

2. FINANCE POLICY



Koshish Charitable Trust

Abdin House, Fraser Road, Patna-800 001, Tel: 91-612-2200354, Mail: Koshish_pt@yahoo.com, Web: <http://koshish.info/>



1. Accurate financial results, delivered fast

Key features	
<ul style="list-style-type: none"> Financial consolidation Powerful management reporting and analytics Complete customization of output reports Integrated disclosure management Scalable web architecture Powerful workflow management features with complete audit trail 	<ul style="list-style-type: none"> Quickly deliver financial statements with full traceability to General Ledger Reduce consolidation cycle by days or even weeks Deliver timely results for internal and external reporting One integrated application for compliance with different global accounting standards Discover opportunities and improvement areas through flexible analytics and customizable management reporting

2. Reconciliation of consolidation number

Rich Reconciliation reports for consolidated and standalone financials, inter-company transactions, grouping reports etc., help in quickly spotting differences if any and resolving them.

3. The Scenarios analysis

The system allows for creation of unlimited scenarios (Actual, Budget, Forecast etc), with complete flexibility to consolidate across any scenario and compare across multiple periods.

4. Reporting and analytics

Analyse on key financial ratios

Examine financial performance across multiple periods

Compare financial performance across subsidiaries/branches within the group

Compare the group's performance against similar companies in the sector

Budget vs Actual analysis

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5. Role & responsibilities of Senior Management in financial management

Prepare, Report & Comply; Attractively priced

Role & responsibilities of senior Management in financial management :

- Provide the organization with the necessary guideline on principle to be followed
- To ensure accountability of the finance section in:
 - Producing timely financial statement.
 - Informing the line management about the financial health of the organization a timely manner.
- Take corrective measure to improve the financial management system in a consistent manner keeping the like with growth of the organization & changes in financial principal & practices.
- Review and analyze deeply the reports generated by the accounts. Section in each month and take the appropriate measure where deviation alternately observed.
- To take action for auditing the books of accounts & the financial statement generated in the organization using by the external audit firms.
- Take remedies to implement the recommendation given by the auditors for further strengthening the financial management system.
- To establish internal audit section as well as for regular monitoring of financial transactions, books of records & finance. Statement in compliance with the organizational polices as well as donor requirement.
- Arrange training, internship, etc. for the finance stuff for their capacity building.

6. Budget preparation and program planning:

Budget is prepared and maintained according to fiscal year (April-april). While preparing the budget, due considerations are required on the following factors:

- ⊗ Strategic training and orientation of the organization
- ⊗ Consistency between program priorities and resource allocation
- ⊗ Planning activities of the organization
- ⊗ Availability and Source of Fund

Budget is developed with strategic thrust of program planning. Each Program Unit develops its annual work plan with details of activities with expected income and expenditure, which is submitted to Accountant of the organization. The senior management (Secretary) then finalizes the draft budget.

The Types of budget or financial plan as mentioned the Chief Accountant generally prepares:

6.1 Cash flow Budget: To indicate the cash requirement with time frame for Donors for consideration of contribution to the program

6.2 Detailed Working Budget: To indicate the approved activities with financial implication for all program units to follow and maintain budget line activities and expenses

6.3 Summary Consolidated Budget: To indicate overall Program wise Receipts and Expenses for Management to monitor and take necessary steps.

6.4 Revised Budget: To accommodate the over/under income or expenditure, in view of changed situation during the implementation period.



4.7 The Budget Accountability and Budget Revision process need to include in financial policy or manual:

a) Budget Accountability

- In case of bilateral projects, budget limits are determined within the project agreement. Such agreement also specifies the limit of flexibility either in terms of percentage or amount.
- In case of extreme requirement, over expenditure up to maximum of 10% over the budget of a particular line item is allowable. Any expenditure in excess of 10% will require prior approval of the Secretary. However, in any case, the actual expenditure shall not exceed the overall budget limit.

b) Budget Revision

- In case of shortage of funding or essential requirement of additional expenditure beyond allowable limit, the Management may require to revise the approved budget at any given period. In such cases, the revised budget to be placed before the Board and respective donor for its approval and onward implementation.
- Chart of Accounts with main accounts head and code

Debit and Credit clearly explained and P&L and Balance Sheet made Easy

7. The Chart of Accounts with main accounts head and code:

Koshish Charitable Trust is an expanding organization and expected to take up new projects and programs. As per organization's and donor's need, different financial report will be generated for different project and duration. The Chart of Accounts (Accounts head or title) has been developed to allow separate tracking of individual programs, different program component and location –wise. One can introduce coding system side by side, which could be helpful for computerization but for the manual accounting coding is not necessary.

8. Main Accounts Heads

8.1 Fixed Asset

Land and building

- Furniture and Fixture
- Equipments Current Assets
- Cash in Hand
- Advance
- Earnest Money
- Cash at Bank
- Cash at Bank (FDR) Liability
- Loan from BANK
- Payment to Contractors Revenue
- Sales of Handicraft
- Fund received from Donor Expense
- Printing and Stationeries
- Training venue rent
- Loan Installment Payment
- Salaries

8.2 Chart of Accounts with Coding System

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The coding system has been developed to allow separate tracking of individual programs, different program component and location –wise.

All fields in the code structure are Numerical. First two segments of the account code are mandatory for posting financial transactions into the General Ledger.

8.3 Code Explanation

This is the first segment of the account code with 2 digits that represents the segment of the ledger for project accounting. A project code in the General Ledger is a code used to track income and expenditure for a specific project.

The project code structure can be depicted as follows which has the provision to accommodate maximum 99 projects:

The Present Project- 01

Any subsequent new project- 02, 03

This is the second segment of the account code with five digits and represents the type of assets, liability, income or expense with sub-head of Account and program component wherever applicable. The Account code structure can be depicted as follows:

The first digit represents the broad account type viz.

Account beginning with 1 = Fixed Asset

Account beginning with 2 = Current Assets

Account beginning with 3 = Liability

Account beginning with 4 = Revenue

Account beginning with 5-9 = Expense

The next two digits represent the sub-account types viz.

Account beginning with 1 11 = Fixed Asset- Furniture& Fixture

Account beginning with 2 11= Current Assets-Cash in Hand

Account beginning with 3 11 = Liability-Capital Fund

Account beginning with 4 11 = Revenue- Donation Received

Account beginning with 5 11 = Expense- Salary-Basic

The last two digits represent the program components viz.

Account beginning with 1 11 11 = Fixed Asset- F&F-Program

Account beginning with 2 11 12 =Current Assets-Cash in Hand-Program

Account beginning with 3 11 00 = Liability-Capital Fund

Account beginning with 4 11 11 = Revenue- Donation Received- Program

Account beginning with 5 11 12 = Expense- Salary-Basic-Program

The Financial Records and Accounting including book, forms and register need to maintain:

Books, forms and registers are the primary records in which day-to-day transactions are recorded.

9. The list of books, forms and registers maintained are following:

- I. Cash Book (Cash Register)
- II. General Ledger
- III. Subsidiary Ledger
- IV. Salary Register
- V. Fixed Assets Register
- VI. Advance Register
- VII. Voucher Forms:

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- i. Debit Voucher
 - ii. Credit Voucher
 - iii. Journal Voucher
- VIII. Stock Register
- IX. Money Receipt
- X. Attendance Register
- XI. Movement Register
- XII. Meeting Register

9.1 The Process to maintain Cash Book and General Ledger need to include in financial policy or manual:

1. **Cash Book (Cash Register):** Transactions relating to cash and bank, which are recorded in a book in a chronological manner is called a Cash Book. Koshish charitable Trust maintains separate bank accounts for each individual project.
2. **General Ledger:** Cash/bank and non-cash transactions are recorded in a particular book classified according to their heads of accounts is called a General Ledger. Daily cash transactions are recorded in the cash register according to their heads of accounts. All the transactions from Cash Book are entered into the General ledger. For non-cash transactions, journal vouchers are prepared and posted in the general ledger directly. General ledger is the principal book of accounts. The financial position of an organization can be easily ascertained at a particular point of time by preparing financial statements from general ledger data.
3. **Subsidiary Ledger:**

9.2 The Salary and Fixed asset register system can be included in financial manual or policy:

1. Salary/Honorarium /Consultancy Register

Salary and benefits is the largest part of the operating expenses. Details about salary/payroll register have been discussed in Payroll section of this Manual.

2. Fixed Assets Register

Fixed assets play an important role in every organization. The following data are very essential as regards to fixed assets:

- o Date of purchase.
- o Source of funding (Project)
- o Description of assets
- o Quantity of assets
- o Value of assets
- o Depreciation rate
- o Annual depreciation
- o Accumulated depreciation
- o Written down value
- o Location
- o Identification mark (Project name, Location, serial number, asset category)
- o Other information.

The following depreciation related policy should include in financial manual or policy:

Depreciation

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Koshish will follow the straight-line method for calculation of depreciation on fixed assets.

Any change in the rate of depreciation will be done through the approval of the Board.

The Right off policy for fixed assets needs to include in financial manual:

Fixed assets write off

In case an asset is damaged or becomes unserviceable, the maintenance section will certify the condition and propose for write off. The Secretary will form a Committee. The Committee will list down damaged or unserviceable asset & submit it to Account Section. Account Section will place the proposal with the relevant data of cost, year of purchase, depreciation charged, written down value etc. to the Management for appropriate decision with the consent of the Secretary. Sale proceeds of the asset written off (if any), will be considered as Other Income.

The Voucher Forms and elements of vouchers need to include in financial policy or manual:

Vouchers are primary document to record financial transaction of an organization with all essential-supporting documents.

Elements of vouchers:

- Name of the organization
- Number and nature of voucher
- Date of preparation
- Account name, code no. and amount
- A brief narration about the transaction
- Signature of appropriate authorities
- Attachment of bill/cash memo and other supporting documents
- Project Code
- Recipient's Signature
- Indication of Cash/Bank

The Advance Register form and information necessary and fill up process:

Advance is a normal phenomenon of an organization. To carry out various activities, it becomes essential to procure goods and services from different persons or organizations at different point in time and in doing so, advance payments need to be made from time to time. Depending on the particular situation, these advance payments are made directly to third parties and sometimes to own staff.

Advance register is a controlling tool by which proper control on advance payment could be established. It is a subsidiary record in addition to general ledger. It is essential to maintain all necessary information properly in respect of advance payments and their subsequent adjustment. While preparing financial statements, list is prepared for unadjusted advances from this register and the total of such advances is compared with that of the general ledger.

Voucher form such as debit, credit and journal voucher

Three types of vouchers are used in development organization as follows:

- a. Debit voucher
- b. Credit voucher
- c. Journal voucher

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a. Debit Voucher

Debit vouchers are prepared for recording of revenue and capital expenditure such as-staff salary, traveling & transportation etc. and plant & machinery, furniture & fixtures etc respectively. It is to be noted that, this voucher is prepared for all types of cash / bank expenditure. Necessary original supporting documents should be attached with Debit voucher except original telephone, electricity, gas, water and contract documents which is to be filed separately. This voucher has other alternative names available in use, such as payment voucher, disbursement voucher etc.

b. Credit voucher

Amount received from donor agencies, advance refund from staff or amount received by any means through sale, transfer etc. is recorded in books of accounts through credit vouchers. Before approving this voucher, it is ensured that all necessary supporting documents have been attached thereto.

c. Journal Voucher

Transactions other than cash are recorded in the books of accounts through vouchers are called Journal voucher. PF, income tax, advance adjustment, deduction from salary, depreciation on fixed assets etc. are recorded in the books of accounts through journal voucher. Necessary supporting documents are attached with this voucher before it is approved.

The Process of the Preparation of journal voucher requires including in financial manual or policy:

Project, code, voucher no, date are same as debit and credit voucher. Others are as follows:

Heads of account: Debit and credit sides of transaction are mentioned here. Debit (Rupees) and Credit (Rupees): Amount is written down here.

Source: Source of journal is mentioned here. Particulars: Explanation of transactions is written down in this column as follows:

- Provision - the provision was made against for the month of
- Adjustment – the amount is adjusted as per schedule/list attached.
- Rectification - Rectification entry is made against voucher no (reference of previous voucher)..... Dated
- Transfer - the amount is transferred to from as per circular/minutes/others etc.

Record keeping including accounting records, printing of financial documents and processing of financial documents and destruction of financial documents

The Record Keeping including accounting records, printing of financial documents and processing of financial documents and destruction of financial documents

- **Stock Register**
- **Money Receipt**
- **Attendance Register**
- **Movement Register**

10.Accounting Records

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Accountant ensures proper maintenance of accounting and financial records, and other essential records, their protection from damage (by fire or other means) and unauthorized access or removal. Further, the finance staff ensures, where appropriate, that the copies of records and cheque-books and cash are kept in safe custody.

a) Printing of Financial Documents

Distribution of financial documents to outside organization requires the authorization of the Secretary.

b) Processing of Financial Documents

Using pencil is prohibited in the processing of expense claims, vouchers, and other financial documents. Erasers (including use of correction fluids or chemicals) are not permitted in any records and books of account. In case of necessity of correction the straight line is drawn on the incorrect line/ record to keep it legible. However, concerned person making the correction puts his/her initials.

c) Destruction of Financial and Accounting Records

Accounting records shall be destroyed with specific approval of the Secretary. Destruction of accounting documents must comply with the GOI/GOB rules and regulations for NGOs.

From the date of last transaction, all the records will be preserved for the period as required by the respective donors/funders.

Sl no. Type of record Preservation Period

- Cash Book Life long
- General Ledger
- Asset Register
- Subsidiary Register
- Audit Notes
- Meeting Minutes
- Constitution of the organization
- Service Rule
- Voucher (any type) seven years
- General file and records – program

11. The Official Bank Accounts for financial transaction for the development organization

- i. **Board is the sole authority for opening and closure of bank accounts. Board assigns appropriate signing officers to operate bank accounts.**
- ii. **Correspondence with respective bank must be done after getting approval of the Board in the following cases:**
 - Opening and closing of the bank accounts;
 - Alteration to the designation of account signatories;
 - Appointment of the cheque signing employee or officers and
 - Cancellation of the appointments as signing staff or officers.
- iii. **The Operational Procedure of Bank Account need to include in financial policy or manual:**
 - a. **Any two of the following signatories jointly operates all the bank accounts of development organization:**
 - Chair Person

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- Secretary
- Treasurers

b. All the payments over Rs.20, 000 to be made through cheque.

12.The Receipt of Cheques and Cheque Register

Following steps are to be followed against receipt of any cheque:

Official Money Receipt (MR) to be issued against each receipt of cheques.

All the cheque(s) received to be crossed as "Account Payee" after receipt.

Cheque(s) received during the day to be deposited to respective bank within the next working day

Cheque(s) received register.

Cheque Register

When a cheque book is collected from the bank, the Accountant shall make an entry in the cheque register mentioning the number of cheque leaves. For recording of the cheques issued, the Finance Department shall maintain a "Cheque

Register Book" which should contain the following information at least:

- Cheque number
- Date of issue
- Payees' name
- Amount of cheque
- Initial of authorizing officer

The Reconciliation of Bank Account and Cancellation of spoil cheque forms or issued cheque:

Reconciliation of Bank Account

At the closure of each month the bank reconciliation statement must be prepared monthly and checked within 5 days of the following month. The Chief Accountant shall sign the reconciliation statement.

Cancellation of spoilt cheque forms or issued cheque

Cancelled cheque should be marked by red pen, and marking "CANCELLED" should cross-spoilt cheque. Any signature on the cheque should be removed and destroyed. The cancelled and void cheques should be kept in the safe for subsequent audit.

13.The Cash Payments as a part of cash transaction

- For handling of daily cash transactions, project wise Rs.2000.00 (maximum) and overall maximum of Rs. 5000.00 cash shall be maintained by the Cashier, who will be responsible for it.
- At the end of days' operation, the Accountant shall check the physical cash with cashbook and confirm the balance by putting his initial in the cash book. The Secretary shall make random checking of the cash balance on a regular interval and certify the cash balance.

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- c. Ledger posting from the cash book shall be made by an Accountant other than the person responsible for maintenance of cash book.
- d. At the time of bill verification, the following expense limit to be considered:
 - Working area visit bill as fixed by the Management.
 - After payment "PAID" seal with date to be stamped on all the supporting bills
 - Revenue stamp to be affixed on the bills as per GOI/GoB rules.

14.The changes of custody, use of petty cash and cash receipts in Koshish charitable Trust:

Should there be a change in custodianship, a formal hand-over of cash and vouchers should take place and be recorded in the cash book. Both the outgoing and incoming custodians should sign the declaration of cash balance and the same to be countersigned by the Chief Accountant.

Use of petty cash will be confined to-

- Reimbursement of fares, and cost of local trip expenses
- Postage/Stamp and supplies
- Client Conveyance
- Utilities
- Entertainment
- Meeting expenses
- Repairs and maintenance
- Casual staff
- Fuel
- Petty stationaries below 3000/-
- Contingencies

Cash Receipts

Official Money Receipts shall be issued against cash received by way of sale proceeds/refund of advance etc. The Chief Accountant/Accountant to ensure that all the cash received during a day is deposited in the relevant bank account within the next working day without fail.

Contractual agreements shall be made between Development organization and Suppliers/Contractors before making any advances and all the advances shall be made through "Account Payee" cheque only.

15.The Approval and Processing of Advance system need to include in financial manual or policy:

The Coordinator shall ensure that the following procedures are followed/ implemented when dealing with the advance payments.

- a. Advance for overseas/domestic travel/program expense is approved by the Secretary.
- b. Requests for advances must be submitted to the Chief Accountant at least 2 working days prior to an event takes place. The amount of advance shall be based on the estimated travel costs and allowances.
- c. Advance payment to Suppliers/Contractors shall be based on the contents of the contract/work order.
- d. No additional travel advance will be provided where a previous advance remains unadjusted.



- e. Advance paid to staff member shall be adjusted within 3 working days after the event is completed.
- f. Contractors/suppliers advance shall be adjusted from the final bill.
- g. An advance register shall be maintained to record the party-wise advance payments and corresponding adjustments.

16.The accounting (settlement) for advances system need to include in financial manual or policy:

Claims for allowances and reimbursement of costs, and accounting for advances shall be made on the basis of Travel Expense Report.

1. A staff member who has undertaken the travel shall carefully prepare the travel expense claim. He/she will ensure that the expenses are dated, itemized and referenced.
2. Original receipts, that is, ticket stubs and boarding pass, train fares or bus fares, receipts for taxi fares, receipts for business phone calls and faxes, and hotel bills wherever applicable, shall be appropriately numbered and attached. Claim for travel expense shall be calculated as per rule of development organization.
3. The Travel Expense Report shall be certified and verified by the respective Section In charge and approved by the Secretary, as the case may be, prior to submission to the Finance Department.

The Payment of Salaries, Wages and payroll processing need to include in financial policy or manual:

For the purpose of salary, all staff members shall open personal bank account with any commercial bank and inform the account number to Finance Department in writing. Monthly salary of the staff members shall be transferred to their respective bank account by the end of each month.

17.Payroll Processing

The Chief Accountant will process project wise monthly payroll. He/She will follow the following procedures:

1. Relevant payroll input documents of all appointments; promotions, transfers, resignations, removal from office etc. are promptly recorded.
2. Entries on these documents are supported by the necessary approvals, advice etc. and verified properly.
3. Prepare the payroll by the end of each month.
4. Payroll shall contain the information like – Name, Designation, Basic salary, House Rent Allowance, Medical Allowance, Special Allowance (if any) and deductions like Provident Fund Contribution, PF Loan, PF Loan Interest, Income tax etc., the Net Pay and bank account number with bank name and branch.
5. The Chief Accountant shall recommend the payment and the same will be submitted to the Secretary for approval.
6. An "Account Payee" cheque/debit advice along with a copy of the payroll shall be sent to bank for organizing payment to relevant staff members bank account.
7. Gratuity transfer would be done twice in a year

The Payment of Salaries, PF, Gratuity due to an employee at the time of resignation, dismissal or deceased employee



2. FINANCE POLICY

Payment of salaries, PF, gratuity to an employee at the time of resignation or dismissal will be administered by the Personnel Manual of development organization.

Payment of salaries and benefits due to a deceased employee

In case of death of an employee the following steps will be followed for settlement of dues to the successors:

- A list containing entitled dues, allowance etc. will be provided to his/her nominee(s)/ successor(s). (Format to be developed for nominee declaration)
- Unpaid salaries, wages, allowance and Provident Fund balance shall be paid to the nominee(s)/ successor(s) of the deceased employee upon receiving appropriate documents from the nominee(s)/ successor(s).
- Payments will be made through "Account payee" cheque(s).

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