can maintain double column cash book for both together but we will maintain them in single column separately.

3C1 Cash Account:

Date	Particulars		Dr	Cr
Apr,1	To bal b/f		50000	
2	To incentive		9000	
May,9	By Maintenance			10000
Jun,10	To fees		290000	
10	By bank	C		245000
15	By Equipment			25000
16	By Equipment			30000
18	By Sc'ship fund			10000
18	By Maintenance			10000
20	To Sc'ship fund		105000	
20	By wages			13000
22	By furniture			10000
23	To bank	C	25000	
23	By Equipment			35000
23	By Maintenance			30000
23	By Adv & Wages			42000
30	To incentive		1000	
Mar,31	By Bal c/o			**20000**
	TOTAL		480000	480000

3C2 Bank Account:

Date	Particulars		Dr	Cr
Apr,1	To bal b/f		1800000	
2	By Investment			1200000
Jun,2	To donation		200000	
5	To scrap sale		5000	
10	To cash	C	245000	
15	To fees		400000	
16	By Advance			45000
21	By Bldg			1100000
23	By cash	C		25000

25	To Interest	20000	
25	To donation	100000	
30	By Salary		240000
30	By Off. Exp		35000
30	By Maintenance		30000
30	By Travel Exp		10000
30	To FD & Interest	201000	
30	By FD		200000
Mar,31	By Bal c/o		**86000**
	TOTAL	2971000	2971000

3D: Asset Accounts

Under asset accounts debit denotes addition of assets or lending out money and credit denotes disposal of assets or recovery of money. Hence, balances under asset accounts will always be in debit.

To close the asset accounts for trial balance, debit totals have to be taken first and used as the matching totals by subtracting the credit totals from the debit totals and placing the difference in the credit side.

Date	ADVANCES A/C	Dr	Cr
Jun,16	To bank	45000	
23	To cash	30000	
29	By travel		10000
30	By salary		65000
Mar,31	By Bal c/o		**Nil**
	TOTALS	75000	75000

Date	BUILDING A/C	Dr	Cr
Apr,1	To bal b/f	4000000	
Jun,21	To bank	1100000	
Mar,31	By Bal c/o		**5100000**
	TOTALS	5100000	5100000

Date	EQUIPMENT A/C	Dr	Cr
Apr,1	To bal b/f	50000	
Jun,15	To cash	25000	
16	To cash	30000	
23	To cash	15000	
Mar,31	By Bal c/o		**120000**
	TOTALS	120000	120000

Date	COMPUTER A/C	Dr	Cr
Jun,23	To cash	20000	
Mar,31	By Bal c/o		**20000**
	TOTALS	20000	20000

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Date	FURNITURE A/C	Dr	Cr
Apr,1	To bal b/f	100000	
Jun,22	To cash	10000	
Mar,31			**110000**
	TOTALS	110000	110000

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Date	INVESTMENT A/C	Dr	Cr
Apr,2	To bank	1200000	
Jun,30	By bank		200000
30	To bank	200000	
Mar,31	By Bal c/o		**1200000**
	TOTALS	1400000	1400000

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Date	LAND A/C	Dr	Cr
Apr,1	To bal b/f	1200000	
Mar,31	By Bal c/o		**1200000**
	TOTALS	1200000	1200000

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Date	VEHICLE A/C	Dr	Cr
May,9	To Capital	200000	
Mar,31	By Bal c/o		**200000**
	TOTALS	200000	200000

3E: Income Accounts

Under income accounts all entries will invariably be in the credit side and so their balances too will be in credit. There can be no debit entry whatsoever in an income ledger account, unless it is a rectification entry to reverse some irreversible wrong entry made earlier when the accounts are kept manually.

For trial balance, all income ledger accounts are closed for ever and the balances are taken to the trial balance. The entire excess income over expense or excess expense over income collectively goes to the surplus account or General Fund.

Date	DONATION A/C	Dr	Cr
Jun,2	By bank		200000
25	By bank		100000
Mar,31	To Closing Bal	**300000**	
	TOTALS	300000	300000

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Dt	FEES A/C	Dr	Cr
Jun,10	By cash		290000
15	By bank		400000
21	By Scholr fund		10000
Mar,31	To Closing Bal	**700000**	
	TOTALS	700000	700000

.

Date	INTEREST A/C	Dr	Cr
Jun,25	By bank		20000
30	By bank		1000
Mar,31	To Closing Bal	**21000**	
	TOTALS	21000	21000

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Date	MISC INC A/c	Dr	Cr
Apr,2	By cash		9000
Jun,5	By bank		5000
30	By cash		1000
Mar,31	To Closing Bal	**15000**	
	TOTALS	15000	15000

3F: Liability Accounts

Under liability accounts we come across three different types: Designate accounts, Capital and Personal accounts. In designated accounts the balance is usually in credit unless there is over-spending in anticipation of fresh funds. Capital or General Fund is the cumulative surplus. Capital and personal account balance can be oscillating between debit and credit, depending on which side is more.

- In a designate account addition will go to the credit side and utilization to the debit side.
- In the capital account surplus goes to the credit side and deficit goes to the debit side.
- In a personal account borrowing will go to the credit side and repayment to the debit side.

In any liability ledger account, credit balance would mean it is payable and debit balance would mean it is receivable.

To close these accounts for trial balance, heavier side is added first and the total is used as the matching totals to find the balance.

Date	SC'SHIP FUND A/C	Dr	Cr
Apr,1	By Bal b/f		0
May,15	By Scholarship		6000
Jun,18	To cash	10000	
20	By cash		105000
21	To fees	10000	
Mar,31	To Bal c/o	**91000**	
	TOTALS	111000	111000

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Date	CAPITAL FUND A/C	Dr	Cr
Apr,1	By bal b/f		7200000
May,9	By Jeep		200000
Mar,31	To TB= **7400000**	0	7400000
	By exc. Inc		565000
	To Bal c/o	**7965000**	
	TOTALS	7965000	7965000

3G: Expense Accounts

Under expense ledger accounts all entries invariably will be in the debit side unless they are re-imbursement of already incurred expenses. So the balances too will be in debit.

For trial balance, all expense ledger accounts are closed and the balances taken to the trial balance. The entire excess expense over income after closing the accounts for the period under consideration collectively goes to surplus account.

Date	MAINT. A/C	Dr	Cr
May,9	To cash	10000	
Jun,18	To cash	10000	
23	To cash	30000	
30	To bank	30000	
Mar,31	By Closing Bal		**80000**
	TOTALS	80000	80000

Date	ACAD. EXP A/C	Dr	Cr
May,15	To Scholr fund	6000	
Mar,31	By Closing Bal		**6000**
	TOTALS	6000	6000

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Date	OFFICE EXP A/C	Dr	Cr
Jun,30	To bank	35000	
Mar,31	By Closing Bal		**35000**
	TOTALS	35000	35000

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Date	TRAVEL A/C	Dr	Cr
Jun,29	To adv	10000	
30	To bank	10000	
Mar,31	By Closing Bal		**20000**
	TOTALS	20000	20000

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Date	WAGES A/C	Dr	Cr
Jun,20	To cash	13000	
25	To cash	12000	
30	To bank	240000	
30	To Advance	65000	
Mar,31	By Closing Bal		**330000**
	TOTALS	330000	330000

Note:

1. When the ledger accounts are closed in order to carry the outstanding balances to the trial balance, only for the asset and liability accounts we write 'balance carried over' since such balances are carried over to the next accounting period; assets in debit side and liabilities in credit side. For income and expenditure accounts we write 'closing balance' since those accounts are closed for ever and their balances are not carried over to the next accounting period.

2. As most accounts are computerized, extra pre-caution must be taken to preserve the computer records of the basic books and the general ledger in incorruptible external devises in addition to having them in the work table computer. A computer crash can wreck havoc to our accounts. What is more prudent is to take a print-out after the audit adjustments are over and preserve it manually.

You have one rupee, I have one

We exchange

We both will have one rupee each

NOT AN IDEA

You have one idea, I have one

We exchange

We both will have two ideas each

WHAT AN IDEA

- Anonymous

04. Financial Reports

4A: Trial Balance

Trial balance is a trial statement of all the outstanding balances in every ledger account in the general ledger before preparing the final account on any particular day but compulsorily taken on March 31st of every year. The debit and the credit balances are listed in separate columns in the trial balance and their totals must always match.

Trial Balance as on March 31st			
Accounts	Dr	Accounts	Cr
Land	1200000	Capital	7400000
Building	5100000	Scholar. Fund	91000
Furniture	110000	Fees	700000
Equipment	120000	Interest	21000
Vehicle	200000	Donation	300000
Investments	1200000	Misc. Income	15000
Bank	86000		
Computer	20000		
Cash	20000		
Salary	330000		
Office Exp	35000		
Travel	20000		
Maintenance	80000		
Academic Exp	6000		
Total	**8527000**	Total	**8527000**

Trial balance may be taken in two ways-

- Using a third column for running balances in the ledger accounts where the last balance will go to the trial balance
- Closing all the ledger accounts in the general ledger by putting the difference in the opposite side to match the totals

Note: For trial balance, all but capital / excess inc/exp account are closed. The balance outstanding in capital or excess inc/exp account before closing the account is taken to the trial balance and the account is closed after transferring the surplus/ deficit from the inc-exp account and the final balance outstanding is taken to the balance sheet.

4B: Final Accounts

4B1 Income Expenditure Account: It is a statement of all incomes and expenditures for one financial year. At the end of the financial year all these accounts are closed and the difference is transferred to the capital or surplus account in the balance sheet. An excess of income denotes surplus and an excess of expenditure denotes deficit. NPO can accumulate surplus after paying income tax. They are allowed to carry forward excess expense to the next year to be adjusted from the next year's surplus.

Under income expenditure account statement direct income and direct expenses may be separated from indirect income and indirect expenses for better clarity on results of the financial activity. Such a separation helps us to know the actual surplus or deficit from the intended main activity as well as the final surplus or deficit from all the activities of the institution taken together.

Inc. & Exp. Account for the year ending March 31st			
Expenses	Dr	Incomes	Cr
Salary	330000	Fees	700000
Office Exp	35000	Interest	21000
Travel	20000	Donation	300000
Maintenance	80000	Misc. Income	15000
Academic Exp	6000		
Excess Income	**565000**		
Total	1036000	Total	1036000

4B2 Balance Sheet: Balance sheet is a statement of only assets and liabilities of the organization on any particular day. It must be taken every year as on 31st March as a statutory obligation. It gives the net-worth or capital of an institution. Net-worth is the worth the owner of the institution would get if the institution is disposed off; what would be left over after paying off all the liabilities.

From the income and expenditure account only the surplus or deficit will come to the balance sheet. Surplus is added to the capital or surplus account while deficit is subtracted from it; surplus increases the capital where as deficit reduces it.

Both the Income Expenditure Account and the Balance Sheet together are known as Final Accounts. A sample balance sheet of a NPO will look like this-

Types of Funds	Amt	Application of Funds	Amt
F1. Capital		A1. Cash / Bank /	
F2. Surplus		A1. Current Assets	
F3. Reserves		A2. Investments	
F4. Corpus Funds		A3. Fixed Assets /	
F5. Designated Funds		A3. Other Assets	
F6. Borrowings / Payables			

A typical balance sheet for a charitable institution is of the type- funds and their application. If the first part gives the types of funds the second part tells how those funds are applied.

[a] TYPES OF FUNDS:

F1. Capital is what one would get after paying off all other liabilities;
F2. Surplus is the only amount at the free disposal of the organization.
F3. Reserves are earmarked and blocked for specific causes.
F4. Corpus means the body. Corpus fund has to be invested in assets to generate income for the organization. Societies can use the corpus fund with a resolution.
F5. Designated funds are to be utilized only for the designated purpose.
F6. Borrowings and payables are to be repaid as per terms.

[b] APPLICATION OF FUNDS:

A1. Cash, bank balance and current assets are liquid assets at hand or available at short notice.
A2. Investments are available only on their maturity terms & conditions.
A3. Fixed assets are mostly capitalized with very poor liquidity.

The balance sheet for the trial balance at 4A is worked out as follows-

Balance Sheet as on 31st March			
Types of Funds	Cr	Appl. of Funds	Dr
Capital Fund:		Land	1200000
Previous bal 7400000		Building	5100000
+ Excess inc 565000		Furniture	110000
	7965000	Vehicle	200000
Scholarship Fund	91000	Equip Gen	120000
		Equip Comp	20000
		Investments	1200000
		Bank	86000
		Cash	20000
Total	**8056000**	Total	**8056000**

Designated funds are of two types- designated capital funds & designated revenue funds. Former, like building fund bring back value to the organization when they are utilized and so form part of the 'net asset' while the latter, like gratuity fund is a pure liability.

There is a difference between net-worth & net-asset. Capital alone counts for net-worth of an institution while capital, reserves & surplus, designated capital funds and corpus fund together form its 'net asset' which is also equal to the total assets as reduced by the payables.

4B3 Receipt Payment Account:

Receipt payment account is prepared only for cash and bank transactions exactly as discussed in the single entry system. It may also include investments together with cash and bank balances in its opening and closing balances. It gives a complete picture of total cash flow and not the balances outstanding in each of the ledger account. Foreign contribution account is to be prepared only in receipt payment system.

Receipt Payment A/c for the year ending 31st March			
Receipts	Amt	Payments	Amt
Op Cash Bal	**50000**	Office Exp	35000
Op Bank Bal	**1800000**	Travel	10000
Donation	300000	Maintenance	80000
Fees	690000	Wages	265000
Misc. Income	15000	Equip Gen	70000
Interest	21000	Equip Comp	20000
		Building	1100000
		Furniture	10000
		Advances	75000
Investments	200000	Investments	1400000
Scholar Fund	105000	Scholar Fund	10000
		Cl Cash Bal	**20000**
		Cl Bank Bal	**86000**
TOTAL	3181000	TOTAL	3181000

4C: Budget

Budget is an advance planning of all the receipts and payments of an organization for one financial year. It is a measure of financial discipline; anticipating all receipts and payments to the extent possible based on the principle of averages so that proper monitoring may be exercised over the finances, executing the projects with economy and controlling unplanned wasteful expenditure.

Budget is not a license to spend. Hence, even after the budget is approved positive efforts must be made to increase revenue and reduce cost wherever possible without compromising on quality, for an efficient management of the budget.

4C1 Budget Preparation:

Budget is prepared for all the receipts and payments: all ordinary incomes, all ordinary & extra-ordinary expenses, acquisition & disposal of capital assets as well as the resources required to take care of such expenses.

Only a project or capital budget is made once for all. All regular or revenue budgets are annual. If any approved work is not executed during the budgeted year for whatever reason, it lapses; it has to be included in the next budget for reconsideration. Similarly if a budgeted capital work remains incomplete, the remaining portion of the budget must be included in the next budget; not for a second approval but for making fresh allocation of funds.

Following five points have to be kept in mind while preparing any budget-planning, current actual, projection, utilization and net-worth.

[a] Planning is essential for any institution since its resources are limited and precious. Even when the required resources are available, prudence demands that the institution gets the worth of money it spends. Only with such a serious planning an institution can grow to its full potential. Hence, its resources need to be put to optimum use.

There are three tools of budget planning which are used to optimize the resources-

1. Increasing the ordinary income of the institution
2. Reducing the project costs wherever possible
3. Active planning of investments to increase internal funding

[b] Current Actual figures for twelve months from April to March are required to be provided in the budget. But preparation of the budget is done any time after December and before March. Hence, current year figures at least up to December are to be kept ready and estimates for the remaining months as close to the actual figures as possible, are to be added to the available figures to derive current actual figures.

The popular short cut method of taking the figures for 12 months from January to December of the calendar year for the current actual may not reflect the actual situation of the institution correctly since the figures for the previous three months will not remain the same as those for the next three months. They usually increase.

It is very convenient to have at least ten months figures ready since monthly estimation can be obtained by leaving the last digit (equivalent to dividing by 10). In a project budget, projected expenses under maximum possible heads of accounts must be provided to give a clear picture of all the project requirements. Once a project reaches the funding agency, no other additions will be possible.

[c] Projections for the next financial year are done in three stages for three different types of accounts -

1. Amounts for definite accounts like fees, salary, etc, are to be given accurately since precise data for such items can be obtained without any difficulty.
2. On ordinary expenses like travel & transport, regular maintenance, office expenses, etc. a maximum of 10% increase towards possible inflation is provided. This cannot be done blindly, if there is knowledge of a higher expense, it must be anticipated. Same holds true for irregular income too.
3. On capital projects, reliable estimates are to be obtained and resources for their execution are to be identified.

[d] Utilization of 85% of its income for a charitable institution is a legal requirement. It has to be utilized on account of charitable activities or to acquire assets for the institution during the financial year itself if income tax needs to be saved. So, acquisition of assets also must be planned together with the budget.

[e] Net-Worth of a NPO is its capital: surplus and capital funds. It is excess of assets over its liabilities or the worth that is available in the organization after paying off all the liabilities. It is listed with the liabilities; a liability on the institution in a broader sense as the institution is liable to pay it to the owner if the institution has to be closed down. For charitable institutions, all assets are capitalized.

A good budget must ensure more assets than liabilities. Hence, it must project regular surplus within the permissible limit to increase the net-worth. If the budget projects regular deficit, it will increase the liabilities. Deficit budget means that the institution is using up its past surplus or spending borrowed money, not a healthy sign.

When liabilities exceed the assets there is no capital. The excess expense is listed at the assets side to match the balance sheet and not as an asset in real terms. It means the institution is living on the borrowed money for its survival.

4C2 Sample Budget: Budget format usually has 3 columns; previous budget, current actual and the proposed budget. Comparison between the previous budget and the current actual helps us to know how much we are within the approved budget for the current year, while comparison between the current actual and the proposed budget gives us an indicator of our proper planning for the next year.

Receipt Accounts	Past Budget	Current Actual	Next Budget	Payment Accounts	Past Budget	Current Actual	Next Budget
Fees	650000	700000	700000	Salary	350000	330000	363000
Donations	400000	500000	500000	Off. Exp	36000	35000	38000
Interest	20000	21000	25000	Travel	23000	20000	22000
Misc. Inc.	10000	15000	6000	Maint	82000	80000	130000
Assets sold	100000	101000	10000	Acad. Exp	20000	16000	20000
				Building	1000000	1100000	500000
				Furniture	10000	10000	100000
Subsidy	200000	200000	0	Equip.	90000	90000	50000
Deficit	**231000**	**144000**	0	Surplus	0	0	**18000**
Total	1611000	1681000	1241000	Total	1611000	1681000	1241000

The sample presented here is an ideal example for a well monitored budget. The deficit shown in the budget clearly indicates availability of past surplus with it. It is reduced through better control during the year and projection is made for a surplus.

A subsidized unit of an entity cannot show deficit in its budget when it does not have any past surplus with it. Instead, it must show enhanced subsidy to match the deficit and leave it to the approving authority of the entity to approve or disapprove it.

Balance Sheet of Life Account

Opening Balance:	BIRTH
Current Assets:	Heart
Fixed Assets:	Soul
Dividend:	Love
Patent:	Education
Goodwill Account:	Behavior
Stock in Trade:	Moral Values
General Reserve:	Friends
Capital:	Achievements
Premium:	Experience
Fixed Deposit:	Brain
Interest:	Patience
Investments:	Knowledge
Bonus:	Children
Accounts Payable:	Life
Closing Balance:	DEATH

AIM: Tally the Balance Sheet Accurately
GOAL: Best Presented Accounts Award

From a forwarded e-mail from Fr Hector D Souza SJ

05. Audit of Accounts

5A: Auditing

Audit of accounts, commonly known as ‘audit’ is a physical verification of the correctness of the records of transactions by knowledgeable persons, professionally qualified or otherwise. It could be annual or continuous, depending on the volume of transactions.

Audit could be internal or external. Internal audit is not obligatory. It is advisable to have internal audit for the compliance of internal requirements like, canon law, rules of the religious order and to ensure that we are ready in time for external audit. This can be done by any experienced person. When the volume of transactions of an institution is too large, it is desirable to have internal audit.

5A1 Statutory Audit: NPO with annual receipts of over tax-free limit are required by law to audit their accounts by an external Chartered Accountant. Auditors are appointed by the Annual General Meeting and their appointment is valid for one year unless it is renewed in the next AGM. There are institutions which entrust their internal audit also to the external Chartered Accountants because of the enormity of their transactions and taxation issues.

Audit may be done on a regular basis or after the end of a financial year according to the convenience of both the institution as well as the auditors. Audit fee is annual, based on the turnover and volume of transactions, irrespective of the frequency of audit. On request, they also take care of income tax scrutiny cases, filing of annual income tax returns as well as FCRA returns, for an extra fee, as it is not part of their regular audit work. It is advisable to begin the audit much before the end of the financial year so that we get enough time to rectify any mistakes made inadvertently. In any doubtful situation, it is always advisable to consult the auditors before making the payment.

It is our responsibility to keep our accounts in order. Auditors’ job is to certify the correctness of our accounts and not writing our accounts. For audit, we must be ready with our cash book with closing balance verified, bank statements, general ledger, assets register, investment details, details of receivables and payables, letters of donation, support for all payments, duplicate receipt books and fees registers and at least the trial balance as on the last day of the financial year.

5A2 Audit Report:
Audit report is a certification of the correctness of our accounts by the Chartered Accountants. Being professionals paid by us, they help us to rectify our mistakes to the extent possible and help us to keep our accounts in order. If our mistakes are un-rectifiable they are bound by law to report them in their audit report.

For NPO auditors have to give their report in form 10B in three parts, in addition to certifying the final accounts-

- **Utilization of funds for charitable activities:** This should be 100%. Any amounts utilized for purposes other than charitable will have to be reported under this section.
- **Application of funds for interested persons:** This should be nil. Any amounts paid to the interested persons will have to be reported under this section.
- **Investing funds with interested persons:** This should be nil. Investments with entities in which interested persons have substantial interest will be reported here.

Adverse remarks in the audit report invite trouble during the tax scrutiny. Any adverse reporting under the above three sections may also deprive the institution of its tax exemption. In the tax scrutiny, if the audit report itself is found to be false or manipulated, punitive legal action can be initiated against both the auditors and the organization by the competent authorities for falsification of accounts.

5A3 Consolidation:
Consolidation of all the accounts is required when an institution has multiple units all over the country which are not registered separately as well as incidental activities requiring maintenance of separate books of accounts.

These units may have separate Provident Fund account numbers for their convenience or a sub-code under the parent society. Such dependant units will not have separate legal existence except through their parent body. These units can exist anywhere in the country and in any number without any restriction, provided the ‘memorandum of association’ of the organization allows it. They all come under one management and one governing board of the parent body.

Accounts of all such units need to be consolidated and a single ‘income tax return’ needs to be filed under one PAN, even if the accounts are audited separately. Investments by units requiring PAN need to be made in the name of their parent body but TDS may be deposited under multiple TAN for multiple units.

5A4 Tax Scrutiny:

Tax scrutiny is carried out by an Income Tax Officer, one to two years after we file our tax returns. We are legally obliged to preserve all our accounts related records up to ten years. The main aim of the scrutiny is to detect tax evasion. Hence, at times they check even the minor details of our accounts and even minutes of governing board meetings to make sure that we have not violated any rules that grant us tax concessions.

Institutions with annual receipts of over ten crore come under compulsory scrutiny. Since it is not possible to scrutinize all returns filed with them due to the enormity of the work, scrutiny of others is taken up by lot. In a tax scrutiny case, if our accounts are in order, there is nothing to be afraid of. Nevertheless, we also come across biased scrutiny cases which have to be fought legally.

It is advisable to authorize the auditors to appear on behalf of the institution for the scrutiny cases since we have to be careful with what we say during the hearing, particularly when there are inherent difficulties due to the ignorance of the law and accompany the auditors to learn the legal aspects of a scrutiny case.

5B: Audit Adjustments

During the audit, if any wrong entries are detected, auditors make us pass correction entries and if any provisions need to be made as per legal requirement, they help us to prepare adjustment entries to that effect. It is good to know about such provisions. Otherwise, it might so happen that they too forget to pass such entries and our accounts do not reflect correct financial position.

5B1 Depreciation:

Depreciation is an advanced accounting concept. All assets do not remain at their face value forever. The loss due to wear & tear is known as depreciation. It is accounted by deducting this loss by a fixed percent every year on the outstanding balance.

Some standard depreciation rates are: Building = 10%, Furniture = 10%, General Equipment / Vehicle / Library = 15%, Computer = 60%. Journal entries for depreciation for the balance sheet arrived at chapter 4 will be as given in the chart below.

For charitable institutions all classes of assets qualify for 100% utilization as capital expense under the new IT rules. Hence, some auditors do not consider depreciation into account at all. They record assets either at nominal value or at cost price against an Asset Fund.

Depreciation A/c	Dr	326000	
Building A/c			255000
Furniture A/c			11000
Gen Equip A/c			18000
Comp A/c			12000
Vehicle A/c			30000

Assets like land and gold never depreciate. They appreciate considerably on a longer run. But charitable institutions are not required to account the gain due to appreciation on an annual basis. It is enough to show the long term capital gain as income while disposing the asset.

5B2 Capitalization:

Capitalization is also an advanced concept. Ordinarily the annual surplus in the income and expenditure account is kept in surplus account. We need to capitalize the assets when they are gifted to us or acquired from the designated or borrowed funds and de-capitalize them when they are condemned or disposed.

[a] When assets are acquired using own funds (even when they are borrowed) capitalization does not take place immediately. Asset balance increases while cash or bank balance decreases. All such assets acquired during the year may be collectively accounted on the last day as capital expense through a journal entry- Dr Reserve & Surplus Cr Capital Fund, resulting in indirect capitalization.

[b] When assets are gifted they come in without any involvement of cash or bank and directly increase the capital as seen in earlier chapter. This is capitalization with a simple journal entry Dr Asset Cr Capital.

[c] When assets come from a designated fund two interdependent transactions happen simultaneously- utilization of the fund leading to capitalization of the assets coming into the organization.

For example, if computers worth ₹1 lac are bought from the development fund for which funds are already collected, development fund is utilized to the tune of ₹1 lac and the cash or bank balance will be down to the same extent. Simultaneously, it also leads to addition of computers worth ₹1 lac adding up to the institute's net-worth.

Hence, two dependant transactions happen simultaneously in this situation and both need to be accounted for the accurate reflection of the accounts:

- **Utilization of Funds**: Reduce the fund balance due to the payment: Development Fund A/c Dr 100000/- to Bank A/c Cr 100000/-
- **Capitalization of Assets**: Increase the capital due to computers coming without the involvement of the institute's funds: Computer A/c Dr 100000/- to Capital A/c Cr 100000/-

5B3 Cost of Assets:

Any discount received on acquiring the assets may be reduced from the cost of the asset and all direct expenses incurred in connection with their installation may also be added to the cost and capitalized.

For example if ₹50000/- is the actual cost price of a generator and you get a discount of ₹3000/- on it but spend another ₹5000/- on its installation including its transportation up to the site, then the net amount of ₹52000/- can be treated as the capital expenditure.

5B4 Provisions:

Provisions are required to be made for Provident Fund, Gratuity, Receivables and Payables as on 31st of March each year. PF and Gratuity provisions are discussed separately under the chapter PF and Gratuity in this book.

If the institution is following mercantile method of audit, then it has to account for all accrued incomes and unpaid expenses-

- If interest is due but will be received after 31st March, the journal entry will be Dr Interest Receivable a/c to Interest a/c Cr
- If fee for next year is received before 31st March, the journal entry will be Dr Fees a/c to Advance Fees Received a/c Cr
- If an expense bill is not paid before 1st April, the journal entry will be Dr Expense a/c to Bills Payable a/c Cr
- If provisions of food / stationery are bought in advance, the journal entry will be Dr Stock a/c to Food / Stationery a/c Cr

5C: Records Keeping

Listed below are the so called 'ten commandments' of records keeping to maintain the records in a neat and tidy manner. Most of them are practical tips from our past experience and not obligatory gospel truths. But they add decency to our work.

1. Maintain a personal diary or a rough cash book for all the cash transactions on a daily basis.
2. Record the entire cash-flow, both ways and preserve all the bills in the cash box.
3. Classify bills according to the purpose periodically. Prepare one voucher under each account to reduce paper work.
4. Vouchers for advances refunded within the financial year can be destroyed without making any accounting entry, recording the actual bills instead.
5. Number small bills serially and paste them neatly on a paper of voucher's size; make a detailed voucher with these numbers.
6. Enclose only essential bills and prepare actual cashbook for these new summary vouchers.
7. Depending on the number of vouchers, stitch bundles of convenient size on an annual basis and neatly preserve them for at least ten years.
8. Maintain detailed register for assets of every class even when accounts are computerized.
9. Keep original bills of all the assets in separate files with photo copies attached to the vouchers. They are needed as long as the assets are with you.
10. When you get a computerized bill on a thermal paper, keep a photocopy of it along with the original bill. Thermal print fades after some time in most cases.

06. Banking

6A: Banking Facilities

Customer is one who has an account in the bank, whether new or old. Banker-customer relationship is confidential. Bank is liable to compensate the customer any damage arising out of violation of confidentiality. Only a competent legal authority can compel the bank to lift the secrecy on the financial transactions of the customer. At the same time, by linking aadhar to bank accounts, govt. can track all the bank transactions.

Smaller the bank better will be its customer service. Since smaller banks are in the growing stage, every account is important for them. Nationalized big banks are not affected by the small deposits of the customers and so are not known to pay serious attention to each and every small customer.

6A1 Types of Banks: Reserve Bank of India or RBI is the regulatory body for all the commercial banks in India and is one of the best Central Banks world-over. It is not a commercial bank in itself. It determines the monetary policy of the government and maintains accounts of the central as well as state governments and all the member banks. All banks other than RBI may be grouped as Co-operative Banks, Private Sector Banks and Public Sector Banks.

[a] Co-operative Banks are localized small time banks. They are formed by a co-operative of individual share-holders, often controlled by a small group through large share-holding. They are allowed to give up to 1% higher interest by RBI. They are more risky than the other two types, as they are managed by a small local group and much depends on their own personal vested interests. They do not come under the direct RBI control like the commercial banks.

[b] Private Sector Banks are controlled by corporate houses driven by profit motive. They are ever eager to expand business in order to increase their profitability. Hence, they are highly competitive and less risky. They try to manage large business through a small network of branches. They are mainly found in large cities with high business potential. Being private sector expanding banks, they are excellent in customer service and innovative in offering banking products while at the same time extract their pound of flesh at the expense of the customers through their ‘anesthetic costs’

[c] Public Sector Banks are controlled by the government and invariably have a large network of branches with little scope for expansion. They are bound to follow government norms and so have non-competitive uniform policies. They are least risky but mostly complacent in service to the small depositors.

Private and public sector banks together are called scheduled commercial banks. Charitable institutions are allowed to have their bank account and deposits in any scheduled banks including co-op banks.

6A2 Types of Bank Accounts: Bank accounts ease the problem of keeping, carrying and counting huge cash at every financial transaction. E-banking has revolutionized the concept of banking altogether. Now, one can transfer funds from one's account in any bank to any account in that bank or even in a different bank without paying a visit to any of those banks without any extra cost. Banks are also offering facilities to deposit cash or cheque through the ATM. Following are the three main types of bank accounts -

[a] Savings Account is basically for individuals for the purpose of savings. Hence, no business transactions are allowed in this account other than making personal payments. Trusts and societies are allowed to have savings account for their activities since they are charitable. It gives interest at the rate of 2.7% to 6% p.a. given quarterly or monthly on the saved balance on a daily average basis and has minimum or average quarterly balance rule.

[b] Current Account is for business entities with unlimited transactions. No bank other than a cooperative bank gives interest on the unused balance in the account. It has minimum balance rule and banks charge a fee for maintaining such large business accounts unless the accounts maintain a good balance.

[c] Overdraft Account allows the account holder to draw money even when there is no balance available up to a pre-decided limit, unlike the savings and current account. It amounts to borrowing and hence it is subject to security, interest payment at commercial rates on the amount overdrawn and service charges.

6A3 Account Operation: To open a personal bank account one must have identity and address proof. For an institutional account one must have, registration certificate, Memorandum of Association and by-laws, PAN card, resolution to open the account besides identity and address proof of all the authorized signatories.

Bank accounts can be opened in the name of individuals (including minors with guardians to operate the account,) related joint individuals or institutions with 'joint' or 'several' account operation. 'Several' operation means operation by anyone of the authorized signatories; it is convenient to operate but may be risky at the same time. Operational instructions can be changed any time with written requests to the bank, supported by a resolution in case of an institution. Units can have account in the name of their society. Ex: Royal Society, Unit: Xavier School.

6A4 Other Facilities: Banks offer following facilities to their customers for a fee or free of cost depending on their financial relation with the bank, in addition to a bank account-

[a] Auto FD is a facility given in both savings and current account where amount above a prescribed limit is automatically converted into FD and gets broken automatically when balance runs short in the account; thus giving higher interest on the unused balance.

[b] Term Deposits are basically of three types- FD, RD and Cash Certificates; all have easy pre-maturity withdrawal provisions. Interest can be obtained on them on a quarterly basis or on maturity. We shall discuss them again under investments.

[c] Term Loans are of two types- secured loan with collateral security and unsecured loan without any security but with one or more guarantors. Lending is the main business of a bank. They collect deposits in order to give loans on higher interest to be repaid in installments over a period of time with varied interest rates and a processing fee.

[d] Locker facility for a fee to keep the valuables of the customers safely is provided by many banks. It may be an exclusive locker or accepting sealed goods in banks common locker.

[e] Bank Guarantee is required for certain business transactions. Banks give those guarantees for a fee on behalf of their customers depending on their credit worthiness.

[f] Bill Payment is a facility provided by banks to pay government bills like TDS, Telephone Bill, Electricity Bill and also to book train tickets directly, etc. The last facility charges a nominal fee.

[g] Investment Advisory service is provided usually by private banks with respect to Mutual Fund investments since they receive their fee from the fund houses.

[h] Nomination facility is provided for individual and joint accounts by all the banks. Nominee gets the balance in the account upon production of the death certificate of the account holder.

It is important to note that a nominee does not get legal rights over the funds upon the death of the account holder. Nominee is legally bound to ensure the disbursal of the funds to the legal heirs. Hence, nominee need not be a legal heir of the account holder. The account holder is required to declare his/her relation with the nominee at the time of filing the nomination to avoid any future disputes.

6A5 Bank Charges:

If minimum balance is not maintained in the bank accounts, all banks charge a maintenance fee. They can also charge a fee for issuing cheque books as per RBI guidelines which they usually waive if good balance is maintained in the account.

Banks also charge a fee for cash handling and cash withdrawals from outstation locations, collecting outstation cheques, issuing demand drafts, effecting fund transfer to other banks, offering locker facility, effecting stop payment orders, returning cheques, etc. Private Banks are known to charge a host of hidden costs.

6A6 Bank Reconciliation:

Bank statement is a ledger copy of our account in the bank. It is given on a monthly basis but also available as per customer's requirement. Its popular version is known as Pass Book and is usually given for savings accounts. Some nationalized banks issue passbooks with customer's photograph and address which also serves as ID proof.

Bank reconciliation is reconciling our bank a/c with the bank statement. There are times when the cheques issued are not en-cashed by others in time or even lost. Some receipts may have come to the bank directly. Some out-station cheques may be still pending with the bank for collection, etc. It keeps a track on all the bank transactions.

Bank reconciliation is an obligation as on 31st March of each year. Some soft-wares have inbuilt reconciliation system which work as follows:

- Start with the closing balance of your bank book account
- Add cheques issued by you but not yet presented for payment
- Add wrong deposits into your account by the bank, if any
- Deduct cheques deposited in the bank but not yet credited
- Deduct wrong charges charged to your account by the bank if any
- Arrive at the closing balance of the bank statement or pass-book.

6B: Cheques

Cheque is the most important facility given by the bank to its customers. It is customer's order to the bank to pay a specified sum of money to the named person or to the bearer on or after the date of the cheque.

Bank is bound to pay a valid cheque in good faith and without negligence to any holder in due course. If bank can be sued for damages both for wrongful dishonor as well as wrong payment of a cheque, cheque bouncing for insufficient funds is also a punishable offense.

Cheque may be issued post-dated or back-dated but not undated. A dated cheque is valid for three months from the date. Paying bank cannot provide date to an undated cheque. Post dated cheques can not be paid before the date.

Writing extraneous remarks or writing on the magnetic number line on the cheque is not allowed. Change of handwriting or ink on the cheque not amounting to alteration is allowed. Writing the cheque in pencil is a practical prohibition. Alterations even if authorized are not accepted in the electronic payment mode.

6B1 Bearer Cheque:
Bearer cheque must bear payee's name or self as payee. It can be en-cashed by any bearer and the bank is bound to pay the holder in due course in good faith and without negligence. Hence, such payments are treated as cash payments. It is mandatory to make payments for bills over ₹10,000/- by 'Account Payee' cheques.

XYZ Bank Limited

Jamshedpur 831001

Date: …………………

Pay to: ……………................……………………….……………….. or bearer

Rupees:…………..……………………....…………… ₹…...........…..…

A/c No: 340010199999999 For ABCD & Company

IFS Code: XYZB0000340 ……………….

123456 831211003 31

Note: This is a sample of a bearer cheque. The number sequence at the bottom begins with cheque number followed by Magnetic Ink Character Recognition or MICR number. Last one is the cheque type code number.

6B2 Order Cheque: If the word ‘or bearer’ gets cancelled in a cheque even by overwriting payees name or the cheque is worded ‘or order’ instead of ‘or bearer’ it becomes an order cheque. An order cheque can be paid to the bearer only with a blank endorsement by the payee on the reverse side which is recognizable to the collecting bank.

6B3 Crossed Cheque: Cheque can be crossed by drawing two apparently parallel lines anywhere on its face except on the signature. (Any lines on the signature cancel the signature.) A crossed cheque can never be paid in cash across the counter. It can be collected through any bearer’s bank account if ‘or bearer’ is not cancelled.

Cheque crossed ‘A/c Payee’ with ‘or bearer’ cancelled is credited to the payee’s account only. But the bank still has the discretion to pay an account payee cheque of a member to his/her organization’s account, if it is fully satisfied about the genuineness of the payment. Whereas paying a cheque drawn in the name of the organization even if it is a bearer cheque, to the member’s personal account is illegal.

Payment of a cheque can be made conditional by inserting restrictive words like ‘not negotiable’ or ‘not transferable’ between the parallel lines or using the word ‘only’ after payee’s name. Use of any other irrelevant words like “& Co’ or ‘and Company’ etc. between the parallel lines adds nothing to the crossing.

XYZ Bank Limited

Jamshedpur 831001

Account Payee

Date: ....

Pay to: …………………………….. ... ... ……….or order

Rupees: ……………………..……………................... ₹……..……

A/c No: 340010199999999 For ABCD & Company

IFS Code: XYZB0000340 ………………

654321 831211003 31

Note: This is a sample of a crossed order cheque of any bank. It is always advisable to give A/c Payee cheques with ‘or bearer’ cancelled for any improper bill over Rs.5000/- to be on the safer side.

6B4 Institutional Cheque: If the drawer of the cheque is an institution, while signing a cheque one must use 'For …(name of the institution)…' by a rubber stamp or in print before the signature, since the authorized signatory signs it on behalf of that institution.

If the payee of the cheque is any institution, such a cheque can be collected only through the payees account even if the words 'or bearer' not cancelled or the cheque is not crossed. For the same reason a self cheque of any organization is not paid in cash to a bearer without the blank endorsement on the reverse side.

6B5 Special Crossing: Negotiability of a cheque can be restricted only by writing the name of a bank anywhere on the face of the cheque with or without the parallel lines and even without cancelling the words 'or bearer'. Such a cheque can be collected only by the named bank. It is better to use special crossing while sending the cheques by mail. Writing the branch name and payee's account number on the cheque ensures that it goes only to the desired account.

Writing 'yourself' as payee's name on the cheque is equivalent to special crossing. This is done while giving a cheque to the bank for issuing a draft or for making multiple payments as per the customer's authorization or transferring funds to an account with another bank.

6C: Bank Remittances

6C1 CTS Cheque: 'Cheque Truncating System' cheque is the most common mode of remittance. Now cheques of any bank under CTS can be collected free of cost from any part of India by any other bank just like local clearing since CTS sends the facsimile cheque online.

6C2 Demand Draft: Demand Draft popularly known as bank DD is a banker's cheque for any amount and need to be purchased from the bank by paying the full amount together with the bank commission. Hence it cannot bounce back for whatever reason. It has to be collected through the bank's branch where it is made payable.

Note:

- Pay Order is just like a DD payable in that branch only. Anywhere payable PO has now made DD redundant.
- Payment by PO or DD is required only in situations where payment has to be guaranteed.

6C3 E-Transfer: Funds can be transferred on-line from any bank to any other bank in India using Indian Financial System Code (IFSC) of RBI. For on-line fund transfer, name and number of the account, name of the Bank and its IFS code must be provided accurately. E-transfer charges are far cheaper than DD charges. In fact, it is the cheapest, fastest and safest mode of fund transfer.

- **RTGS** (Real Time Gross Settlement) for amounts over certain limit; this limit at present is ₹2 lacs.
- **NEFT** (National Electronic Fund Transfer) for below this limit
- **IMPS** (Instant Money Payment System), **IMT** (Instant Money Transfer) are fund transfer by an account holder to anyone even without bank a/c for small amounts.

Note: RTGS & NEFT are effected by the bank at the written request of their customer where as E- PO is a facility given to the customer to transfer funds without involving the bank. Hence, it involves a PIN [personal identification number], a password and has a limit.

SWIFT (Society for Worldwide Inter-bank Financial Telecommunications) system is international electronic funds transfer between two banks from one currency to another. It involves an agent bank when the same bank has no branch in a particular country. Funds are paid to the account in local currency a day after receiving it by the bank.

Cash up to $2500/- at a time, 12 times a year can be transferred online through other private money transfer facilities for a fee higher than the bank commission. It involves a password and identity proof of the person receiving it. Sale and purchase of foreign currency can also be done through authorized dealers up to a prescribed limit.

6D: Plastic Money

It refers to the financial systems that provide easy access to money with a plastic card. Banks usually issue two types of cards- Credit Cards and Debit Cards.

6D1 Debit Cards: Debit cards are issued by the banks instead of cheques to draw money from ATM [Automated Teller Machine; a cash dispensing machine] up to a prescribed limit per day, to transfer money to some other account and to make payments at approved outlets. It is directly linked to the bank account and the money goes out of the bank account at the time of the transaction itself, just like a cheque payment. Hence, it also has a PIN as a security measure.

Debit card may be issued free but its use is not always free. It is very convenient for personal accounts. Institutional accounts with multiple signatories are advised not to use debit cards to avoid accountability hazards. Now, up to a certain limit and up to some limited transactions money can be drawn free of cost from other bank's ATM's also.

6D2 Credit Cards: Credit cards are issued by banks in collaboration with certain brand companies for technology and connectivity like VISA, Master Card, etc. and business concerns for acceptance. There is no need to have money in the account to use a credit card. Customers can use these cards to pay their bills for purchases from any of the authorized outlets up to a prescribed limit. These bills are presented by the agent banks to the customers' bank for payment and have to be settled within a time limit set by them. Some cards have provision to draw cash from ATM.

Being a credit facility, this service has a maintenance fee, commission for agent banks and 'brand company', interest for the credit provided and penalty interest for delayed payment.

Note:

1. Cash card apps linked to mobile phones like Fastag, Pay-TM, Bhim, etc. make the digital payments easy as they can be linked to your bank account directly or indirectly.
2. PAN is compulsory if account balance or annual turnover exceeds ₹50000/- or to make a DD by cash over ₹50000/-
3. Deficiency in banking service comes under consumer forum which has its offices at district, state and national level.
4. Banking Ombudsman at RBI is the easiest and simplest redressal system against any type of bank.
5. Nationalized Banks are also covered under RTI Act but not the private banks. Yet service is better in private banks.
6. Bank deposits up to ₹500000 alone are guaranteed by DICIGC.
7. **NEVER** disclose the bank or card details to strangers over phone even from the bank. Such calls are frauds as banks never ask for those details from the customers.

Jesus is the Best Banker

When the rich man put a big sum in the temple box, clever Jesus ignored it.

He knew, if he was donating a thousand, he had another hundred thousand with him; hence, his donation was just 1%.

When the poor widow dropped just two coins in the same box, Jesus praised it.

He knew that's all she had and she did not keep back anything for her tomorrow; hence, her donation was 100%.

07. Investments

NPO availing income tax exemption can invest their surplus funds only in government approved securities. As of today, there are only four types of investments available for them: fixed deposits of banks/ approved companies/ post office, bonds of approved companies, mutual funds and immovable property. In this book we discuss only Bank FD, Company FD/ Bonds and Mutual Fund since post office does not accept deposits from institutions and NPO rarely makes use of immovable property as an investment class.

7A: Fixed Deposit

NPO are allowed to make Fixed Deposits (popularly known as FD) only in banks, (co-op included) govt. securities, public sector companies and private sector infrastructure development companies approved by the govt. Returns on FD at the agreed rate of interest are assured as they do not depend on any other external factors.

7A1 Bank FD: It is a deposit in any co-operative or private or public sector bank for any amount and for any period from 7 days onwards. Interest rates are a little better on longer periods but not necessarily always. They depend on the needs of a particular bank and so need not be same in all the banks. Some banks give better rate on bulk deposits, particularly when they are in dire need. These are known as special rates which are never made public. Co-operative banks are allowed by RBI to give 1% higher interest. Interest on Bank FD is the lowest among all the investments and is also subject to TDS.

Best advantage in a Bank FD is convenience and liquidity- It can be made any time, for any odd amount, for any period and pre-maturity withdrawal at the going rate is instantaneous. Interest can be taken on a quarterly basis or on maturity. Loans against FD are easily available. Our banking system under RBI is so strong that we do not have any example of a scheduled commercial bank declaring bankruptcy.

7A2 Company FD/ Bonds: It is a deposit in any Govt. Deposit Scheme or a PSU Company or in any other private sector Infrastructure Development Financing Company (but not directly in any infrastructure development company) approved u/s 11(5) of Income Tax Act. It is always in multiples of thousands of rupees and usually for a fixed and longer period with a minimum of six months.

Interest is available quarterly or half yearly or on maturity. Their rates are usually better than the banks but without easy or no pre-maturity withdrawal facility. Being government corporations, refund on maturity is usually prompt. But Hindustan Organic Chemicals Ltd and Madras Fertilizers Ltd have defaulted in the past. Among all the bonds and company FD's, RBI bonds are the most secure.

Nowadays such companies rarely offer better rates than banks and the govt. too has stopped giving any counter-guarantee for their deposits. Hence, it is important to verify their credit rating (the best being AAA) and not by their grand advertisements. Companies with poor rating offer higher returns but they carry higher risk on capital. Money invested in some of the bonds gets locked. There are also bonds of companies that can be freely sold in the secondary market. Interest on all these deposits is subject to TDS just like Bank FD.

7B: Mutual Funds

7B1 Stock Market:

Stock markets are the platforms to facilitate sale and purchase of stocks. They do not decide the price. Prices of stocks purely depend on demand and supply of stocks exactly like a fish market. Brokers are the agents through whom orders may be placed in the stock market. Nevertheless, provision is also available for direct mutual sale purchase of stocks independent of the market price. Market related securities can be bought or sold only through dematerialized accounts commonly known as D-Mat A/c. All stock related issues are controlled by Security Exchange Board of India or SEBI.

SENSEX (abbreviation for sensitive index) is the index of BSE (Bombay Stock Exchange) and NIFTY (short form for national fifty) is the index of NSE (National Stock Exchange). SENSEX is the total market value of the stocks of 30 select companies listed under BSE and NIFTY is the total market value of the stocks of 50 select companies listed under NSE. They are only indicators of the market movement; every investment may not strictly follow their movements. There is also a third stock exchange called Union Stock Exchange (USE). All three are located in Mumbai, also known as the commercial capital of India.

7B2 Mutual Funds:

Mutual Funds or MF are trusts under SEBI regulations, which accept money from the public and trade it in security markets in a pre-arranged pattern made known in advance to the investors through their offer documents. Hence, income from MF directly depends on the prevailing market forces.

NPO are allowed to invest in MF u/s 10(23D) of ITA but not trading in shares directly. Latter is treated as business and so such gain is taxable. MF schemes are sold in units with a price called NAV (Net Asset Value) at the close of the market day. Buying these units is treated as investment since there is no trading of these units during the day.

The best way to make money from MF investment is to invest when the market is low and redeem when the market is high. The difference between these high and low is investor's income. But it is not easy to predict the behavior of the market so easily.

ABSL, DSP, HDFC, ICICI-Pru, IDFC, INVESCO, PGIM, SBI, Nippon, TATA and UTI are some of the reputed fund houses of MF. But, no past performance is any guarantee for future achievement nor all schemes of a particular fund house give same type of returns. One has to take a calculated risk observing the trends in the market movements and analyzing the inputs available.

Note: NPO are not allowed to invest through Portfolio Management Scheme or PMS as it makes the investor a direct partner in the stock trading through a power of attorney.

MF are broadly categorized into 3 types-

7B3 Equity Funds: These funds have to always invest 65% to 100% of their funds in Indian equities at all times. They give best returns in a bull market but carry greater risks in bear market. There are many types of equity funds-

[a] Sectoral Funds invest in a particular sector like Infrastructure, Information Technology, Automobile, etc. They are greatly rewarding but highly risky when that sector fails to perform.

[b] Diversified Funds invest across a host of diversified sectors. It reduces the risk when one particular sector fails to perform, as it gets balanced by other performing sectors.

[c] Large Cap Funds invest in stocks of companies whose Capital base is large. Being large capital based companies; they usually expected to deliver steady returns.

[d] Mid Cap Funds invest in stocks of companies whose capital base is medium sized. Since the growth potential of these companies is higher, they are expected to deliver better returns than large cap funds in the process whenever they succeed in growing into large cap companies.

[e] Small Cap Funds invest in stocks of companies whose capital base is small. Here the scope for higher returns is greater than that of mid cap funds as well as the risk of losing out also is higher.

[f] Flexi Cap Funds invest in a mixture of large, mid and small cap companies depending on their performance to take advantage of all the types without a fixed ration. When the ratio is fixed, it is called a Multi Cap Fund. It is always advisable to invest in flexi cap funds as they work like diversified equity funds, reducing the risk.

Note: All fund houses offer SIP / STP route for investment where money is invested in regular intervals in equal installments, irrespective of market level. It works on the principle of averages.

7B4 Debt Funds: Debt funds invest in Govt. Securities, Bank Certificate of Deposit, Company Commercial Papers and Bonds giving moderate returns like bank interest but with a steady rate of income irrespective of period of investment.

[a] Liquid / Medium Term / Cash Funds invest in short-term securities and call money market for any number of days for immediate but low returns. Such returns are slightly lower than the bank rates on a longer period. For shorter periods their returns are certainly better than the bank deposits since their rates are steady irrespective of the duration, unlike the banks.

[b] Short Term / Income Funds invest in long term tradable government bonds and securities whose yield depends on the interest scenario. Hence, the returns from these schemes may turn negative in the shorter term but on a longer term they deliver modest average returns. Lower the bank interest rates, higher will be the yield from the bonds and vice versa.

7B5 Balanced Funds: Balanced funds invest in both equity and debt funds in a pre-determined pattern but with a flexibility to change the ratio depending on an opportunity. The equity component varies; usually around 50%. This reduces the risk to some extent in a bear market. But it also reduces the returns compared to equity investments in a bull market since their equity exposure is low.

Equity Savings schemes invest less than 50% in equity. Monthly Income Plan or MIP was a closed ended scheme with less than 30% in equity, originally started to give monthly income. But now it is an open ended scheme that can be redeemed anytime.

These schemes are good for investors who are looking for opportunities to increase their returns better than the debt schemes. Active investors balance their portfolio with a good mixture of equity, balanced and debt schemes, booking profits periodically.

7B6 Advantages of Mutual Funds:

Gain from MF is free from any tax deduction at source whereas interest on FD is exempt from TDS only with prior written exemption from the Income Tax dept to be obtained each year, which is not easy to get always. Gain from equity MF invested beyond one year was fully tax free up to 31.1.2017; but now it is tax free subject to 85% utilization.

Redemption of MF is hassle free and comes online to the bank account the next day for debt funds and on third day for equity funds. Open ended MF can be redeemed anytime while close ended MF can be redeemed after due date. Nevertheless, gain accrues on a daily basis even after the due date unlike in FD.

All equity MF schemes have growth and dividend options. In growth option the gain gets accumulated on a daily basis where as in dividend option it is paid out periodically. After the payment of dividend in a MF scheme, the investment value gets reduced to the same extent. It is not an extra benefit like the dividend declared by a company.

7C: Investment Plan

7C1. Investment Strategy:

Never put all the eggs in one basket. Investments need to be diversified across various opportunities. Prudent plan of investment has to be made taking into account the following factors:

- The annual expenditure requirement of the organization
- Organization’s regular sources of income
- Actual surplus of the organization
- Duration for which the surplus can remain invested and
- The volatility of the market forces

[a] Uncertain Income:

If an organization depends heavily on the generosity of the donors, its surplus cannot be risked. Two to three years annual requirements have to be always invested in safe instruments like, Bank FD or Company FD or Debt Mutual Fund. Among the three, debt Mutual Fund should get priority since they give better liquidity and better returns for shorter periods.

[b] Definite Income: When the income sources are regular and if the surplus can be spared for over three years, equity investments are the best option. But it is advisable to diversify them across various sectors and fund houses so that if one or two particular sectors or fund houses do not perform, others may balance the performance.

[c] Timing the Entry: Timing the entry into equity investment plays a crucial role. It is good to wait for a better opportunity than jump into equity investment in a hurry. Gain increases substantially if one manages entry at the lower levels. It is better to keep around 20% of the investment always in liquid funds to take advantage of the timing. This is not always possible since the equity market movement is unpredictable as there is no way one can predict the lowest level.

[d] Market Volatility: Since equity market is unpredictable, avoid risky, sector specific investments. Restrict them to less than 10% of the total allocation. They may give superlative returns at times and at other times they can make the investor lose their own money.

For the same reasons, it is also advisable to avoid schemes with small AUM [assets under management] and fund houses with poor standing even if they give excellent returns. Always depend on consistently performing schemes of reputed fund houses. Also avoid equity investment when there is no clarity in the market upheavals.

7C2 Investment Advisory: Independent investment advisors provide professional service free of cost to the investors since they get their commission from the fund houses. But choice of good advisors is very important. There are cases where unscrupulous advisors including banks have taken advantage of the ignorance of the investors and enriched themselves at the expense of the investors.

There are provisions to invest in MF directly online without any assistance from the brokers and such investments give 0.5% extra gain. But you may not get good advice from the fund houses as they will never advise you to invest outside their own schemes. Many MF are now imposing an exit load. In close ended schemes, pre-maturity redemptions are permissible only on prescribed due dates and with pre-determined exit loads.

Private Banks also offer MF advisory. But they are neither good advisors nor good destinations themselves. They advise only such schemes where they get higher commission. They do not even hesitate to churn the investments of the ignorant investors and burn their pockets just to earn their own commission.

In MF investments, bank's business is their commission and the officers earn their promotions by meeting the commission targets. It is a self contradiction if banks canvass deposits for others even when they themselves need that money for their own business. It is worth noting here that Axis Bank played such a mischief with Catholic Charities in Jamshedpur. Subsequently it was penalized by RBI twice for their lack of due diligence with the customers; first time with Rs.15 lacs and then with Rs.5 Crore. (Telegraph 27.4.11 & 11.6.13)

7D: Investment Journal

Entries for all possible types of MF investments are shown in the following table (All amounts in rupees)

	Investment Transaction	Accounts	Dr	Cr
1	100000 invested in FD from the bank balance	Fixed Deposit To Bank	100000	 100000
2	25000 cheque received towards int. on above FD	Bank To Interest	25000	 25000
3	FD of 100000/- matured in the bank with interest of 25000/- & put in account	Bank To FD To Interest	125000	 100000 25000
4	5000 units of SBI-MF bought @100/- by chq.	Mutual Fund To Bank	500000	 500000
5	1000 SBI units from above are redeemed @100/-	Bank To Mutual Fund	100000	 100000
6	1000 SBI units from above redeemed @116.54 and received through DC	Bank To Mutual Fund To Inc from MF	116540	 100000 16540
7	1000 SBI units from above are redeemed @76.54 & received through bank DD	Bank Loss from MF To Mutual Fund	76540 23460	 100000
8	1000 SBI units from above are switched to Debt Fund at the rate of@199.99	Mutual Fund To Mutual Fund To Inc from MF	199990	 100000 99990

Spirituality of a Good Treasurer

Begin the day with Good Morning

During the day Good Moaning

End the day with Good Money

All it means:

pray well

work hard

and make money

08. Income Tax & GST

8A: Charitable Institutions

Income Tax Act u/s 2(15) defines a charitable purpose as relief of the poor, education, medical relief, preservation of environment, preservation of monuments/ places/ objects of artistic/ historic interest, Yoga (wef 1.4.15) and advancement of any other object of general public utility. Any institution with one or more of the above purposes as its objects is known as a charitable institution or NPO. (NGO is a misnomer)

If the annual receipts from advancement of an object of general public utility are over 20% of the total receipts, its services must not be in the nature of business for a fee or any other consideration.

As per Supreme Court rulings, education in itself is a charitable object when the benefits are open to all, even if it is not accompanied by any philanthropic activities. But education will include only those activities with a distinct character of formal schooling. Hence, running a hostel for poor students without any educational activity will not be an educational object; it is an object of general public utility.

8A1 Registration u/s 12A: Tax exemption will be available to a charitable trust, society or company subject to conditions u/s 11, 12 & 13 if it is registered u/s 12A and the accounts are audited by a chartered accountant if the income crosses the taxable limit and the benefits are open to all without discrimination. (Exclusivity for women/ children/ SC/ ST is allowed.) It is required to register within a year of its formation or else pay applicable income tax for the delayed period. (All entities need to register afresh before 31.3.21 under the amended act.)

For registration of an entity u/s 12A (valid for 5 years), its objects have to be charitable, activities have to be genuine, income must be applied for the objects and benefits should not go to a particular religious community/ caste or any private purpose. Registration may be cancelled if these conditions are violated subsequently.

8A2 Business Income: Income from property held under trust and applied wholly for charitable or religious purposes in India is tax-free u/s 11(1a) if not over 15% of it is accumulated and separate books of account are maintained. Property includes business gains and profits from incidental activities u/s 11(4A). Undisclosed incidental income will be taxed like business income u/s 11(4).

Incidental activity exists only because of the main object. Hence, hostel, canteen, transport, book-store, etc, attached to a school and exclusively for its students are incidental. Even a private residence of a religious group working under a NPO which cannot own personal assets as a rule is an incidental activity if it has no income other than from charitable activities. General public utilities can have a max of 20% of their receipts as incidental income. Taxable business income results in cancellation of registration u/s12A wef 1.4.2022.

8A3 Tax-free Income:

Income of the entities not registered u/s 12A is tax-free in following cases provided they apply the income wholly and exclusively to the objects for which they are established and satisfy other conditions u/s 11, 12 & 13:

U/s 10(21): any approved scientific, social or statistical research association and notified in the official gazette, u/s 35(1) (ii) or (iii)

U/s 10(23BBA): a body established under any Central/ State/ Provincial Act for one or more of public religious or charitable trusts/ endowments/ societies for religious or charitable purposes registered under the Societies Registration Act/ any other law in force provided they satisfy all other conditions u/s 11.

U/s 10(23C)(v): any trust or legal entity wholly for public religious purposes or wholly for public religious and charitable purposes, which may be approved by the prescribed authority, administered for ensuring that the income accruing there upon is properly applied for the objects of the entity thereof.

U/s 10(23C)(vi): any educational institution existing solely for educational purpose and not for profit and approved by the prescribed authority.

U/s 10(23C)(via): any hospital or institution involved in the treatment of the patients including their rehabilitation existing solely for philanthropic purpose and not for profit and approved by the prescribed authority.

No prior approval is needed for the last two types if their annual income is up to rupees five crores with effect from 1.4.22. Yet, it is better to register u/s 12A or 10(23C)(v) or 10(23BBA) for greater freedom.

The donors to such NPO also get tax benefits as follows-

- 175% of the donation to a scientific research institute; 125% of the donation if it is a social or statistical research institute, related to the business of the donor, notified u/s 35(1) (ii) & (iii)

- 100% of the donation to PM/ CM/ LG's Relief Fund and 50% of the donation to any other approved fund (a max. of 10% of donor's income) provided not over ₹2000 is paid in cash, u/s 80G

NPO must obtain respective exemption certificates. Any certificate u/s 80G & 10(23C) valid 1.10.09 onwards is valid only up to 31.3.21. From 1.4.21 it needs renewal and will be valid for a period of 5 years.

8A4 Donation & Capital Gain:

Designated funds form part of the corpus and are not taxable u/s 11(1d). A donation for a specific purpose is like a corpus donation even if the word corpus is not used by the donor as per High Court rulings [2012]18 Taxmann.com 37 & 364; [2012]20 Taxman.com 702. Entities regd. u/s 12A cannot give corpus donation or transfer designated funds or past surplus to others.

Anonymous donations [identity of the donors not established] received by NPO other than wholly religious and charitable; over ₹100000 and over 5% of the total donations received per year will be reduced from the total income and charged 30% tax u/s 115BBC. Once tax paid, it will not affect the rest of the income of the institution.

U/s 11(1A), long term capital gain or LTCG will be treated as applied to charitable purposes to the extent it is utilized in acquiring new assets. Hence, LTCG re-invested in new capital assets is tax-free. Taxable LTCG has an additional surcharge of 15% wef 1.4.22.

8A5 Application of Funds:

All payments made in carrying out the charitable activities are lawful charitable application.

[a] Grant given out only from current income to a NPO regd. u/s 12A or 10(23C) is treated as application if the purpose of grant is part of the object for both the NPO, even if the funds are utilized by the beneficiary in subsequent years, by CBDT circ. 1132/ 5.1.81.

Hence, educational institutions with exemption u/s 10(23C)(vi) can give grant to other entities only for the educational purposes. Hence, it is essential to have evidence of its utilization. Same is the case with hospitals with exemption u/s 10(23C)(via). They cannot give grant for any other purpose even if they are charitable.

[b] Loan refund even with interest on loan taken for the charitable objects is charitable application vide CBDT cir-100/73. (Loan given out for charitable purposes was considered application only up to 31.3.21.) If bills over ₹10000 are paid in cash or by bearer cheque, they are not application and will be added to the income.

[c] Corpus utilization is not an application wef 1.4.2021. It must be invested in approved investments. If utilized, its replenishment alone is application to the extent of its replenishment.

[d] Excess Exp is no more an application to be set off against the income of the next financial year wef 1.4.2021

8A6 Accumulated Income: NPO are allowed to accumulate 15% of annual income for its objects u/s 11(1a). If it exceeds 15%, it can be set apart with an application u/s 11(2) to the ITO specifying the purpose and investing it in approved forms. It has to be utilized only for the said purpose within five years. No grant can be given out either from the accumulated or from the set apart income.

8A7 Approved Investments: Subject to 85% utilization, gains from these investments are tax exempt u/s 11(5) for NPO regd. u/s12A -

(i) Central Govt Saving Certificates

(iii) Deposits in any scheduled banks including co-operative banks

(v) Bonds & Securities of Central or State Govt

(vii) Deposits in Public Sector Undertakings

(x) Immovable property: land & building

(xii) Other forms prescribed (u/r 17C(i): units of MF u/s 10(23D), u/r 17C(viii): FD & Bonds of Infrastructure Finance Company, u/r 17C(ix): Gold Bonds)

8A8 Interested Person: An interested person is defined u/s 13(3) as the author of the trust, the founder of the institution, any person who has made a substantial contribution to the institution (Note 3), any trustee or manager of the trust by whatever name called or any relative of any such aforesaid persons (Note 1) or any concern in which any of the aforesaid person has a substantial interest (Note 2)

Note 1: Relative of an individual is spouse; brother or sister; brother or sister of the spouse; any lineal ascendant or descendant; any lineal ascendant or descendant of the spouse; spouses of a person referred above; any lineal descendant of a brother or sister of self or spouse

Note 2: A person shall be deemed to have a substantial interest in a concern, if it is a company & 20% of its voting power shares are owned beneficially at any time, alone or collectively with other persons referred u/s 13(3); any other concern if such person is entitled or such person and other persons referred u/s 13(3) are entitled in the aggregate at any time, to not less than 20% of the profits of such concern.

Note 3: Any person, whose total contribution up to the end of the current financial year is > ₹50000, is an interested person for that entity. Hence, grants among charitable institutions > ₹50000 can flow only in one direction during any financial year. Even one way triangular transfer of grants between 3 institutions in the same year can be termed as round tripping as it brings back the original grant. But inter unit grants are like contra entries as they are within the same legal entity; they do not come under this prohibition.

8A9 Exemption Denial: Tax exemptions shall be denied –

[a] U/s 13(1) If any entity is established for the private benefit of any particular religious community or caste or on any part of its property is applied for the benefit of interested person u/s 13(3).

Note 1: Entities for the exclusive benefit of SC/ ST/ BC/ women/ children shall not be deemed to be for the benefit of a religious community or caste within the meaning of clause 13(1)

Note 2: U/s 13(2) property of the entity shall be deemed to have been used for the benefit of the interested person u/s 13(3) if-

[1] Any part of the property is made available to him for any period without adequate compensation or security

[2] More than reasonable amount is paid to him as consideration for the services rendered by him

[3] Any services of the institution are made available to him without adequate compensation

[4] Any property is sold to him for less than adequate consideration

[5] Any property worth over ₹1000 is freely diverted to him

[6] Property is purchased from him for more than adequate consideration

[7] Any funds of the institution are invested in any concern in which he has a substantial interest

[b] U/s 13(8) If the income of any NPO registered u/s 12A with an object of general public utility crosses the exempted limit u/s 2(15) during the year, even if the exemption is not withdrawn.

[c] U/s 12(2) the value of benefit given to an interested person will be taken as income and shall be charged to income tax. **U/s 13(6)** the exemption shall not be denied in relation to any income other than u/s 12(2). Similarly **u/s 13(4)** if the funds of the institution invested in which an interested person has a substantial interest do not exceed 5% of the capital of that concern, the exemption shall not be denied to any income other than such investment income.

[d] Denial of exemption is specific to the financial year. An interested person can take full payment for a service rendered or receive eligible benefit which is available to all under its rules but cannot receive any concessions by virtue of being an interested person. In case of receiving honoraria for the services rendered, its amount with all the concessions cannot exceed eligible salary for the position held.

8A10 Cancellation of Reg. u/s 12A:

Up to 31.3.22, reg. u/s 12A was liable to be cancelled only if it was proved that the charitable objects are changed or activities are not genuine. But wef 1.4.2022, it can also be cancelled if the following violations are committed -

[a] If any income of the NPO is applied/ used other than for the objects for which it is established.

[b] If the NPO has income from profits and gains of business which is not incidental to the attainment of its objectives or separate books of account are not maintained by it in respect of the business which is incidental to the attainment of its objectives.

[c] If the NPO has applied any part of its income from the property held under a trust for private religious purposes which does not enure for the benefit of the public.

[d] If the NPO established for charitable purpose created or established after the commencement of this Act, has applied any part of its income for the benefit of any particular religious community or caste.

[e] If any activity being carried out by the NPO

(i) is not genuine; or
(ii) is not being carried out in accordance with any or all of the conditions subject to which it was registered

[f] If the NPO has not complied with the requirement of any other law, as referred to in item (B) of sub-clause (i) of clause (b) of section 12AB(1), and the order, direction or decree, by whatever name called, holding that such non-compliance has occurred, has either not been disputed or has attained finality.

Note1: At point [b] gains from investments not u/s 11(5) or rental income when the entire property is rented out may run the risk of being treated as business income attracting cancellation of registration u/s 12A.

Note2: Point [d] too is misleading. Entities regd. u/s 12A exist for both charitable and religious purposes. What is not allowed is the exclusive use of income to the benefit of a particular community or caste.

8B: Individual Persons

PAN is Permanent Account Number of an assessee with the Income Tax Office. Any one may apply for PAN and the ITO shall allot it forthwith. Every one with taxable income and persons and association of persons notified by Govt. must have a PAN. It does not apply to persons whose income is below taxable limit and those who are not required to obtain it; but there is no harm in having PAN by them either. PAN is also accepted as ID proof across the country.

PAN is now mandatory for a host of financial transactions over ₹50000, like making a bank draft, buying a car, etc. Obtaining PAN is out-sourced for a nominal fee. Possession of multiple PAN cards or quoting a wrong PAN attracts penalty of ₹10000. Any person deducting tax shall quote PAN of the deductee in all statements to be filed with ITO.

8B1 Income Tax Rates (FY 2021-22-23)

Senior Citizen above 80 yrs up to ₹5 lacs; Over 60 yrs to 80 yrs up to ₹3 lacs; all others up to ₹2.5 lacs + SD=50000	NIL
Over the above limit up to ₹5 lac (up to ₹12500 rebate)	05%
Over ₹5 lacs up to ₹10 lacs [no rebate from here]	20%
Over ₹10 lacs on all amounts	30%
+ Pry Ed Cess, Hr Ed Cess & Swatch Bharat Cess on tax	04%
+ SC on Income Tax for income > 1 Crore	15%

8B2 Exemptions u/s 10: Individuals are given tax incentives as per sub sections below. Exemption u/s 10 (1) is also available to NPO. These are deducted from the gross income of a person.

10 (1): All agricultural income. (Even rent received from agricultural land and buildings is tax-free u/s 2(1A) being incidental to the object. But ‘Live-Stock Farm’ income is taxable unless it is incidental to the objects.)

10(5): LTC for self and dependent spouse, children, parents, brothers, sisters or any of them on leave from employer or even after termination of service from ex-employer to any place in India provided that the exempted amount shall not exceed the actual amount of expenditure incurred and not more than two journeys in a block of four calendar years from 2002 (last block being 2018-21)

10(10): Gratuity received u/s (2) & (3) of Gratuity Act or other gratuity received on termination or received by legal heirs on death subject to rates and limits notified by the Govt.

10(10AA): A maximum of 10 months Earned Leave encashment at the time of retirement (up to 30 days per year) subject to limits notified by the Central Govt.

10(10B): Compensation received by an employee at the time of retrenchment or shut down or transfer of management with less favorable terms under any rule, as per sec-25F(b) of Industrial Disputes Act.

10(10C): Amount receivable on voluntary separation in accordance with any approved scheme of voluntary separation up to ₹50000

10(10D): Any sum received under a life insurance policy including the bonus on such a policy if the AS is 10 times the premium or more

10(11): any receipt from PF to which the PF Act applies or from any other PF set up and notified by the Central Govt and the accumulated balance as per rule 8 of Part A of the Fourth Schedule

10(13A): Lower of actual HRA received or rent amount above 10% of salary or 40% of salary (50% in major cities), only if HRA is received and the house is not self owned. Deduction is allowed even when the house is owned by other members of the family

10(14): Re-imbursement of any expense incurred exclusively in the performance of the duties or to compensate for the increased cost of living except compensation for performing duties of a special nature relating to the office, prescribed by rules

10(16): Scholarships granted to meet the cost of education

10(17A): Award received in public interest given by any Central Govt. approved entity.

10(33): Any income from Unit-1964 of UTI wef 1.4.2002

10(37): Any Capital gain from agricultural land to an individual under any acquisition by govt.

8B3 Deductions from Gross Salary:

Profession tax u/s 16, 30% of annual income from house property u/s 24a and interest payable up to ₹200000 when the property has been owned with a loan u/s 24b are allowed to be deducted directly from the gross income.

Gifts from anyone up to ₹50000 are tax free u/s 56(2)(x). If it is received in cash or its fair value exceeds ₹50000 the entire amount is taxable. Any immovable property received free or for value less than the stamp duty value is taxable for the entire value as reduced by what is paid, if the difference amount exceeds ₹50000.

This shall not apply to any sum or property received from a relative (by blood or by marriage or descendants of self & spouse) or as a marriage gift (of self) or by a will or inheritance or from any govt. or from any NPO u/s 12A or 10(23C). But perquisites and contractual obligation due to employment are taxable u/s 17(2) together with salary.

8B4 Deductions u/s 80:

These deductions are allowed from taxable income in addition to standard deduction of ₹50000/- for the salaried persons. They are not 'tax-free' per se; they are incentives or concessions on certain savings, expenses or even income at times.

80C: Approved savings in the name of self, spouse or children, life insurance premium up to a maximum of 10% of the assured sum; (15%, if it is on the life of a disabled person), savings in govt. approved EPF, PPF, Pension Fund; deposits in govt. approved schemes like NHB/ NABARD/ PO/ bank FD/ ELSS MF units; Tuition Fee paid for any two children for any full time education in India, repayment of housing loan (capital, stamp duty value, registration fee & any other expense wrt transfer of property); up to a maximum of ₹150000

80CCD: Contribution to National Pension Scheme of ₹50000

80D: Up to ₹25000 health insurance paid on self, spouse and dependent children; ₹30000 on health treatment for super senior citizens without health insurance; ₹15000 on dependant parents (₹30000 for Senior Citizens) both include payments on preventive health-check up to ₹5000 provided any insurance payments are not made in cash.

80E: Interest paid on education loan for a maximum period of eight years for graduation and post graduation studies taken from any approved financial institution or charitable institution approved u/s 10(23C) for self or spouse or children or the legal wards.

80G: 100% of the donation to PM/ CM/ LG Fund and 50% of the donation to an entity approved u/s 80G up to 10% of donor's income provided: it is a sum of money, given only for charitable purpose, not for any business activity, to an entity not using over 5% of its income for religious purpose and not paid in cash over ₹10000. (Former alone can be deducted by the employer; latter must be claimed as refund separately by the employee by filing one's personal ITR)

80GG: When no HRA is received, lower of ₹5000 pm or 25% of the income or rent paid over 10% of the income, provided house is not owned by self or any family members

80GGA: 100% of the donation to any research or rural development association notified u/s 35 provided it is used only for the said purpose, not over ₹10000 is paid in cash and not given out of gains from business

80GGC: Contribution (not in cash) to a registered political party. (Important note: NPO cannot give donations to any political parties since no political party is registered u/s12A)

80QQB: Royalty or copyright for any literary, artistic or scientific books [not text books] and royalty on patent u/s 80RRB up to a max of ₹300000 each if certificate in the prescribed form is produced

80TTA: Interest on SB A/c in any bank up to ₹10000; not applicable if the A/c is in association's name or interest received is on any other deposit

80U: Against a valid certificate from a medical authority, a disabled person is allowed a deduction of ₹75000 and in case of severe disability the eligible amount is ₹100000

8B5 Income of Missionaries:
CBDT letter No: I/1121 dated 5.12.1977 exempt fees and other income received by the missionaries from tax in their hands if they are received in the **fiduciary** capacity and entirely handed over to the society they belong (ref: 12B for details). Taxability of such income gets transferred to the institution where it is assessed. Hence, such income has to be incidental to charitable objects and it is also required to get such fees directly in the society's account with written evidence in support.

8B6 Income Tax Computation
of a 59 year old person with a monthly gross salary of ₹67200 with PF and PF deduction of ₹14400

He spends ₹2900 as monthly tuition fee, his annual medical insurance is ₹30000 on self and ₹5000 on parents and monthly rent paid is 7500. (As per the declaration with evidence) His monthly TDS is ₹1100

Annual Salary = 67200 x 12 = 806400	806400	
Income from other sources* (see note)	Nil	
Less: Exemptions:		
Standard deduction = 50000		
Employer part of PF = 7200 x 12 = 86400	136400	
1.Gross Income:		**670000**

Less: Deductions: Employee PF = 7200 x 12 = 86400 Tuition Fee = 2900 x 12 = 34800 Health Insurance = 30T+5T = 35000 10%sal =72T; Limit amt =60T Rent -10%sal = 90T-72T =18T 18000	121200 30000 18000	169200
2.Taxable Income:		**500800**
Note: Rebate of ₹12500/- is not admissible in this case		

Tax Computation:		
1- 250000: 250000 x 0% = nil		
250001- 500000: 250000 x 05% = 12500		
500001-1000000: 800 x 20% = 160	12660	
+ Addl. Cess = 4% on IT =	506	
3.Total Tax Liability:		**13166**

TDS paid for April to February, 11 months x1100 = ₹12100
Net **Income Tax payable** for March / Refund receivable = ₹ 1066

* **Note**: Other income includes value of perquisites received (see 8C1), interest received on EPF (wef 1.4.21) and employer's contribution to EPF (wef 1.4.22) if it is over 2.5 lacs pa.

8C: Tax Deduction at Source (TDS)

TDS must be deducted from payments to all service providers for carrying out any work including supply of labour in pursuance of any written or oral contract on all bills over ₹30,000. Bill amount for TDS excludes GST but includes reimbursement of any expenses included in the bill.

Cess on TDS is only on salary. TDS must be deducted on part amounts advanced or credited or payable as on 31st March even if the bill is not paid. Personal advance and personal contracts are out of TDS.

8C1 Services under TDS:

Work contract includes advertising, broadcasting, production of programs for broadcasting, carriage by any mode of transport (excl. railways), catering (excl. sale at the counter), making or supplying a product to customer's requirement by using material from customer with pre-ownership. The same work becomes sale if the material used is not received from the customer vide CBDT cir-681/94 & 13/06 and so is out of TDS. License & service part of smart-class products come under TDS as they are not a sale.

TDS on salary has to be deducted on a monthly average basis together with cess and deposited within 7 days of the next month. Value of free or concessional facilities of quarters, travel to school and fees*(if part of employment contract) must be added to the salary u/r 3 to determine TDS. For the last month, the difference must be deducted and annual TDS certificate in form 16 must be issued before 30th of April.

Each employee is required to give a declaration at the beginning of the year on the tax free deductions for the coming year; in its absence, TDS has to be deducted on the entire salary.

TDS on any payment to a missionary must be deducted if it is paid on his or her merit and not on any agreement between the charitable society he or she belongs and the amount does not go directly to the account of the charitable society he or she belongs.

Hospital bills paid for treatment of patients are under TDS if they are paid out of contractual obligation. In a composite contract with sale part clearly separated from service, TDS will be applicable only to the service part. If there is no clarity, it is advisable to deduct TDS on the entire bill than attract penalty, as excess TDS is refundable during the assessment. When the annual contracted value exceeds the following limit TDS is deducted from each bill irrespective of its amount.

U/s	Single Bill > 30000 or Annual Gross Bills >	Tax-free Lim	TDS
194A	Interest on Deposit / Loan Bank 40000;	NBFC 5,000	10%
194C	Work Contract, Service- Ind. or Prop - Other AOP	1,00,000	1% 2%
194-I	Rent for Land & Building	2,40,000	10%
194-I	Rent for Plant & Machinery (of any type)	2,40,000	2%
194-IA	Transfer of land/ bldg (excl. rural agri. land) *	49,99,999	1%
194J	Technical Services, License Fee, Royalty Consultancy, Professional / Other Fees	30,000	2% 10%

* TDS will be on the higher of actual or the stamp duty value from 1.4.22.

Individual persons with income up to tax-free limit can claim exemption from TDS by giving PAN copy & a self declaration in form 15G/ 15H (senior citizen) u/s 197A (1). All others have to use Form 13 to apply to the ITO for TDS exemption on specific receipts and the ITO gives the exemption certificate, valid only for one financial year.

If payments attracting TDS do not have PAN, tax is deducted at higher of 20% or the normal rate.

From 1.7.21, if a non ITR filer vendor's annual bills were over 50 lacs for the last two expired AY each, then the TDS has to be deducted at higher of 5% or twice the normal rate applicable to the bill.

8C2 Tax Returns:

To deduct and deposit TDS into govt. account (ITO) one requires Tax Account Number or TAN in addition to PAN. It is a temporary account number with the ITO where deducted amount is parked till it is finally assessed to tax. Hence, different TAN for different units with same PAN of the parent entity is allowed.

All amounts deducted during the month may be collectively deposited in the govt. account latest by 7th of the next month with separate challan for each category; a single cheque may be used for all the monthly TDS payments. If the last day is a holiday, tax must be deposited before the last day. It is also possible to pay the TDS online without paying any visit to the bank or preparing any challan for the payment and get the receipt. Facility is also available now to deposit TDS as and when it is deducted without accumulating it on a monthly basis.

Quarterly TDS returns must be e-filed within 15 days from the end of each quarter separately for salary and others. For the last quarter the deadline is extended till 30th April. TDS certificate in form 16A must be given to every 'non-salary' deductee within a month if asked for. Otherwise, it is now available in form 26AS.

Annual Income Tax Returns (ITR) must be e-filed by individuals by 31st July and by entities regd. u/s 12A or 10(23C) by 30th September. From 1.4.2022 two years extra time is given to file rectifications but with a penalty. Failure to do so deprives tax exemption. It should be noted here that rectification returns filing is not allowed if it results in reduced tax or increased refund.

Salaried persons up to ₹5 lacs taxable salary per year need not file their ITR if their interest on SB account is not over ₹40000 or they do not have any TDS refund to be claimed or any other income from other sources besides salary. Form 16 given by their employer is their valid ITR. All persons over 75 years of age and with pension and the interest on FD held in the same bank as the only income are also exempted from filing ITR from 1.4.21

8C3 Accounting Contract Bills:

In a journal system total bill is accounted against net chq payment and the TDS retained under TDS payable account, to be deposited in govt. account collectively by 7th of the next month. (In addition, there may also be other deductions.) Sample journal entries for a contract bill of ₹100000 are –

For an individual or a proprietor with PAN	Dr [Project's name] 100000	Cr Bank Cr TDS Pybl	99000 1000
For a partnership firm or a company with PAN	Dr [Project's name] 100000	Cr Bank Cr TDS Pybl	98000 2000
For a professional with PAN	Dr [Project's name] 100000	Cr Bank Cr TDS Pybl	90000 10000

8C4 Penalties: If concealed income is detected during the tax scrutiny, income tax will be charged on it without allowing any deductions at the highest prevailing rate with 300% penalty.

Delay in filing tax returns or issuing TDS certificates has ₹200 per day penalty with a max of the tax amount. If TDS is deposited late into the govt. account, penalty interest @ 1.5% for each month or part and an extra penalty of ₹10000 to ₹100000 for delay over a year may also be imposed. Delay in refund by ITO makes us eligible for interest @ 6% p.a. on the delayed amount for the entire delayed period.

8D: Indirect Tax

NPO come under Goods & Services Tax (GST) also. Besides, they have to pay any other taxes levied by the local bodies as and where they are applicable. Professional tax is levied by the state govt. on various types of professions carried out in a state. It is applicable to individuals as well as institutions at rates fixed by the respective state govt. to be paid as per the periodicity determined by them.

8D1 GST is an indirect tax charged on goods sold and services provided. GST paid to the supplier gets refunded from GST charged to the customer as input credit while depositing it in govt. account. It is an expense only to the end user.

8D2 Non GST services are: (12) pure labor contract for a single residential unit, (13) renting for residential purpose, (15) guest house service with rent < ₹1000 per day, (52) library services and publication of knowledge enhancing material, (60/58/57/25) all agricultural & incidental services including renting, (69a) all services offered to their students & staff by schools up to senior secondary and educational institutions offering govt. recognized courses and (77) health care by clinics/ doctors and independent ambulance services.

Following services by charitable trusts regd. u/s 12A, 10(23C), 10(23BBA) are also out of GST- (83) conducting training in recreational activities related to art/ culture/ sports, (14) conducting religious ceremonies and renting religious premises with rental limits: room rent < ₹1000 per day, hall/ premise rent < ₹10000 per day and shop rent < ₹10000 per month. If rent crosses the set limit or if the rented structure is outside the religious premises, it comes under GST.

Four services provided to educational entities by others are out of GST- (69b): transport facility, canteen facility, security & house-keeping facility and outsourcing of exams.

Though canteen facility is out of GST, nature of rent from canteen is disputable as it is not charitable. (See 8D3) It is advisable to use 'canteen fees' instead of rent if that is the only GST activity. Once registered under GST, under reverse GST rule it is obligatory to pay GST on bills received from non-GST firms whenever GST is applicable. Similar is the case with a hostel without a school. Its rent (being < 1000 per day) will be out of GST but not other fees in the absence of a school.

8D3 Charitable Activities under GST are defined as -

1. Public health by way of:
   - care and counseling of persons with severe physical / mental disability, terminal illness, HIV, AIDS, drug / alcohol addiction
   - public awareness on preventive health, family planning and prevention of HIV infection
2. Advancement of religion, spirituality and yoga
3. Advancement of educational programs related to abandoned, orphaned, homeless children, physically, mentally abused persons, prisoners, rural adults over 65 yrs
4. Preservation of environment (watershed, forests and wildlife)

If charitable institutions with gross annual receipts over 10 lacs provide any service that is not charitable, it need to be regd. under GST and file monthly returns. Note that charitable activities under GST are defined to be of pure charity unlike under ITA.

God may be a poor accountant

When the younger son demanded his share of property even when his father was alive, poor God forgot to journalize his sin.

When the younger son squandered away his share on lavish living; God forgot again to maintain his ledger account of sins.

Finally when the prodigal son returned a pauper, God celebrated his return, forgetting once again to look into his balance sheet.

But He is an excellent investor

When the servant with five talents made another five, he was praised for his 100% returns from investments.

When the servant with one talent returned it safe, he was punished for his 0% returns from investments.

In the parable of the sower though God gives the option of 30%, 60% and 100% returns, He expects 100%.

Hence with 100% certainty we conclude that -

God cannot be trusted for accounts
He is neither interested in them
But the Income Tax Office is

God not only demands His 100% back
He wants another 100% from us
So is the Income Tax Officer

09. Provident Fund

PF was established under Employees Provident Fund & Miscellaneous Provisions Act, 1952 to protect the future of the employees after their retirement. Being a benevolent law, benefit of doubt in disputable cases is always given to the employees. PF has to be given from day one and cannot be attached for any other liability even by a law court. Exemption given to NPO from paying PF is withdrawn with effect from 1.4.1999 vide S.O. No.2070 of 30.9.98 of Ministry of Labor, GOI.

9A: PF Coverage

Provident Fund Act applies to all the establishments with twenty or more employees including honorary staff taken together, even if the number falls below twenty subsequently.

For the purpose of provident fund,

- Salary = BP+DA+RA. RA is retention allowance which is given to retained employees during the period of retention. (RA for suspension period = 50% of BP+DA)
- Establishment = every establishment with all its departments, units or branches, if there is functional unity of financial, supervisory and managerial control between them
- Employee = anyone who is employed for wages, for any work related to the normal business, even through a contractor. Employer must ensure that the workers under his contractor are paid PF.

Casual workers in a regular work are covered under PF (SC: workers rolling beedi in their homes come under PF) while casual labor due to some passing necessity is not covered under PF (SC: C.A. 1128 of 1967; Bom HC: 2007(3) Bom CR 898). PF is not applicable to temporary leave vacancy job. (Del HC of 1986LIC1402) But PFO will decide the nature of the work on a case to case basis [SC].

Exceptions: Not covered under PF Act:

1. Apprentices coming under the Apprenticeship Act u/s 2f(iv)
2. Personal or domestic servants not on the pay roll of any institution u/s 1(3)a. (Govt. has not yet notified them u/s 1(3)b)

Exemptions: Covered but need not pay:

1. Persons who have withdrawn their entire outstanding money either due to retirement or due to migration

2 Monthly PF salary amount above ₹15000 u/s 11.3 of Employees Pension Scheme, 1995 (It was 6500 till 31.3.14)
3 Religious men and women of Catholic Religious Congregations with a vow of poverty. (Ref.12C)

If the PF salary crosses ₹15000 during the service, obligation to pay PF continues only on the first ₹15000. If the starting salary is over ₹15000, PF need not be paid even if the employee has a PF account through the previous employer. If the employer agrees, PF can be paid on the entire salary but the pension salary will be ₹15000 only.

If any campus work outsourced, employer must obtain contractor's PF & ESI number. Failure to do so makes the employer directly responsible for the PF & ESI contribution of the contractor's workers also.

It is advisable to pay casual work contracts charging the gross amount to the account for which the services are required, preferably against a bill. In the absence of a bill, if the voucher provides details of rate of payment, number of persons, number of days of work on a regular basis, it will not be treated as casual work and will come under PF.

9B: PF Computation

PF is usually computed on the Basic Pay [BP] and Dearness Allowance [DA] in the salary. Allowances of permanent nature too are treated as basic to salary. Salary has two parts; gross salary and net salary.

9B1 Gross Salary: Gross consists of BP, DA, PF and any other permissible allowances as per the paying capacity of the institute.

[a] Basic Pay: BP is given under a pay scale. It shows the minimum pay, annual increment and the maximum pay.

For example, pay scale of 12000-250-14500-300-17500 means the minimum BP is ₹12000; Annual Increment is ₹250 till BP becomes ₹ 14500 and then ₹300 till BP becomes ₹17500. After the maximum there is no more increment. It is called stagnation. Increment is not a right; it can be withheld or postponed for valid reasons. It is usually around 2% to 5% of the BP but not as a rule. On promotion, BP on the new scale will be equivalent to BP already gained in the old scale and one more increment on the new scale.

[b] Dearness Allowance: DA is given as a partial compensation of rising costs. It may even decrease if the cost of living comes down.

There is no uniformity either in the rate or in the frequency of its revision. It depends on the paying capacity of the management and the agreement between the employer and the employee.

Pay scale must respect the minimum wage rule. Minimum wage for any type of work is a state subject and applies for gross salary wherever it is fixed by the state government. It is advisable to have higher BP on the pay scale even if DA is low rather than low BP with high DA. Lower BP+DA with higher allowances reduce PF contribution. But any allowance which is basic to the pay structure and is of permanent nature is treated as part of basic pay for PF salary.

[c] Provident Fund: PF is given at the rate of 12% of salary as the employer's contribution with an obligatory maximum of ₹1800.

[d] Other Allowances: Allowance like grade pay is obligatory under some pay scales. Hence, it is considered both for increment and DA. Any other allowances are left to the paying capacity of the management. But they cannot be withdrawn arbitrarily. They may be removed either with the upward wage revision or with the elimination of their causes.

9B2 Net Salary: is the amount received in hand by an employee after all deductions. Total salary deductions should not exceed 40% of gross salary. If they exceed, it is advisable to take such deductions separately through their cheques.

9B3 EPF: EPF is the employee's contribution to the PF. From the gross salary, double the PF amount is deducted and deposited online in the EPFO account by every institution that is covered under the Act. Employer's contribution of 12% is split into 8.33% for pension + 3.67% for PF and Employee's contribution goes entirely to PF.

Voluntary additional contribution to PF with mutual consent is allowed and there is no upper limit on the amount of contribution. Maximum pension contribution is ₹1250 and it stops on attaining the age of 58. After the age of 58 it is added to the PF. Pension benefits go up to the third legal heir on the death of the employee.

Another 0.50% for inspection charges on PF and 0.50% for Employees Deposit Linked Insurance Scheme is also charged to the salary account in addition to the gross salary when PF is deposited with EPFO. When PF is given above the obligatory limit, EDLI is computed on pensionable salary with a cap of 15000 while IC on PF is computed on PF salary.

Ex: You have one new teacher and another in the 12th year of service on the above pay scale. Let us see how the salary bill is prepared and PF computed, presuming DA to be 10%

Name	BP	DA	PF Sal	PF	All	Gross	EPF	Ded	Net
A	12000	1200	13200	1584	0	14784	3168	0	11616
B	14800	1480	15000	1800	0	18080	3600	0	14480
Total	29480		**28200**	3384	0	32864	6768	0	**26096**
Addl. Charges 1.00%				282		**33146**	**7050**		

Journal entries for this salary bill, paid by cheque, will be as follows:

Salary a/c Dr 33146 to Bank a/c 26096 (net payment) and
to Bank a/c 7050 (payment to EPFO)

Your PF deposit challan will show the following entries if it is deposited into the EPFO account with SBI -

PF 15.67%	Pension 8.33%	IC/PF 0.5%	EDLIS 0.5%	Total PFO
4419	2349	141	141	7050

9B4 PF Withdrawal: Employee's share of PF balance can be withdrawn for five purposes-

[a] Education: 50% of cumulative balance with interest for post-metric education of self, son and daughter; after 7 years in service and thrice in life time.

[b] Marriage: 50% of cumulative balance with interest exactly as in [a]

[c] Medical: Lower of cumulative balance or 6 months PF wages for major sicknesses listed under PF Act or surgery of self or family members involving hospitalization beyond one month; any number of times.

[d] Housing: Three years PF wages for purchase or construction of house after 5 years in service or repayment of housing loan after ten years in service; two years PF wages for purchase of land after five years in service and one year PF wages for alteration of house after five years in service or for repair of house after ten years in service can be withdrawn from PF but only once life time.

[e] Handicap: To reduce the handicap, such persons can take lower of cost of equipment or six months PF wage or cumulative balance.

Note: 1. 90% of the PF balance including the employer contribution can be withdrawn one year before retirement but not before 54 years of age.
2. Aadhar number & enrollment number is a must to open PF a/c.

9B5 Honoraria: Honorary service with honoraria does not come under PF Act. Honorarium is a nominal payment for the honorary service and so has to be in round figure less than the actual wage. But anyone who is paid full wages even for a day is not an honorary staff and so comes under PF Act. Such persons are also entitled to minimum wage prescribed by the state.

It is advisable to pay honoraria to the temporary staff and have a separate account for honoraria outside salary to avoid any confusion with PFO. It is also advisable to maintain separate attendance and payment registers for honorary staff. If their names are put on common registers, their designation as honorary staff must be recorded unambiguously. Short leave vacancy jobs do not come under PF (Delhi HC 1986 LIC1402)

It is safer to have a job application in applicant's own hand-writing where the honorary nature of their work is clearly specified or a contract of honorary service signed by both the parties. For part time service without any contract, it is better to give TA instead of honoraria.

9C: Voluntary PF

When the staff strength is less than twenty, it is advisable to give PF to all regular employees who otherwise qualify for PF if only their number is twenty, in order to protect their future. This can be done in two ways-

1. PF can be voluntarily deposited with EPFO with the written consent of the employer and the majority of the employees, if the PF Commissioner is satisfied following the same procedure u/s 1(4) of PF Act.

2. It can be deposited in PPF account in designated banks. It gives good interest like PF but has no pension. It has 15 year locking period but loan is available against the balance before 15 years. Min deposit is 500 & Max 150000 per year with max 12 installments.

If it is kept in joint account with the institution, on 31st March every year journal entry has to be passed to bring the PF balance under the accounts of the institution because of its joint responsibility. The entry will be Dr Staff Bank Acc / Staff Investment Acc and Cr Staff Savings Acc.

False Prophets of Fake Projects

Beware of ‘Good Samaritans’ on the prowl; they exploit the innocence of the gullible religious by collecting their personal data indirectly and trap them into paying huge money with irresistible offers in order to get non-existent projects!

For all such promises, remember what our ex-PM once said; ‘Money does not grow on the trees’

Websites of all the banks are running warning notices against such fraudsters.

10. FCRA 2010

10A: FC Coverage

Foreign Contribution Regulation Act (FCRA) is applicable to all Indians residing in India or outside and their associations registered in India as well as their foreign branches who receive foreign contribution from a foreign source.

Note: Person under FCRA has the same meaning as in Income Tax Act and FC stands for foreign contribution. International organizations of the UN notified by the Central Govt. are not covered under FCRA.

10A1 Foreign Source: All direct remittance from foreign countries and receipts from any foreigner residing in India and their associations registered in India except UN and Govt. approved foreign missions and –

- Indian currency given by foreign persons
- Contribution from companies whose 50% holding is abroad
- Income earned from FC investments
- Maturity proceeds of FC investments
- Sale proceeds of FC assets
- Receipts in kind from any foreign source

NRI remittances out of own income and foreign business payments are not FC. But the onus of proof lies with the recipient. It is safe to receive such remittance through their NRI account. But it is advisable to receive bigger remittances coming directly from a foreign country in FC account. FC receipt and utilization of over one Crore per year has to be displayed in the public domain in summary form for two years. Foreign currency outside the scope of FCRA comes under FEMA and there is a limit on the amount of foreign currency one can possess.

Individuals are allowed to receive small amounts of foreign contributions. Such remittances are received by the banks with a signed declaration that the remittance is for their personal use. Any one receiving any FC not amounting to NRI remittance equivalent of over one lac rupees through their non-FC bank account even from their own relatives has to report it to MHA (Ministry of Home Affairs) within 30 days.

10A2 FC Registration: Under FCRA, persons with objects 'distinct cultural, economical, educational, religious, or social programs' can receive FC with permission from the govt. But MHA website says that only those with permission from MHA can receive FC.

Permission to receive FC money comes either as a regular registration valid for five years which can be renewed for five more years each time or as a onetime prior permission for a single project. All applications: for a new registration or prior permission or for renewal of existing registration must be made online. Application for renewal of existing registration must be made before six months of the expiry date. All services have a prescribed fee to be paid online.

10B: FC Utilization

FC cannot be used for the following-

- Any news or current affairs production; print or electronic
- Any type of media persons of registered publications
- Any public servants even indirectly
- Any activities directly political or of political nature

Under FCRA govt. considers all activities of joining political action or habitual protests for public causes as activities of political nature. Govt. can debar anyone from receiving FC if it is satisfied that it may disturb harmony between various groups of people.

FC can be received and utilized only for the specific approved purposes and only by them for whom it is received. Not over 20% can be used for administrative expense. All travel, vehicle use and managerial salaries except direct work expenses is defined as administrative expense. Transfer of FC funds to any other account even with FCRA registration is barred by the amendment act of 2020. Surrogate spending on behalf of other institutions too is not allowed.

Two things still lack clarity: part funding of assets and corpus donation. Former gives no clue on where to book the asset while latter is allowed to be received and utilized. But corpus gets utilized when it is invested. Hence, it need not be retained under FC after reporting it in the annual returns as utilized for corpus. But, it is not clear whether MHA will accept it as utilization for corpus or consider it to be transfer of funds to non FC account. Former is the spirit of the law since the aim of FCRA is basically to control receipt and its utilization for the approved purposes while the latter is a restrictive interpretation.

10B1 FC Bank Account: All FC remittances are to be received only through the bank account designated by the MHA. Non FC funds cannot be mixed in this FC account. Separate account books, receipt payment account, income expenditure account and balance sheet need to be prepared for FC receipts & their utilization.

In 2020 MHA has mandated that all designated FC accounts be operated only in SBI Main branch at New Delhi. (This has created practical problems: Their branches will help only their customers. Besides, documentation on change of signatories too has to be done at the Main branch).

In addition, one more linked FC account in any bank with intimation to MHA to keep, make FD and to utilize but not to receive funds is also allowed. But it cannot be mixed with non FC funds.

10B2 Linked Utilization Account: With intimation to MHA, any number of linked utilization accounts in any other banks are also allowed provided- they are not used for receiving FC funds directly, they are used only for utilization of FC funds, non FC funds are not mixed in those accounts and no FD are made from those accounts. Parking of FC money in any non-FC accounts is not allowed.

When a FC project is executed without a utilization account, an advance from non FC account may be given for running the project. Actual FC reimbursements must be given against FC bills from time to time. The advance has to be returned to non FC account on completion of the project. But this has now become disputable after the new FCRA 2010, though it not against the spirit of law.

It is possible to give the imprest advance from FC account also. But it should be adjusted against the last bill without fail since receiving local currency back in FC account is not possible.

10B3 FC Investments: Separate register is required to be maintained for all FC investments. FCRA prohibits use of FC funds in any speculative business. FC rules (FCRR) treat all MF investments except debt based secured ones as speculative business. MHA website under FAQ says FC money cannot be invested in any MF.

The approach of MHA is contrary to ITA. As per ITA, investing in the units of MF is neither speculative business nor trading in stocks. It is an investment with tax concessions even for charitable institutions. It clearly implies that govt. is encouraging MF investments. But FCRR notified in the official gazette contradicts its own law under ITA.

10C: FC Reporting

FC account is a Receipt-Payment account. It is not possible to account loss from assets, payables and receivables except advances given towards FC expenses.

10C1 FC Returns: Annual FC returns for a financial year are to be electronically filed with MHA latest by 31st of December together with audited statement of receipts & payments, income expenditure account and balance sheet certified by the auditors. No hard copies of such reports will be accepted by MHA. Details of FC receipts received in a quarter must be displayed either in one's own website or filed with the MHA website on a quarterly basis within 15 days from the end of the quarter. Details of all Governing Board members must be filed within 15 days of their appointment and they will be valid only after the approval from the MHA. Office bearers have to file details of their personal assets & liabilities if annual receipts cross Rs.10 lacs.

Delayed filing of FC returns now attracts penalty or even cancellation of registration. If FC registration is revoked by MHA, FC bank account gets frozen and all the FC assets come under the district administration for their continuation and supervision.

10C: FC Violation: Violation of FCRR may result in cancellation of FC registration and taking over of the assets acquired from the FC funds. MHA may institute an inquiry not only for reported violations but also for routine renewals for registration if it feels it is required. It can also freeze FC accounts during the 'pendency of the enquiry'

Voluntary surrender of the existing registration is now allowed with a rider: If violation of FCRR is detected during the surrender, the unutilized FC funds and all the assets created out of utilized FC funds will come under the local govt. authority for their management.

State control over the assets and the governance types of private entities by MHA is controversial as it affects the right to private property and its administration as well as the rights guaranteed to the minorities under article 30 of the constitution. Temporary takeover of assets for misusing FC funds for political or anti national activities alone is justified, being the basic objective of FCRA but not for other violations. State cannot aim to control private property in a democracy.

11. Additional Matters

11A: Gratuity Act

Gratuity Act of 1972 applies to all the shops and establishments with ten or more workmen. They must complete five years in continuous service [over 240 days per year] except in case of death or termination due to disablement to qualify for gratuity.

Employees dismissed for negligence causing loss to the institution lose equivalent amount of gratuity. If they are dismissed on grounds of violence or moral turpitude during the service they lose entire gratuity.

Schools were not considered establishments under Gratuity Act. Hence, they were brought under gratuity act through an amendment with effect from April 1997. In spite of bringing schools under the gratuity act, Supreme Court had ruled that teachers are not workmen to qualify for payment of gratuity. Hence, through another amendment teachers are also brought under Gratuity Act wef Apr.1997

Gratuity provision must be made through a Gratuity Fund from the first year itself on the basis of last drawn salary [same as PF salary]. Gratuity is calculated at the rate of (15/26) X last drawn salary X no. of completed years in service or part in excess of six months subject to a maximum of ₹10 lacs from May 2010 and ₹20 lacs from Apr 2018.

On 31st March every year two journal entries are to be passed-

- Previous balance under gratuity fund is reversed by a journal entry- Gratuity Fund a/c Dr to Salary & Wages a/c Cr and
- New provision is created by another journal entry- Dr Salary & Wages a/c Cr Gratuity Fund a/c.

Gratuity payment cannot be attached for any other liability by any courts, whether paid to the employee or to the legal heirs. Only family members can be nominated to receive gratuity unless the employee is unmarried. If an unmarried person nominates non-family member, such a nomination becomes void upon the marriage of that person.

Legally adopted child loses biological family and gets adopted family for payment of gratuity purpose. Nominations given once can be modified subsequently or given afresh. It is essential to display in the office or at any common place, the abstract gratuity rules and the officer to receive complaints, for the employees to see.

11B: ESI Act

Employee State Insurance is applicable for all establishments with 10 or more employees whose monthly wage is less than ₹21000 and only in the areas notified under ESI Act. It is not applicable throughout a state unless notified. Terms like wage, establishment, employee for ESI has the same meaning as in PF Act and the principal employer is responsible for the payment of premium for persons employed through the contractors. Hence, principal employer must obtain ESI registration of the contractors whenever any service is outsourced.

Employee contribution to ESI is 0.75% of the wages and the employer contribution is 3.25%. Notified area depends on the notification. Family members of the employees too can voluntarily join the ESI scheme and avail the benefits of the scheme. If such persons are employed, their premium need not be paid again.

Employees are eligible for free health care and re-imbursement of loss of wages on medical leave under various schemes like- medical benefit [free treatment with attendance], sickness benefit, maternity benefit, accident and occupation disease benefit, disablement benefit, dependant benefit [on death], funeral expenses and tubectomy or vasectomy benefit provided they are certified by approved medical practitioners. Hence, the institution is not bound to pay the ESI covered employees any of these benefits including paid maternity leave. Any cash benefit accruing under ESI is free from legal attachment.

11C: Trusts and Societies

11C1 Formation of NPO:

NPO may be registered as Societies, Trusts, Private Limited Companies or Public Limited Companies with the objects of charitable activities. Management of a society is the easiest of all the four options available for a NPO. But there is no difference in income tax laws applicable to any of them.

Trusts must have a 'TRUST DEED' with its objects unambiguously explained. There ought to be three parties to any trust deed— the author of the trust, the trustees and the beneficiaries. A trust with a deed like that of a society is easy to manage. Trust Deed needs to be registered under Indian Registration Act or Public Trusts Act. Board of Trustees is the only governing body to a trust. But trustees have no power to amend the Trust Deed which is sacrosanct.

In Gujarat and Maharashtra charitable institutions also come under the Charity Commissioner. There is an annual fee to be paid and certain transactions require permission from the charity commissioner. Companies can be registered u/s 25 of Companies Act with Regional Director of Company Law Board satisfying all the company laws.

11C2 Formation of a Society:

Unregistered bodies do not have legal status. Hence, it is essential to register any society under the Societies Registration Act (SRA) 1860 with the Registrar of Societies. Registration under SRA is a must to claim tax exemption.

A registered society should have at least seven members in the general body u/s 1 and three members on its governing board u/s 2 of SRA. It is taken for granted that the governing board meets periodically though the frequency of its meeting is not given in the act. The founding members of the society become the governing board members unless specifically stated otherwise. Not more than 50% of the members can be changed at a time. (Safeguard to avoid hostile take-over.)

11C3 Management of a Society:

Societies should audit their annual accounts, get them ratified and appoint auditors for next year in the Annual General-body Meeting (AGM). If regular AGM is not possible before filing income tax returns, an emergency general meeting must be called only for this purpose. A copy of the audit report, annual activity report and current list of governing body members must be sent to the Registrar (also known as I.G. Registration) within 15 days of the AGM which must be conducted at least once a year.

Societies must maintain membership register with columns for dates of joining and leaving. It is essential to preserve the registration certificate and a certified copy of the society's memorandum of association (MOA) and by-laws in original. Amendments to the MOA and by-laws are valid only if certified by the Registrar. Resolutions are enough to expand the existing rules without altering them. Society is free to frame its own objectives, rules and by-laws without violating any other laws and amend them later if required under the rules framed by it.

If a society is dissolved, no benefit of it can go to the members. They must go to another society with similar objects. Society's name must be displayed prominently at its office under Tamil Nadu and West Bengal rules. Registrar's permission is required to buy / sell / transfer land and buildings in Madhya Pradesh and Chhattisgarh. This permission comes with a fee. Filing of annual reports with Registrar has a fee in Karnataka. Registration is valid only for five years in Uttar Pradesh.

11C4. Important Original Documents:

Land and Building Documents

1. Land registration and Mutation, Lease deed or Agreement.
2. Land map with permanent structures marked on it.
3. Building maps and government permission wherever applicable.
4. Taxes paid– Land, Municipality, Lease rent.

Institution Documents

1. Affiliation or Recognition letter from the concerned board.
2. Minority status from the State Govt. or NMC
3. Appointment, approval and pay fixation letters of all the staff.
4. PF and ESIC records of staff and proof of its deposit into govt. a/c.
5. Admission, Attendance, Fees, and Salary registers.

Accounts Documents

1. Cash Book, Bank statements, Vouchers and General Ledger.
2. Audited Balance Sheet, Income Tax and TDS returns.
3. Income Tax assessment and refund orders
4. PAN card and TAN certificate.
5. 'Assets Register' including Investments with original bills.

Other Documents

1. Vehicle registration, road tax, insurance and latest pollution check.
2. Society registration, certified copy of MOA & Rules.
3. Annual activity report, attendance and membership registers.
4. Any agreement entered into between the society and any other. (For a building, contractor's PF and ESI numbers are a must)
5. Annual returns filed with the Inspector General of Registration.
6. Minutes of the Managing Committee [for state board schools], minutes of the Governing Board Meetings & minutes of the Annual General Meeting or AGM.

11C5 Minutes Book:

Minutes book is usually a handwritten register with pages serially numbered. If computer sheets are used let them be pasted to a register with numbered pages with no room for manipulations. Let them not be filed in loose sheets.

Minutes can be written descriptively or action minutes where only the resolutions are recorded as in the sample minutes book at 12D. Action Minutes are convenient and handy to maintain.

11C6 Units of a Society:

Society can have any number of units in India provided its MOA & Rules allow it and their accounts are consolidated under a single PAN for filing the returns with the ITO and IGR where the registered office of the society is situated.

Units may exist with different names. But they do not have any independent legal identity than the society they belong. They may have separate managing committees for convenience but those committees are subject to the jurisdiction of their society's governing board.

If a unit needs a separate bank account, it requires society's resolution. Such a bank account may be used for TDS transactions with a separate TAN. But it is highly recommended to route TDS and investments requiring PAN through society's bank account. All investments and tax returns must be centralized with the society.

Back and forth grants between the society and the units and among the units themselves is freely allowed. Such payments are not treated as grants but as inter-unit transfers within the society. Even the surplus of the units can be ploughed back to the society for its use in any of its units irrespective of their geographical location.

The prohibition on transferring school surplus to the holding society applies only to those schools that have received land at concessional rates for the benefit of the students from the Govt. of Delhi. (Unaided private schools Vs Director of Education Delhi (2009)10 SCC-1)

11C7 School as a Unit:

Let the school account deal only with fee collection and its utilization; nothing more. Let the fees be collected and utilized under various heads required for the school like Social Service Fund, Maintenance Fund, Equipment Fund, Emergency Fund etc. Social service fund can be used even outside the school. Let appropriate contributions from the surplus are also made to the society.

Let all other financial transactions like investments, loans and any type of fund raising even if it is exclusively for the school be carried out through the society's account. If any 'fund raising' is done through an 'event', laws regarding their performance must be respected. It is highly recommended that we do not mix up school and society accounts and also have separate bank accounts for school and the society.

Donations to the designated funds of the society with a letter as evidence are tax free. But they are to be utilized for the specified purpose. Any general donation forms part of the income and is subject to income tax.

Let all the additional expenses be incurred by the school through borrowing from the society not amounting to interest bearing loan. Let such borrowings be accounted as ‘payable’ to the society in the school account. Let the school compensate for all the legitimate expenses incurred by the society on account of the school.

If the school requires a loan, only the society owning the school can raise it. In such an eventuality, let the loan be transferred to the school account internally and paid by the school with interest if and when applicable. If assets are created out of the school income or the borrowings, then such assets remain in the school account.

Except for Income Tax Office and Registrar of Societies, it is the school account which is required to be presented. Consolidated accounts should not be given to any authorities unless obliged legally.

11D: Minority Schools

An institution established and administered by a minority community is a minority institution. Minority communities have a constitutional right to establish and administer educational institutions of their own choice and for their own community.

State govt. certifies the minority status of an institute. If the state govt. delays to give minority certificate, National Minority Commission may be approached for a remedy after following proper procedure. Ministry of Minority Affairs, GOI has also instituted scholarships for minority students. Governments can impose conditions on minority schools aided by them regarding norms on appointment of the staff, charging of fees, admission procedure or any other conditions of public good as a matter of policy but they cannot impose state language on them or directly interfere with their right to administer their institutions.

For example, govt. can nominate its official on the selection board of an aided minority school for the appointment of the staff but not on its managing committee. Governing board reserves the right for the final decision on appointments and dismissals following the principles of natural justice. To maintain the minority status, it is required to have minority community members on the governing board all the time.

Right to Education Act (RTE) is applicable to all schools including those in the private sector but excludes all minority schools even when they receive govt. grant provided they have minority status certificate, vide Supreme Court judgment C. 1081 of 2013 dt 6.5.14.

Any govt. aid received by any private institution comes under Right to Information Act (RTI) only to the extent of the grant and its utilization. Full bench of the Central Information Commission has ruled that schools are bound to provide information to the state education department if such information is required for collating under RTI.

School management committee (SMC) must have 75% of parent representatives and the local MLA as members under RTE. But its role is only advisory; it is not binding on the Governing Board. SMC agenda is prepared by the Governing Board. Hence, it is advisable to include only non-controversial issues in the SMC agenda. If the SMC brings up issues outside the agenda, they must be taken to the governing board to be included in the next agenda. School development plan of unaided schools does not come under SMC.

11E: Project Proposal

Writing a project proposal requires skills since it is a technical job involving data presentation. We will discuss here three important aspects of a project proposal- Viability, Description and Executive Summary.

11E1 Viability: For a project of urgent basic need like providing a shelter to a riot victim, no yardstick on viability can be applied. It has to be executed without counting the cost. Delay in its execution can only aggravate the situation as well as escalate the cost.

But for any developmental project with far reaching consequences, its viability has to be evaluated in detail to make it successful. Viability requirement applies even before planning the project. Following are the three main yardsticks to determine the viability of any project-

[a] Productivity: The project must address specific needs of a larger community and help to achieve the objectives to the extent possible. It must generate long-lasting benefits to the target community or at least result in enhancement of their assets in the longer run.

[b] Sustainability: The project must be sustainable in the longer run without forcing its pre-matured closure or forcing additional unplanned expenditure to keep the project alive. Three factors play an important role in the sustainability of a project-

- Project is always made for infrastructure development
- Project generates enough income required for running expenses
- Local resources are available for recurring expenses

[c] Economy: The benefits accruing out of the proposed project must be directly proportional to the investment made in the project. If a project worth rupees 1 lac investment does not derives a benefit of over rupees 7000/- p.a. such a project is certainly uneconomical.

11E2 Detailed Project Report:
DPR is prepared using the following six points in the same given order. Each point must be well explained leaving no room for further explanation. At the same time report must use simple language, be precise and to the point, not verbose.

1. Project Name: Brief umbrella statement envisaging your project
2. Legal Title Holder: Registered Society which owns the project (Provide Bank details & swift code to a foreign funding agency)
3. Applicant: Person responsible for the project with all the contact details such as mobile number and e-mail ID
4. Project Description: Describe the following –
    - SMART (**S**pecific, **M**easurable, **A**chievable, **R**ealistic, **T**ime-bound) objectives of the project
    - Venue and duration of the project
    - Asset based community development of the target group
    - Detailed Requirements of the project
5. Budget: Detailed budget requirements including local contribution
6. Conclusion: Indicators of result

11E3 Executive Summary:
KISS (Keep It Short & Sweet) is the thumb rule of a summary. Not everyone has time to read our detailed stories. Besides, in a decision making process, such a summary comes handy for presentation to the committee members. Restrict the summary to one page A4 size with these four points without fail-

1. Brief statement of need you are prepared to address
2. Brief description of project and the target group
3. Budget = Project cost + Administrative cost + Local contribution
4. Contact details.

12. Appendix

12A: Evaluation Exercise

Prepare Journal, Cash / Bank Book, Ledgers and Trial Balance. Prepare Income Expenditure Account and Balance Sheet as well as Receipt Payment Statement for the following example: (Amt in Rupees only)

Apr 1 Op. Balances c/o: Furniture 110000/- General Equip 120000/- Computer 20000/- Land 1200000/- Bldg 5100000/- Vehicles 200000/- Investment 1200000/- Bank Balance 86000 Cash Bal 20000/- Scholarship Fund 91000/- and Capital Fund 7965000/-

May 1 Separate the surplus from the capital fund
8 Cash advanced for travel 8000/-
9 Received in bank - fees 400000/- and devt. fund 99000/-
10 Cash withdrawn 10000/- from bank
12 Fees paid from scholarship fund 4000/-
15 Salary advance in cash 11500/-
18 Scholarship given 2000/- by cheque
20 Old papers sold for cash 500/-
22 Donation cheque received 50000/-
25 Travel bill 6400/- adjusted, balance received as refund from the advance of 8000/-
28 Cash expense on hospitality to officials 2000/-
30 Prepare salary cheque for BP+DA =300000 with PF, ESI & TDS deduction of 1100 after deducting advance of 11500

Jun 1 Honorarium cheque given for 15000/-
3 Lab equipment bill pd by cheque 4500/-
4 Best School cash award recd 20000/-
4 Computer worth 18000/- stolen as per FIR lodged with police
5 100000/- grant for devt. fund received by cheque
5 Cheque paid for computers, from devt. fund 118000/-
7 1000 units of Mutual Fund [CP @ 46.78] redeemed @ 46.78
7 TDS deposited in IT account
8 Received in bank fees 392000/- and devt. fund 25000/-
8 2000 units of Mutual Fund purchased @ 50 by cheque
12 Computer worth 24000/- received free
12 Solar set bought for 17000/- by cheque

12A: Continued:

Jun13 Cheque given for adv for travel 2000/-
15 Cash donation for the solar set received 12000/-
15 Interest on FD recd in bank 20000/-
16 Salary advance given by chq 12000/-
16 Casual wages paid in cash 6000/-
18 Repair works bill pd- 3500/- in cash & 8000/- by cheque
20 FD 200000/- with interest 20000/- renewed for 1 year
25 Cheque for furniture 123000/- cash 500/- for its transport paid
27 Travel bill 1200 against 2000 adv. adjusted & bal. refunded
27 Office stationary 3800/- paid
28 1000 units of Mutual Fund [CP @ 43.21] redeemed @ 67.89
29 Cheque for computers 90000/- paid from development fund
30 Prepare salary cheque for BP + DA =300000/- with PF, ESI & TDS deduction of 1100/-
30 Advance 12000/- recovered in cash
30 Pay chq for maintenance contract 35500/- [TDS has to be deducted; contractor's ownership nature unknown]
30 Chq pd-15000/- for honoraria
30 Furniture of 6700/- destroyed in fire
30 Cash deposited in Bank 30000/-
Jul 7 TDS deposited in IT Account
Mar31 Create first yr gratuity fund, account for TDS receivable 4000/- and make provision for depreciation on assets.

12B: Missionaries- No Tax

I /1121 - F. No. 200/88/75-IT (AI) - CBDT Bulletin Tech. XXIII/485

Central Board of Direct Taxes,
GOVT OF INDIA, New Delhi.
Dated: 5.12.1977

To

All Commissioners of Income Tax

Sir,

Sub: Exemption from payment of Income-Tax on Salaries of members of Religious Congregations.

Attention is invited to Circular No.1 of 1944 C. No.26 (43) – IT/43 dated 24.1.1944 in which the liability to tax on the fees received by Missionaries and subsequently made over to the society had been considered.

Representations have been received from the members of religious congregations situated all over the country regarding the taxability of the fees received by them. The question for consideration is whether the fees or the other earnings of the missionaries be assessed as their income, although the same is to be made over to the congregation to which they belong under the rule there of.

The Board have examined this issue and have decided that since the fees received by the missionaries are to be made over to the congregation concerned there is an over-riding title to the fees which would entitle the missionaries to exemption from payment of income tax. Hence, such fees or earnings are not taxable in their hands.

These instructions may be brought to the notice of all the officers working in your charge.

Yours faithfully,
(Signed)
J. P. Sharma
Secretary,
Central Board of Direct Taxes.

CBDT.Weblink..www.incometaxindiapr.gov.in/incometaxindiacr/contents/CBDTFiles/Instructions/CBDTLaws/HTMLFiles/chp4_31.htm

12C: Religious: PF Exempt

OFFICE OF THE CENTRAL PROVIDENT FUND COMMISSIONER
9th Floor, Mayur Bhawan, Connaught Circus,
New Delhi 110 001

No. 6 (7) 83-E.I / Dated 29.7.1983
To: All Regional PF Commissioners, All Sub-Regional Offices,
Sub: Exemption from Provident Fund in respect of- Religious Sisters etc, of Catholic Bishops Conference of India- Regarding

Sir,
We have been receiving references on the question of applicability of the Employees Provident Fund and Misc. Provisions Act, 1952 to the Priests, Sisters and Brothers of Catholic Religious Congregations who take a vow of Poverty. The matter was examined in detail in the case of St Joseph's Hospital, Ernakulam in consultation with Legal Adviser to the Govt. of India, Ministry of Labour. The facts of the above case, together with the Legal Adviser's advice are enclosed for guidance and necessary action. Please acknowledge the receipt.

Yours faithfully
(Signed)
R. Kalyanraman
For Central Provident Fund Commissioner

Encl: Annexure – A
[File No. 16(93)/77-E.I. of St. Joseph's Hospital, Ernakulam]"
……………...The point under consideration is whether the Sisters can be enrolled to Provident Fund membership. It is considered that payment of 'wages' is a condition essential to the treatment of a person as 'employee' under section 2f. No doubt that a 'consolidated amount' is being debited to 'Salary & Allowances' account in Ledger, it is doubtful if from the point of view of the 'Sisters' this amount can be treated as 'wages' So, it is doubtful if the Sisters can strictly speaking be treated as employees.
Apart from this since the Sisters have taken the vow of poverty and have no family encumbrances, it will be contrary to their spiritual conviction to impose the P.F. Scheme. Neither nuns nor any of their family members in the case of their death is likely to be benefited. Their future is secure in as such as they have got the right to be maintained by Convent. We need not interfere with the practice of convent / Superior General of the institute's spiritual convictions of Sisters working in the hospital"

c/o

b/f

Legal Advisor may kindly be consulted in the matter.

As the Sister does not get any wages for her devoted services no PF contribution can be deducted from the amount paid to the convent. If necessary we may consult Legal Advisor.

Sd/- (M.M. Chitale) dated 23.9.78

Yes, consult the Legal Advisor

Sd/- (K.S. Rai) dated 23.9.78

I agree with the conclusions drawn

Sd/- (Legal Advisor) dated 20.10.78

Copy forwarded to all P.F.I and Accounts Offices

Employees' Provident Fund Organization, Sub-Regional Office
3/B Kutchery Road, Darjeeling 734101

BEFORE THE ASSISTANT PROVIDENT FUND COMMISSIONER

In the matter of proceedings u/s 7A of the Employees' Provident Fund & Miscellaneous Provisions Act, 1952 in respect of M/S St Joseph School, code no. WB-20571 for determination of dues for the period April 2000 to March 2001

ORDER

"……..………The 26B authority, RPFC, Siliguri informed vide his letter no. Enf/ SRO/ Slg/ Misc/ Vol. IV/ 7971 dated 28.1.02 that Nuns, Sisters & Priests of Catholic Religious Congregation who took vow of poverty are not required to contribute to the Provident Fund Scheme though they are counted as employees of the Establishment. They rely upon a circular of Central Office dated 29.7.83

Therefore, I Uday Baxi, Assistant Provident Fund Commissioner, S.R.O. Darjeeling on perusal of Commission report and submission made during the enquiry, hereby drop the proceedings…………………..."

Place: Darjeeling — Signed/-

Date: 15.3.2002 — (Uday Baxi)

12D: Action Minutes Book

Minutes of the ....….th Governing Body Meeting of .... held on ….......…..… at ....(place)…..........

[A] The meeting began at…...... with a small prayer and was chaired by ……………..…………….

Those present for the meeting were – …...…., …......…, ...……., ……..….and …................…

Absent with excuse were - .... , ...

[B] Minutes of the previous meeting were read by the secretary and were approved unanimously. [If not, mention amendments]

[C] Action Taken Report: [precise action taken for the tasks assigned to the persons in the previous GBM is reported and recorded here]

[D] Following agenda was placed before the governing board–

1 Admission of …..…..…, and …………… as members of the society.
2 Appointment of ……..........…… as the new treasurer.
3 Opening of a bank account for the unit …………………………..
4 Investment of ₹…………….........
5 Passing of the annual budget for the year ……….. ....
6 Request for a grant of ₹……........... for a jeep by ....
7 Request by ………….school to raise the level to senior secondary.
8 Any other matter with permission from the chair

[E] The above agenda points were taken up for detailed discussion clarifying questions raised and making necessary amendments to the resolutions. Finally it was **resolved unanimously** [If passed after a vote, mention votes for and against for each of them] -

1. **that** …… and …...... be admitted as members of the society with immediate effect.
2. **that** ……….…….., a member of this society be appointed as the new treasurer in place of …..……………... and to assume office with effect from ……..…..
3. **that** a savings account in the name of ………….…………, a unit of this society be opened at ……….…….. Bank with 1 …...……..… 2……..........….. and 3……........…… as signatories, with any two of them operating the account jointly.

12D: Action Minutes Book [continued]

4. that ₹…...........….. be kept in FD in …….….... Bank for.......…years.

5. that the budget for the year ………. as appended to these minutes be approved and the treasurer be authorized to make the payments.

6. that ……..……….............………… not being an ‘interested person’ be given a grant of ₹. ………….. for a jeep.

7. that ……......……….. school be allowed to go up to senior secondary level from the academic year …......…….. and the principal be authorized to seek the necessary permissions and approvals.

8. Among other matters permitted by the chair, following decisions were taken **unanimously** [If passed after a vote, mention votes for and against] -

- ……………….
- ……………….
- ……………….

The meeting ended at ……

President Secretary

Note:

1 If a resolution fails the test of vote and if needed, that too may be recorded with votes for and against, for the records sake. What is most important is recording the passed resolutions faithfully.

2 When the minutes are recorded with full details, each agenda point will have three parts: the agenda point, detailed discussion on it and its final resolution with votes for and against at part [E] of 12E

3 AGM minutes too may be kept in the same manner. Its main agenda will be passing the annual report, audit report and appointing auditors for the next fiscal year. It must also decide on matters assigned to it by the bylaws and rules of the society.

RECEIPTS [CR]							TOTAL[DR]		Transactions
Dt	Fee-M	Fee-A	Grant	Int.	Misc.	Other	CASH	BANK	
1	28000	5560					33560		Fees Collected
1				125		2000		2125	FD Recd with interest
2			25000					25000	Subsidy from HO
6									Books for students
7					5800		5800		School Study Tour
10						2000		2000	Scholarship Fund
10									Stationery for Exam/Office
10									Advance give for travel
12									Travel for office work
14									Electricity bill paid
16									Garden Maint exp *
17									Diesel: Jeep & generator
18									Village Program *
19									Scholarship to students
20									Repairs & postage
21									Mobile recharge paid
22									Books for staff & clubs
24			5000					5000	Donation received
25									Bank charges
25									Staff meeting & gifts
25									Sports day expenses
25									Garden Maint exp *
28			11100				11100		Donation for books
28									Conveyance Exp *
29						4500	4500		Travel bill & refund 700
29									Salary payment
30									PF Cheque paid
30									Honoraria paid
30					1500		1500		Reimb for Village progr
30	18000	7680					15680	10000	Fees Collected
	46000	13240	41100	125	7300	8500	72140	44125	TOTALS
	Acc. Period:						x	15000	Cash deposit in bank $
							25000	x	Cash drawn from Bank $
	12E. Analytical Cash Book						**2238**	**2345**	OP. BALANCE CL.
							99378	61470	GRAND TOTALS

	TOTAL [CR]		PAYMENTS [DR]									
Dt	CASH	BANK	Salary	Maint	Transp	Comm	Acad	Actvty	Off Ex	Electr	NF-Ed	Other
1												
1												
2												
6	9250							9250				
7	9800							5800				4000
10												
10	7175						6500		675			
10	4500											4500
12	450				450							
14		2560								2560		
16	1250			1250								
17	2500				1250					1250		
18	2720										2720	
19	550											550
20	4680			4555		125						
21	335					335						
22	2225						1245	980				
24												
25		56							56			
25	1255							1000	255			
25		9200			1230	875		7095				
25	2348			2348								
28												
28	4600						4600					
29	3800				3800							
29	15840		15840									
30		4520	4520									
30	4000	6000	6000								4000	
30												
30												
	77278	22336	26360	8153	6730	1335	12345	24125	986	3810	6720	9050
	15000	x	Unit's Name									
	x	25000										
	22100	**39134**	$ are contra entries; they just interchange cash and bank									
	99378	61470	* are transactions reworded to satisfy legal requirements									

12F: Canon Law

1267: Unless contrary is clear, offering made to an administrator is presumed to be made to the juridical person.

1273: Roman Pontiff by virtue of his primacy of governance is the supreme administrator and steward of all ecclesial goods.

1277: On extra-ordinary administration, bishop needs the consent of the finance committee and college of consulters.

1280: Every juridical person must have a finance committee or at least two counselors to assist financial administration.

1281: Administrators act invalidly when they go beyond their limits without written faculty.

1283: Administrators take an oath; draw up an accurate and certified inventory of all goods.

1284: Administrators must ensure that the ownership of ecclesial goods is protected under civil law; donors' intentions, civil and canon laws are respected; accurate records of income and expense are maintained.

1286: Church and civil laws including just family wages are to be followed with employment.

1288: No one to begin or contest legal proceeding without written permission from the competent authority.

1292: Permission of the Holy See is required for the valid alienation of goods beyond the established limit.

1298: Ecclesial goods must not be sold or leased to administrators or their relatives up to the 4th degree without the written permission of the competent authority.