

Treatment of Accounting for NGOs with Special Reference to Government Grant: A Case Study

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NGOs are the driving force behind many initiatives in the society. NGOs in Asia raise funds for their work in three main ways - fees from service or sale of product; donation from public and funding from government or donor agencies. Grants form a major source of funds for most mainstream NGOs. Government sometimes prefer to work with NGOs because NGOs are often better equipped to reach the poor.

The study is limited to the NGOs of Udaipur region. Six NGO units of large size based on their funds and assets were selected. A schedule based interview has been conducted to gather primary data about the government grant related issues of NGOs.

The findings of the study indicated that only two NGOs were fully aware with AS12 and only one was partly aware with FASB's statement no.116 and IAS 20. As far as treatment of grant as an accounting point of view considered, there were three NGOs treated grant as liability, one of remaining two treated as an income and another one treated as an conditional income. Finally researcher suggested that NGOs must try to make their accounting department fully aware about AS 12 and other related standards respectively like: FASB and IAS. According to researcher NGOs should treat government grant as an income received in advance or unearned income because they receive the fund in advance against for the work have to do later.

Keywords : NGO, Government - Grant Income, Liability

Introduction

Non-government organizations in Asia raise funds for their work in three main ways - fees from service or sale of product; donation from public and funding from government or donor agencies.

Some organizations also receive income from assets (such as land or building or investments of these sources), but grants form a major source of funds for most mainstream NGOs.

Government funding is often available for non-profit initiatives. Government funding comes in the form of grants, loans, subsidies, fellowships, scholarships, traineeships, technical information, advisory services and sales or donations of federal property.

In nutshell government grants are the assistance which is provided by government to NGOs may be in the form of monetary or non-monetary form and sometimes according to proposals it has to be returned back to funding agency and sometimes not.

Relation Between Ngos And Government Grant

Governments sometimes prefer to work with NGOs because NGOs are often better equipped to reach the poor, and there is some evidence that large NGOs are able to provide certain services more efficiently than governments. In certain cases governments may decide to step out of a certain sector or stop providing services to a certain area because of the presence of an NGO that is helping that sector or region. This effectively makes it easier for the government to not get directly

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involved and take responsibility for the nation's problems.

Government has the financial capacity to provide significant support to NGOs, to further the country's development goals. However, this money is sometimes given to organizations whose activities and publications contradict a government's development, aims and violate funding guidelines.

Ngo Financing Institutions In India

As far as government agencies are considered, soon after independence the government recognized that voluntary organizations could provide services to

disadvantaged populations then firstly it created the Central Social Welfare Board (CSWB).

The government of India dramatically increased the resources earmarked for NGOs in the seventh Five Year Plan. It also created a new agency to strengthen the capacities of NGOs to participate in these programs called the Council for Advancement of People's Action and Rural Technology (CAPART).

At about the same time the government established the National Wastelands Development Board (NWDB) as a response to growing problems with ecological deterioration and deforestation. It was expected that

Table 1: NFI characteristics

S. No.	Characteristics	CSWB	CAPART	NWDB
1.	Mission	Support social welfare services: strengthen voluntary organizations	Strengthen rural voluntary organizations; introduce new technology inputs	Promote productive use of wastelands; supports afforestation and rural employment
2.	Leadership	Chairman, Executive Director: IAS Officer	Chairman: Minister of Rural Development; Executive Director: IAS Officer	Initial Chairman: Academic Leader; later Minister of Environment & Forest; Exe. Dir.: IAS Officer
3.	Organization	General body (45); Executive Committees (12); State Boards; CSWB Staff (150)	General body (85); Executive Committees (27); Project Finance Committees; CAPART Staff (140)	General body (18); Technical, Project Committee; Close coordination with State Forestry Departments; NWDB staff (..)
4.	Service Extension Programs	Grants in Aid Welfare, Socio-economic Programs, Hostel for women, Education Programs, Mahila Mandal (Women's Organizations), Children's Creches	Rural women and children, Rural sanitation, Rural water supply, Landless employment, Integrated rural development, Rural technology	Forestry program, Rural fuel wood, Soil watch, External aid projects, Categorization nurseries, Silvi-pasture, Margin money cooperatives

5.	Capacity building programs	Women's awareness camps, Voluntary action bureaus	Organization of beneficiaries, Promotion of voluntary action	Grants in Aid
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Source: www.worlded.org.

the NWDB would make extensive use of NGOs in carrying out its programs, though it was also expected to work closely with central and state government agencies concerned with these issues.

These three institutions are all mandated to provide support to NGOs and they are all, in theory, autonomous from their ministries. Table No.4.1 presents some of the most important similarities and differences.

Treatment of Grant

There is lot of confusion in the regard of treatment of grants. According to AS12 a project grant shall be treated as income only if there are no restrictions placed in the project contract by the donor. Therefore restricted grants shall not be treated as income in the books of the NGOs. The restricted grants shall be recognized as a legal obligation as and when realized on the principles of fund accounting. Receipts and applications of restricted grants shall be made in the respective fund account. In other words all restricted grants received shall be accounted for on realization/receipt basis only.

All voluntary contributions and donations received shall be treated as income as per AS12 on the basis of duly approved grant letters, specifying time frame/guidelines of grant accrual.

Grants are Income or Liability

Some people say that grants are received for specific purposes and represent a liability. These should not be taken to income and expenditure account but directly to the liabilities side of the balance sheet. Unfortunately, this results in a distorted view. Even in case of NGOs receiving and spending crores as grants, the income and expenditure account may show very little income or expenditure.

Another view is to treat such grants as conditional income. This would mean that these become the organization's income if these are spent properly. This is to say, these are spent according to the terms and conditions of the grant. In such case, the entire grant is shown as income and a provision is made for unspent grant at the end of the year. This presents a picture which is closer to reality.

According to Income Tax Act Grants Whether Income or Not

According to section 11 of income tax act all voluntary contribution except corpus contribution should be treated as income. But a specific or restricted contribution is not a voluntary contribution if it comes attached with a condition. Project grants are considered as specific or restricted contribution because the amount has to be utilized as per the conditions of the project / grant agreement. Therefore, the grant is not freely available to the organization to be utilized for charitable purposes. It is bound by the contractual obligations of the project/grant agreement.

Project grants should not be considered as income for the purposes of section 11(1) of the income tax act and should be transferred to a separate account of the donor from where it should be spent for its predetermined purposes. Any surplus remaining should revert back to the donor or should be treated as income after obtaining approval from the donor.

Accounting of Grant

From the previous paragraphs it is known that there is lot of diversity in recognition of grant in accounting system. Grants are usually recognized as income or liability in the accounts of an NGO.

Some NGOs recognize grant as liability, some recognize grant as income and some recognize grant as conditional income.

Grant Recognized as Liability

Many NGOs follow this method of recognizing grant as liability. In one sense it is correct as these grants are money of somebody else which are given to the organization to be spent in a particular manner. Under this method any project grant is treated as a liability and taken to the balance sheet. Expenditure incurred during the year is shown as deduction from this. The unspent balance is carried for spending in the following year.

Grant Recognized as Income

Most of the NGOs recognize grant as income in the year in which it is received and credited in full to the income and expenditure account. Amount expended out of this account is shown as expenditure in the income

and expenditure account. And the difference between the grant and expenditure is shown as surplus or deficit. Unspent balance is to be returned to the funding agency and overspent balance can be charged from these agencies if the agreement so provides.

Grant Recognized as Income Only to the Extent of the Expenditure Incurred Out of it

Under this method, grants are recognized as income but only to the extent of expenditure incurred out of it. The unspent or overspent balance is shown as liability or assets in balance sheet and in income and expenditure a/c the unspent balance is deducted from the grant received. This matches the amount of grant (income) and the expenditure exactly.

The figures given below show how should be the financial statements under these three methods:

(i) Grant as liability:

Table 2
Balance Sheet

Liabilities	Rs. (lakhs)	Assets	Rs. (lakhs)
Corpus	20.00	Building	20.00
Surplus	0.10	Cash & Bank	12.00
Grant from XYZ:			
Opening balance	7.9		
Add: Recd. this year	22.00		
Less: Spent this year	18.00		
Closing balance	11.90		
Total	32.00	Total	32.00

Table 3
Income & Expenditure Account

Expences	Rs. (lakhs)	Income	Rs. (lakhs)
Office rent	0.80	Membership fees	0.55
Salaries	0.90	Donations	2.05
Other expenses	1.05	Misc Income	0.25
Surplus	0.10		
Total	2.85	Total	2.85

Table 4
Receipt & Payment Account

Receipts	Rs. (lakhs)	Payments	Rs. (lakhs)
Op. balance	12.7	Program exp.	18.00
Grant from XYZ	22.00	Office rent	0.80
Membership fees	0.55	Salaries	0.90
Donations	2.05	Other expenses	1.05
Misc. income	0.25	Closing balance	16.80
Total	37.55	Total	37.55

(Note: Figures are imaginary)

(ii) Grant as Income:

Table 5
Balance Sheet

Liabilities	Rs. (lakhs)	Assets	Rs. (lakhs)
Corpus	20.00	Building	20.00
Surplus:		Cash & Bank	12.00
Op. Balance	7.90		
Add: For the year	4.10		
Closing balance	12.00		
Total	32.00	Total	32.00

Table 6
Income & Expenditure Account

Expences	Rs. (lakhs)	Income	Rs. (lakhs)
Program exp.	18.00	Grant from XYZ	22.00
Office rent	0.80	Membership fees	0.55
Salaries	0.90	Donations	2.05
Other expenses	1.05	Misc. income	0.25
Surplus	4.10		
Total	24.85	Total	24.85

(Receipts & Payments a/c same as in Table 4)

(Note: Figures are imaginary)

(iii) Grant as Conditional Income :

Table 7
Balance Sheet

Liabilities	Rs. (lakhs)	Assets	Rs. (lakhs)
Corpus	20.00	Building	20.00
Surplus	0.10	Cash & Bank	12.00
Unspent grants:			
- XYZ	11.90		
Total	32.00	Total	32.00

Table 8
Income & Expenditure Account

Expences	Rs. (lakhs)	Income	Rs. (lakhs)
Program expenses	18.00	Grant from XYZ	
Office rent	0.80	Received this year	22.00
Salaries	0.90	Add: Unspent bal. brought forward from prev. year	7.90
Other expenses	1.05	Less: Unspent bal. at the end of year carried forward	11.90
Surplus	0.10	Bal. grant for the year	18.00
		Membership fees	0.55
		Donations	2.05
		Misc. income	0.25
Total	20.85	Total	20.85

(Receipts & Payments a/c same as in Table 4)

(Note: Figures are imaginary)

There are some advantages and disadvantages of first two methods:

- Grant as liability:

When NGOs treat grant as liability then some advantages and disadvantages come in front:

Advantages:

(a) Assets and liabilities are fairly shown in the balance

sheet in this method.

(b) Expenditure is also fairly shown in income and expenditure account.

Disadvantages:

(a) This method mislead people into thinking that the NGO is not very active because in this method program expenses do not form part of expenditure

in income and expenditure account.

- (b) Income is understated in this method because grant do not form part of income in income and expenditure account.

- **Grant as income**

When NGOs recognize grant as income then some advantages and disadvantages seen generally in this method:

Advantages

- (a) Assets are shown fairly in balance sheet in this method.
- (b) Grant form the part of income in income and expenditure a/c and expenditure also shown fairly because program expenses from the part of expenditure in income and expenditure a/c.

Disadvantages

- (a) Income does not present a fair view. It is shown overstated/understated in this method.
- (b) Liability also shown understated in this method because unspent balance of grant become surplus and in actual it is a liability.
- (c) As a income tax point of view it becomes a complex issue because NGOs have to spent 85% of their income in the year which it is received.

Grant as conditional income

Mostly NGOs follow this method because it has only advantages:

Advantages

- (a) All assets, liabilities, income and expenditure are shown fairly in this method.
- (b) Tax management becomes easier because only income expend during the year form part of income.

Methodology

Sample selection

Keeping in view the nature of the study, large six sample

units are selected on fund and assets basis from Udaipur district. Sample units are: Narayan Seva Sansthan (Narayan), Seva Mandir (Mandir), Aastha, Indian Farm Forestry Development Co-operative Ltd. (IFFDC), Rajasthan Rural Institute of Development Management (RRIDMA), Manav Seva Samiti (Manav).

Profile of sample units:

(a) Narayan: The organization helps poor, needy and helpless people of the society who are physically challenged. Operated them free of cost and make them stand on their own legs, after this gives vocational training for their employment to make financially strong and also make them help through marriages. Its turnover in A.Y. 2007-08 was Rs.23 crores.

(b) Mandir: Mandir is working for the development of the rural and tribal population in Udaipur and Rajsamand districts of southern Rajasthan. The work area encompasses 626 villages and 56 urban settlements. In total the organization reaches out to around 70000 households, influencing the lives of approx. 360000 persons. Its turnover in A.Y. 2007-08 was Rs.9.78 crores.

(c) RRIDMA: RRIDMA is a sister organization of BAIF. It aims at improving the quality of rural life through sustainable development of the degraded natural resources - land, livestock, water and vegetation using the idle human time through multidisciplinary programmes. It is working in the rural areas of the state. Its turnover in A.Y. 2007-08 was Rs.8.46 crores.

(d) Aastha: Aastha is working for rural development and organizing women's group. It helps those living under economic marginalization, feudal traditions, inequalities, environmental degradation etc., works with the people to claim and reclaim, their human rights and also organizes training events, awareness raising camps, etc. The working area of Aastha is primarily Rajasthan. Its turnover in A.Y. 2007-08 was Rs.4.84 crores.

(e) IFFDC: The organization is committed for integrated rural development and ecological up-

gradation through afforestation on abandoned wastelands with community participation by promoting village level Primary Farm Forestry Co-operative Societies (PFFCS) and Primary Livelihood Development Co-operative Societies (PLDCS) for livelihood enhancement of the landless, marginal and small farmers, tribal and women in particular. It is presently operating in more than 1500 villages of 13 states of the country. Its turnover in A.Y. 2007-08 was Rs.136.87 crores.

(f) **Manav:** Manav is serving for the poor patients. It provides free medicine and food for patients and also provides free food for the attendant of the patient. The working area of Manav is Udaipur. Its turnover in A.Y. 2007-08 was Rs.0.009 crores.

Data Collection

Data were collected from primary sources, a number

of interviews arranged with the accounting section's heads of sample units.

Case Study

A survey was conducted to gather primary data about the government grant related issues of NGOs. Based on survey findings the section below provides the main findings.

Receiving of Government Grant

The survey enquired about the receiving of government grant then researcher found that except Manav all five units received government grant (vide Q.No.1).

Type of Grant

To give an idea about the type of government grant received by sample units is summarized in Table 9.

Table 9: Type of grant (Vide Q.No.1.i)

Name of organization	Type of grant		
	Project grant	Capital grant	Both
Narayan	Yes	--	--
Mandir	Yes	--	--
Aastha	Yes	--	--
IFFDC	--	--	Yes
RRIDMA	--	--	Yes
Manav	--	--	--

It is indicated from the above table that three NGOs out of five (which receive government grant) received project grant while two NGOs received project as well as capital grant both. But according to RRIDMA they receive both type of grants but project grant form major part and capital grant form minor part.

Further respondents were enquired about the kind of grant then all sample units revealed that they received only monetary grant (vide Q.No.1.ii).

Number of Government Projects Sample Units having

In order to reveal that what number of government projects sample units having presently. The result of this survey is summarized in Table 10. (table on next page)

The above table shows that mostly all sample units have both central as well as state government project.

Further respondents were enquired about any

Table 10: Number of government projects (vide Q.No.2)

Name of organizations	Number of projects	
	Central government	State government
Narayan	04	03
Mandir	01	04
Aastha	02	--
IFFDC	01	01
RRIDMA	08	06
Manav	--	--

limitation of government projects in one time from the government side then all sample units replied that no there is no any limitation (vide Q.No.3).

Amount of Money Received from Government

The response gathered about normally what amount of money received from government according to proposal by sample units are shown in Table 11.

Table 11 : Amount of money receive from government according to proposal (vide Q.No.4)

Name of organization	Amount of money
Narayan	Less than 50%
Mandir	More than 50%
Aastha	100%
IFFDC	More than 50%
RRIMDA	Almost 100%
Manav	--

The survey identified that there is no any similarity in this answer.

Further respondents were enquired about the refund the unspent balance of grant to government, the researcher found that all five units refund the unspent balance to government (vide Q.No.5).

Further to identified that getting the overspent balance of grant from government then researcher has come to know that every sample unit revealed that it depends

upon proposal. If it mention in the proposal to get the overspent balance then government provides otherwise not (vide Q.No.6).

Further it is enquired that if NGO does not get overspent money from government then what money they use to complete the project then all sample units revealed that they have created their own reserve fund to tackle that situations. But no one used it's corpus fund for this purpose (vide Q.No.6.i).

Completion of Government Project in Given Time

In order to reveal that completion of government project

in given time by the sample units. The result of this survey is summarized in Table 12.

Table 12: Completion of government project in given time (vide Q.No.7)

Name of organization	Completion of government project in given time
Narayan	Yes
Mandir	Varies project to project
Aastha	No
IFFDC	Yes
RRIMDA	Varies project to project
Manav	--

It depicts from the above table that two NGOs out of six reveal that they have to finish government project in given time and one reveals that it is not necessary to complete the government project in given time and rest of two reveal that sometime they have to finish government project in given time or sometime not means it varies project to project. In general in very few cases

extra time provide by government.

Further respondents were enquired about that if they found themselves unable to complete the government project in given time then normally how much extra time government provide. The results of this survey is summarized in Table 13.

Table 13: Extra time provided by government to complete the project (vide Q.No.7.i)

Name of organization	Extra time
Mandir	No limit
Aastha	No limit
RRIDMA	Depends upon mutual understanding

Table 13 shows that out of three NGOs two reveal that there is no any limit for extra time given by government but one reveals that it depends upon mutual understanding in the meeting with government agency.

Awareness about AS 12:

The response gathered about awareness about AS 12 given by ICAI with regard to grant for NGO are shown in Table 14.

Table 14: Awareness about AS 12 (vide Q.No.8)

Name of organization	Awareness about AS 12
Narayan	No
Mandir	Yes
Aastha	No
IFFDC	Partly
RRIMDA	Yes
Manav	--

So Table 14 indicates that there are only two NGOs who are fully aware with the AS 12 and one is partly aware and rest of two NGOs are unknown about AS 12.

Researcher suggests that it is very necessary to get the knowledge about the accounting standards given by ICAI because with the help of this, NGOs can do their work properly and it will be helpful to take their work towards perfection.

Further respondents were enquired that if they are aware about AS 12 then they follow that at the time of considering government grant or not then researcher found that all of three NGOs (which are aware about AS 12) follow that (vide Q.No.8.i).

To give an idea about the awareness about statement no.116 given by FASB and IAS 20 with regard to grant, the result is summarized in Table 15.

Table 15: Awareness about statement no.116 and IAS 20 (vide Q.No.9)

Name of organization	Awareness
Narayan	Not at all
Mandir	Yes (partly)
Aastha	Not at all
IFFDC	Not at all
RRIMDA	Not at all
Manav	--

It depicts from the above table that there is only one NGO who is partly aware about statement no.116 and IAS 20. And rest of four are not aware at all

According to researcher if NGOs get aware about FASB and IAS then they can improve their work at better extent.

Maintenance of Separate Cash Book for Government Projects

The result of survey regarding the maintaining of separate cash book for government project reveals that all five NGOs maintain separate cash book for government projects (vide Q.No.10).

Maintenance of Separate Ledger for Government Project

The survey also enquired about the separate ledger for government project then researcher found that all five units maintain separate ledger for every government project (vide Q.No.11).

Awareness about Income Tax Act with Regard to Grant

A question was designed to reveal that awareness about income tax act with regard to grant. Then it is found that all five NGOs are aware about income tax act with regard to grant (vide Q.No.12).

Treatment of Grant as an Accounting Point of View:

The response regarding the treatment of grant as an accounting point of view is summarized in Table 16.

Table 16: Treatment of grant as an accounting point of view (vide Q.No.13)

Name of organization	Treatment of grant
Narayan	Liability
Mandir	Conditional income
Aastha	Liability
IFFDC	Income
RRIMDA	Liability
Manav	--

Table 16 indicates that three sample units treat grant as a liability because they have to refund the unspent balance and one sample unit treats it as an income and rest of one treats grant as an conditional income.

A.G. Audit

In order to reveal about A.G. audit organize by government agencies sample units required to tell about that, then researcher found that all sample units replied that government agencies organize the A.G. audit in respect of given grant provided that amount of grant comes under the conditions of A.G. audit (vide Q.No.14).

Provide U.C. to Sponsoring Agencies

The result of survey regarding to provide U.C. to sponsoring agencies reveals that all five units provide U.C. of expensed amount to their sponsoring agencies (vide Q.No.15).

Researcher has come to know that when any government agency give grant to NGO then they don't show that amount in expenditure in their books until they don't get U.C. of expensed amount from NGO. Till then they show that money in debit side with the name of NGO and they pass the entry.

NGO a/c Dr
To Bank a/c
(being grant given to NGO)

Conclusion

Based on the analysis of questionnaire and available material conclusively it is recommended that firstly it is very necessary to make NGO's accounting department fully aware about AS-12 and it would be much better if they get proper knowledge about FASB and IAS also and as far as treatment of grant is concerned as an accounting point of view there are number of disadvantages in first two methods (grant as liability

and grant as income) which are explained earlier. But method third i.e. grant as income only to the extent of the expenditure incurred out of it, has only advantages means in nutshell firstly NGOs have to spend the money after that show as an income. So finally it is suggested that the NGOs should treat government grant as an income received in advance or unearned income because they receive the fund in advance against for the work have to do later.

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