

Introduction to Finance

NGOs' perspective



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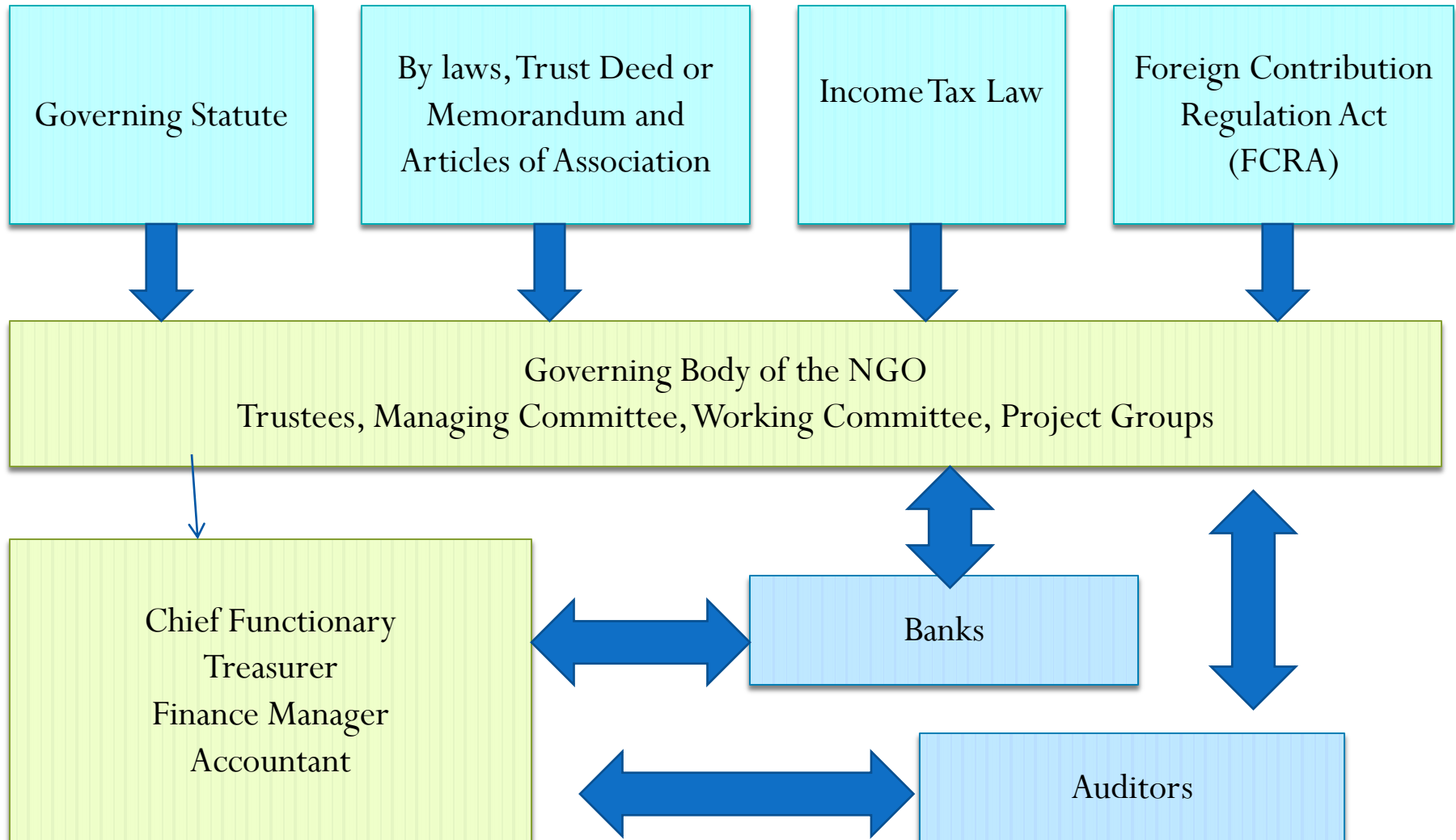
Know Your NGO -



- Types of NGO's Based on **Mode of Creation** –
 - Society (under Societies registration act),
 - Public Trusts (under Indian Trust or State Trust Act),
 - Section 25 / Section 8 Company (under companies Act)

- Types of NGO's Based on **Activities** –
 - Education,
 - Relief of the poor,
 - Medical Relief and
 - Advancement of any other object of General Public Utility (Arts, Sports, Cultural, Social, Spiritual, Religious)

Legal framework, External Agencies and Functioning of NGO -



Aspects of Finance applicable to NGO's -



3 Aspects of
Finance

Arranging of
Finance (Fund
raising)

Management of
Finance (Investing
and spending)

Reporting of
Finances (Internal
and External)

Arranging of Finance by NGO's (Fund raising) -

Contributions by members, supporters or affiliates

- Corpus or Trust Fund contributions
- Voluntary contributions in Cash or through cheque
- In kind donations
- Foreign Contributions from Individuals
- Special Objects contributions

Contributions by Government or through other philanthropic organisations

- Grants and Social Aids
- Foreign Contributions from organisations
- CSR contributions

Income generated through activities of the trust

- Activity Income (education fees, collection box, competition fees – based on activity of the trust)
- Investment Income

Basic Philosophy of Fund raising-

- **Understand your own organization** – Know your constitution, understand the activities, current sources of finance, shortfall in finance, Proposal in hand and fund requirement for the same
- **Understanding the donor's viewpoint** – Interest areas of donors and activities of the trust, showcasing past records of the trust,
- **The return to the donor** – Recognition to donors, reporting to donors, involvement of donors in NGO programme
- **Marketing** – Proper Plan with Justification, Highlighting trust's past achievements
- **Credibility** – Transparency in records, compliance with all legal formalities, periodic reporting

Be Ethical

Be Honest

Earn and maintain
Reputation

Management of Finances -



- Organisational hierarchy.
- Expenditure Management – Authority, Spending areas and limits, Discretionary powers, Documentation and legal compliance.
- Bank account operations – Authority, Operations and reporting.
- Fund raising source and Use of funds (source and application matching).
- Investment of surplus funds (incl. temporary parking of funds).
- Donors covenants and statutory restrictions in utilisation of funds.

Reporting of Finances -

- **Internal Reporting (Management Accounting) –**

- Budgets
- MIS
- Reviews
- Management Reports



- **External reporting (Legal or Statutory Accounting) –**

- To the Members
- To the Donors
- To the Tax Dept
- To FCRA Authority



Understanding basic terms of Financial Reporting -

Legal or Statutory Accounting related terms	Management Accounting related terms
<ul style="list-style-type: none">•Asset•Liability•Income•Expenses•Reserves and Reserve Funds•Depreciation•Balance Sheet•Income and Expenditure Account•Accrual (Mercantile) vs Cash Accounting•Voucher, Receipt, Petty Cash, Journal, Cash Book, Ledger, Trial Balance	<ul style="list-style-type: none">•Budget – Fixed, Flexible, Zero Based etc.•MIS•Costs – Fixed, Variable, Semi variable•Costing and its uses•Cash Flows•Marginal Costing•Break even point•Deficit and its financing•Surplus and its allocation

Bifurcation is only for understanding purposes.

Overview of Income Tax provisions for NGO's (related to finance) -



- Register NGO with Income Tax Dept to avail tax benefit.
- Apply and obtain 80G / 35AC recognition to raise funds from general public.
- Expend 85% of annual Income to get 100% exemption from tax.
- Set apart and notify to Dept. shortfall in expenditure over Income to get additional time period for utilisation without tax.
- Invest funds in permissible modes only.
- Avoid cash donations, anonymous donations.



Overview of FCRA provisions for NGO's

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- Register under FCRA before accepting any foreign contributions.
- Accept funds only through designated bank account.
- Make expenditure through registered utilisation bank accounts only.
- Do not mix domestic funds with foreign funds.
- Reporting on quarterly basis source of funds and utilisation.
- Filing of Annual FCRA return to continue permission for accepting foreign contributions.

Important web links -

- Income Tax for Trusts –
- <http://www.incometaxindia.gov.in/pages/trust-specific-content.aspx>
- FCRA –
- <https://fcraonline.nic.in/home/index.aspx>



Thank you