

# SANGATH ONLINE TRAINING PROGRAMME

## MODULE IV

---

### Accounting & Book-Keeping



# KEY LEARNINGS



01

**IMPORTANCE OF ACCOUNTING**

02

**UNDERSTANDING THE BOOKKEEPING AND ACCOUNTING**

03

**CATEGORIES OF BOOKS OF ACCOUNT**

04

**CHARTS OF ACCOUNT**

05

**PROGRAMME VS NATURAL HEADS**

06

**ACCOUNTING STRUCTURE AND FCRA COMPLIANCE**

07

**PROGRAMME VS ADMINISTRATION & FCRA  
AMENDMENTS**

08

**VOUCHER MANAGEMENT**

09

**IMPORTANCE OF COMPUTERISED BOOKS OF ACCOUNT**

10

**RECONCILIATION OF ACCOUNTS**



# 1. Importance of Accounting

A healthy NGO needs proper governance and leadership, robust financial management, clear strategic direction, high quality programme management with involvement of beneficiaries, effective human resources management, shared values and a conducive organisational culture and to ensure these high level of standards “Book Keeping and Accounting” play a vital role.

Accounting is the process of identifying, measuring, recording the financial transactions and communicating the events in terms of economic and business transactions of the organization to interested users of the information.

## 1. Why Accounting is important?

Accounting should receive high priority in the organisation. As per current trends, charitable organisations operate in a rapidly changing and competitive environment.

If their organisations are to survive in this challenging environment, they need to develop the necessary understanding and confidence to make full use of Accounting Systems.

Good accounting practice in financial management will:

- help managers to make effective and efficient use of resources to achieve objectives and fulfil commitments to stakeholders;
- help to know how much money they have received and utilised in a given period of time.
- help to ensure that funds are spent / utilized properly for the objectives of the organisation.

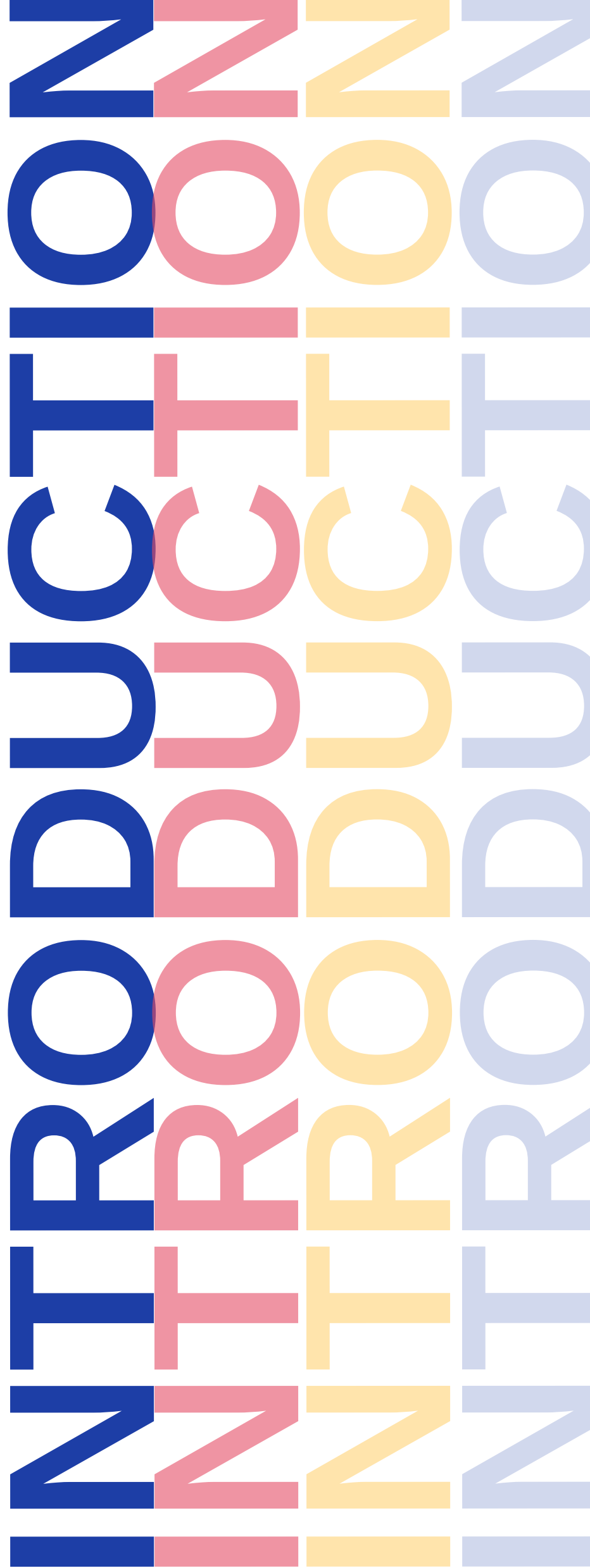
## 2. Primary objective of Accounting

The objectives of accounting can be summarized as follows:

- a) Maintain the accounting records
- b) Ascertain the results of operations
- c) Ascertain the financial position
- d) Communicate the information to the users

Apart from the above objective of accounting, the following are the advantages of accounting:-

- Accounting facilitates the users (Short-term Creditors, Long-term Creditors, Funding Agencies, Present Investors, Potential Investors, Employee groups, Management, General Public, and Tax Authorities) **to take decisions** by communicating accounting information to them.
- Accounting facilitates **ascertainment** of net results of operations by preparing Income Statement and financial position by preparing balance sheet.
- Accounting facilitates **control over assets** by providing information regarding Cash Balance, Bank Balance, Debtors, Fixed Assets, and Stock etc.
- Accounting facilitates **complying with legal requirements**, which require an enterprise to maintain books of accounts.
- Proper books of accounts maintained in systematic manner act **as legal evidence** in case of disputes.



# 2. Understanding the Bookkeeping & Accounting of NPOs

## Book Keeping

Bookkeeping is a part of accounting and is concerned with record keeping and maintenance of Books of Account.

It covers the following three activities which we have covered in detail:

- Identifying the transaction and events
- Measuring and classifying the identified transaction and events in a common measuring unit
- Record these transaction and events in a proper Book of Accounts

Hence, book keeping is the system of recording, classifying and summarising all monetary transactions, so that the financial position of an organisation can be ascertained on a particular date and in the long run

## Accounting

Accounting is the process of summarizing, interpreting, and communicating financial transactions which were classified in the ledger account.

The objective of accounting is to gauge the financial situation and further communicate the information to the relevant authorities

	Bookkeeping	Accounting
Objective	To keep the records of all financial transactions proper and systematic	To gauge the financial position and further communicate the information to the relevant authorities
Types	Basically there are two types of bookkeeping - Single entry and double entry bookkeeping	Accounting follows double entry of method accounting method.
Skills Required	Bookkeeping requires basic level of understanding	Accounting requires special skills due to its analytical and broader understanding of Accounting.
Analysis	The process of bookkeeping does not require any analysis	Accounting uses bookkeeping information to analyze and interpret the data and then compiles it into report and presentation
Preparation of Financial Statements	Financial statements are not prepared as a part of this process	Financial statements are prepared during the accounting process
Bookkeepers and Accountants	Bookkeepers are required to be accurate in their work and knowledgeable about financial topics. Bookkeepers work is usually overseen by an accountant	Accountants with sufficient relevant experience and education can be appointed as "Accountant" of the Organisation.



# 3. Categorization of Books of Account

The Books of Account of an organisation would comprise of the following:

- Primary Books of Account
- Secondary Books of Account
- &
- Subsidiary Records

## Primary books of account

- The Primary (Original) Books of Account can be divided into the following categories:
  - Cash/Bank Book
  - Petty Cash Book
  - Journal

## Secondary Books of Account

- Secondary books of account consist of **General Ledger and Sub-ledgers**. The General Ledger is one of the most important books of account and is the destination of all accounting entries made in the primary / original books of account.

- The entries in the sub-ledger are made from the primary (original) books of account and subsequently the balances in the separate sub-ledger accounts are entered into the main account head in the General Ledger at periodic intervals.

## Subsidiary Records

*Apart from this, The organisation should maintain subsidiary records/registers for control purposes such as pay-roll records, stock records and inventory of assets.*

— An illustrative list of various subsidiary records/registers:-

- (i) Payroll Records
- (ii) Stock Records
- (iii) Inventory of Assets
- (iv) Records as per Foreign Contribution (Regulation) Act, 2010
- (v) Miscellaneous Records/Registers
  - Donations in kind
  - Dispatch Register
  - Inward Mail Register
  - Telephone Calls Register
  - Vehicle Log Book
  - Register of Members



# 4. Chart of OF ACCOUNTS

## KEY ELEMENTS OF CHART OF ACCOUNTS

### 1. Clarity on ongoing charitable activities & updating of Books of Account

The books of account should show the actual picture of financial affairs and its ongoing program activities of the organisation at any given period of time. Absence of proper books of account leads to delay in finalization of accounts and submission of reports to donors and statutory authorities, etc. Therefore, Books of Account should be updated on daily basis.

### 2. Heads of Accounts

There is no standard accounting framework for NGOs. Since, many of the organisations have a restricted fund and therefore they required to submit financial statement or statement of expenditure as specified in the agreement/MoU. Normally, organisation required to report the expenditure as per the approved budget line. Hence, the Heads of Account in the charitable organisation should be created as per the approved budget line which may help to prepare accurate financial statement on timely manner.

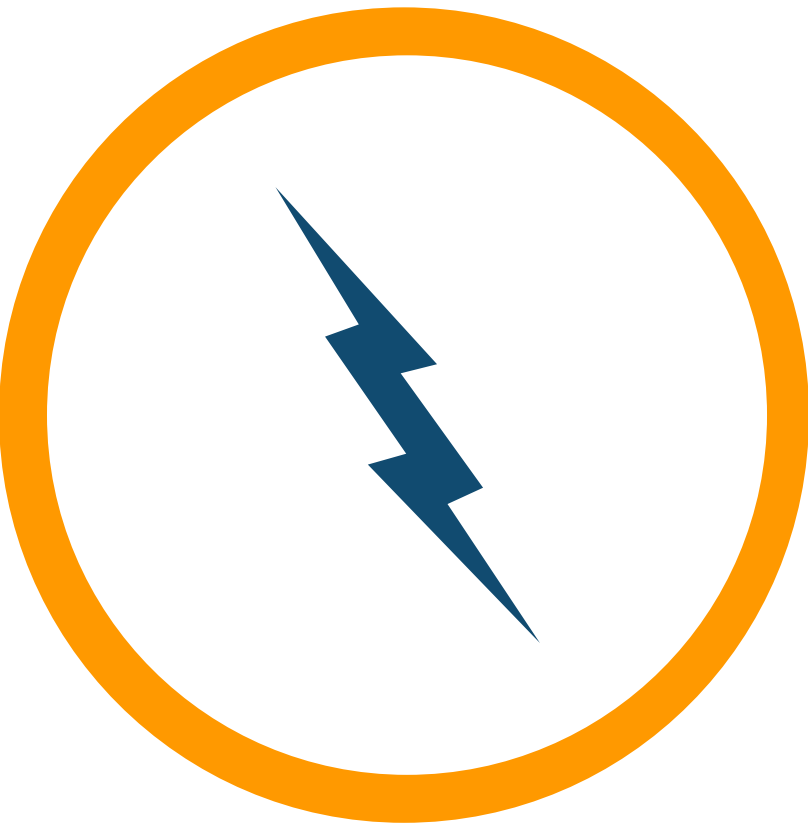
The Chart of Accounts is probably the most important organizing tool for the accounting and reporting processes. There are many kinds of financial transactions taking place in NGOs. We buy a wide variety of goods and services to help achieve our objectives – from rent for the office to tools for a garden project and receive different kinds of income, for instance - grants, donations and membership fees. To make sense out of these financial activities, it helps to 'sort' the different types of income and expense into a series of pre-determined categories or Accounts. These Accounts are listed in the Chart of Accounts and are typically arranged in a logical order.



So, when a transaction takes place, it is recorded in the books of account and categorized according to the guidance held in the Chart of Accounts. The same categories are used in the organization's budget and financial reports, promoting consistency and transparency.

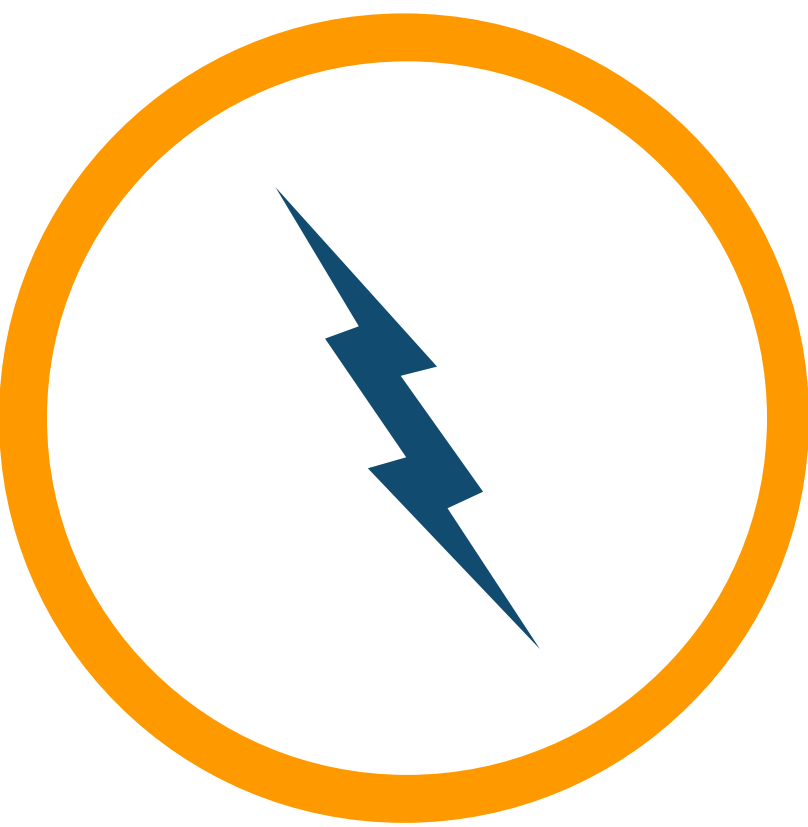
**If organisation has obtained FCRA Certificate:-** As per the provision under the FCRA act 2010, all the organisation should maintain separate records of Foreign Receipts and its utilization. It is always better to determine whether the transactions pertain to FC Account or Local Account before making the payment or taking the credit. Entries should be passes in the books of account accordingly.

# STEP WISE DEVELOPMENT OF CHART OF ACCOUNTS



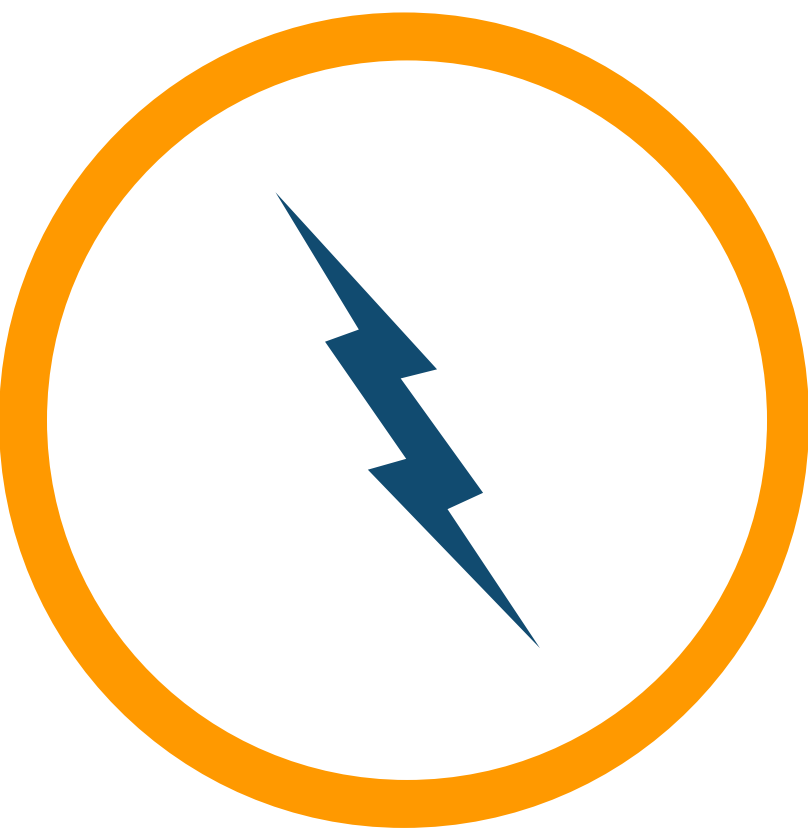
## HEAD OF EXPENDITURE / DEBIT HEAD

This must be created based on approved budget head



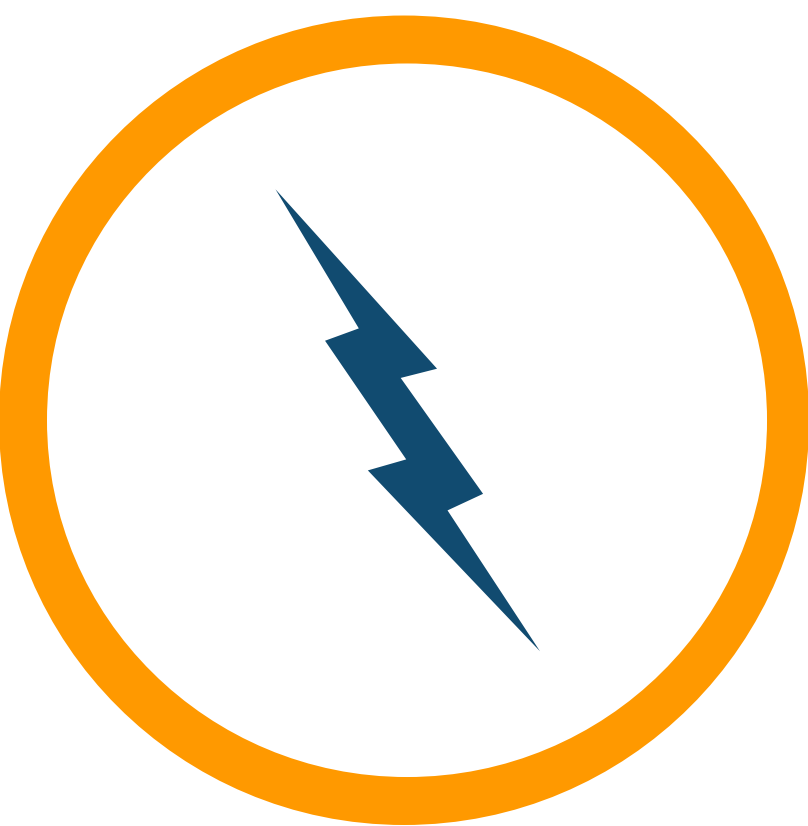
## NATURE OF COST

This can be presented as cost category - 1



## RESPECTIVE DONOR

Cost category-2- In case of multi project Books of Account



## UNIT OR CENTER WISE COST IDENTIFICATION

Cost category-3- In case, projects are being implemented at various locations



# 5. Programme Vs Natural Heads

**Programme Heads** are the broad heads, normally required for preparation of budgets and reporting purpose to donors. Example: Staff Capacity Building, Education Campaign, Conference & Seminars, etc

**Natural Heads** are the components of Programme Heads. Example: Salaries to staff, stationary expenses, conveyance expenses, etc.

Ideally, all expenditures should be booked under program heads as per the approved budget line and the nature of cost can be recorded as cost center.

As explained above, the nature of cost never changes its nature irrespective of program activities and therefore this is highly recommended to all the charitable organisation to record their expenditure based on program heads and further the nature of cost can be recorded or segregated by creating various cost centers in the accounting software.



# 6. Accounting Structure and Recent FCRA Amendments

- Section 8 of the FCRA, 2010 provides a cap on administrative expenses of 20% [reduced from 50% w.e.f 29th September 2020 vide FCR (Amendment) Act 2020] of FC fund received during the year. The section also provides that the administrative expenses may exceed this limit of 20% with the prior approval of the Central Government.

The administrative expenditure shall briefly consist of :

- Remuneration and other expenditure to Board Members and Trustees.
- Remuneration and other expenditure to persons managing activity.
- Cost of accounting and administration.
- Expenses towards running and maintenance of vehicle.
- Cost of writing and filing reports.
- Legal and professional charges.
- Rent and repairs to premises.

Role of Budget and Accounting Structure in Compliance Rule 5 of FCRA

The organisation should review all the budgets for the period starting from the effective date of the amended law and calculate the Administrative Expenditure. Further, the following structure to be followed during budgeting and creation of accounting structure:-

1. Program Cost
2. Capital/Equipment Cost
3. Administration Cost



**Programme Cost**

- + Programme Activities Cost- like training, awareness, relief, education, economic, cultural,, religious, health etc
- + Programme Personnel Cost



**Administrative Cost**

- + All the Management Cost like accountant salary, stationery, directors travel, rent of head office, bank charges, audit fees etc
- + Salary of all the Management Staff

# 07 - Program vs Administration and FCRA Amendments

Program expenditure is those expenses that are directly related to programs of the organization. For example,

Programme Expenses can be categorized as;

- Direct Programme Activity Expenses
- Programme Personnel Expenses

## IS SEPARATE ACCOUNTING NECESSARY FOR ADMINISTRATIVE EXPENDITURE AS PER FCRA

The requirement of separate Books of Account is for FC fund received and utilised. Separate ledger or books for administrative expenditure are not required to be maintained. However, the organisation should be in a position to clearly segregate the expenditure, which is administrative in nature from the books of account maintained by them.

As per the provision under the FCRA Act 2010, all the organisation should maintain separate records of Foreign Receipts and its utilization. It is always better to determine whether the transactions pertain to FC Account or Local Account before making the payment or taking the credit. Book entry to be made accordingly.

If an organisation is working on a project on child education then, programme expenses will be:

- Conducting baseline survey – Direct Programme Expenses
- Providing books to children – Direct Programme Expenses
- Rent of project office – Administration Expenditure
- Salary of project coordinator – Programme Personnel Expenditure

Administrative Expenses is an external challenge, If, high administrative expenditure decreases the amount available for programme and very low administrative cost may affect the quality of the programme, Examples : Salary of Director, Rent of Head Office, etc.

The accounting framework of the organisation should have clear segregation between the program heads and administrative heads. It is also very important to have control over the administrative expenditure, as it is always a better practice to have minimum administrative expenditure in the overall project cost.

All organizations should assess and book the administrative expenditures separately, as there can be a matter of compliances like FCRA. Sometimes, donors also give instructions to the organizations in matters related to administrative expenditure and program expenditure.



# 08 - VOUCHER MANAGEMENT

All the Financial Transactions of the organisations must be recorded through appropriate vouchers as per the nature of transactions.

CPA Services

## Objectives of a Voucher

Both the voucher and evidence are an integral part of proper bookkeeping. The objectives of preparing vouchers are:

- To have a proper evidence / supporting of financial transactions.
- To establish safe administrative procedure
- To enable proper recording of transactions.

## What is the Importance of Voucher?

It is very important to maintain vouchers enclosed with the supporting documents in the form of receipts, payment and journal vouchers for all financial transactions – preferably **cross-referenced** to the books of account and filed in date or number order. Apart from being required by the external auditor to support the **audit trail**, certified receipts also provide protection to those handling the money.

## What is the role of vouchers in Accounting?

As per the nature of the financial transaction voucher, records payment, receipt or settlement to indicate the ledger account(s) in which these transactions have to be recorded.

Voucher which is a **covering sheet** providing details for the payment made, and attach the supporting documents as 'Evidence' or 'Support' for the said payment.

## Contents of a Voucher

The following information's are disclosed in a voucher:

1. The serial number and the date of transaction
2. The nature of the transaction
3. Amount in words and figures
4. Debited-ledger
5. Credited - ledger
6. Details of the goods purchased
7. Amount paid to whom
8. Name and signature of the person who has prepared the voucher
9. Name and signature of the authority who has passed it for payment / receipt / adjustment
10. The supporting document e.g. Bills, invoices, cash, memos
11. Brief description of the purpose for which purchases were made

Voucher is written instrument that serves to confirm that the **financial transaction** has taken place.

In case of organisations, the accountant is also required to mention the project name / number and the funding agency to which the expenditure is required to be charged. This is important especially if the organization is dealing with more than one project and funding agencies, as it will provide information as to under which project the expenditure has been incurred.



# VOUCHER MANAGEMENT

## Types of Voucher

- **For recording Cash / Bank Transactions**
  - Cash / Cheque Receipt Voucher
  - Cash / Cheque Payment Voucher
- **For Adjustment Entries**
  - Journal Vouchers

**Receipt Vouchers:** It records all the cash/bank receipts

**Payment Vouchers:** It records all the cash/bank payments

**Journal voucher:** It records all the transactions that do not involve cash and bank. Most common are the adjustment entries made like rectification of the previous entry where some error was committed.

**Contra:** - Cash deposit and withdrawal.

## Supportings of Voucher

As mentioned above, all the financial transaction of the organisation should be recorded with the proper voucher as per the nature of the transaction. Further, the entire voucher should be supported with the adequate supporting documents such as bills, invoice, receipts, acknowledgment etc.

## Verifiability of the vouchers and its supporting

As discussed above, organisation keeps voucher along with the supportings or evidence of transactions against the payments made to various vendors. It is very important that the voucher and supporting documents should provide all the required information that can be verified by any external authority easily. In addition, the supportings of the organisation should provide enough information to the end receiver of funds.

## What in-case supportings documents is not available

Sometimes, it is very difficult to obtain the bills and invoices for every financial transaction and such expenses in many instances are not supported by proper bills or cash memos. In such cases the list of participants, photographs, pamphlets, newspaper clippings, or else even a video recording during the time of the campaign could serve as evidence that the expenses have been incurred. Such evidence is called the **circumstantial evidence or support payment voucher**.

## Voucher/Supporting =cash

Since, voucher and supporting is equivalent to cash, organisation should preserve voucher and supportings in the safe custody in the premises of office. Ideally, all the Books of Account should be preserved for 8 years (as prescribed in the Income Tax Act).

Generally, payments made to the various vendors and external person towards expenditure. In-such case organisation obtains the supportings or evidence of transactions such as bills, invoices, receipts etc against the payments made to various vendors. It is very important to note that organisation keeps only supporting documents against the payments made and therefore voucher and its supporting is equivalent to cash.



# 09 - COMPUTERISED BOOKS OF ACCOUNT

An accountant must be able to provide status of total amount received, total expenditure and unspent or closing balance at any period of time and computerised books of account makes this possible.

## Computerised Books of Account

Accounting has been done manually till the 1980s, when the advent of fast computers and easy-to-use, accurate and reliable software started.

Computerized Accounting involves making use of computers and accounting software to record, store and analyze financial data. A computerized accounting system brings with it many advantages that are unavailable to manual accounting systems. The following are the advantages of using computerized accounting software:-

- Automation
- Accuracy
- Data Access
- Reliability
- Speed and Smooth Transaction
- Security of Accounting Data
- Cost-effective

There are various accounting software in the market like Tally ERP, Quick Books, Busy etc.

However, organisation can also develop their own configured accounting software as per their nature of work and reporting requirement from the various stakeholders.





# 10 - Reconciliation

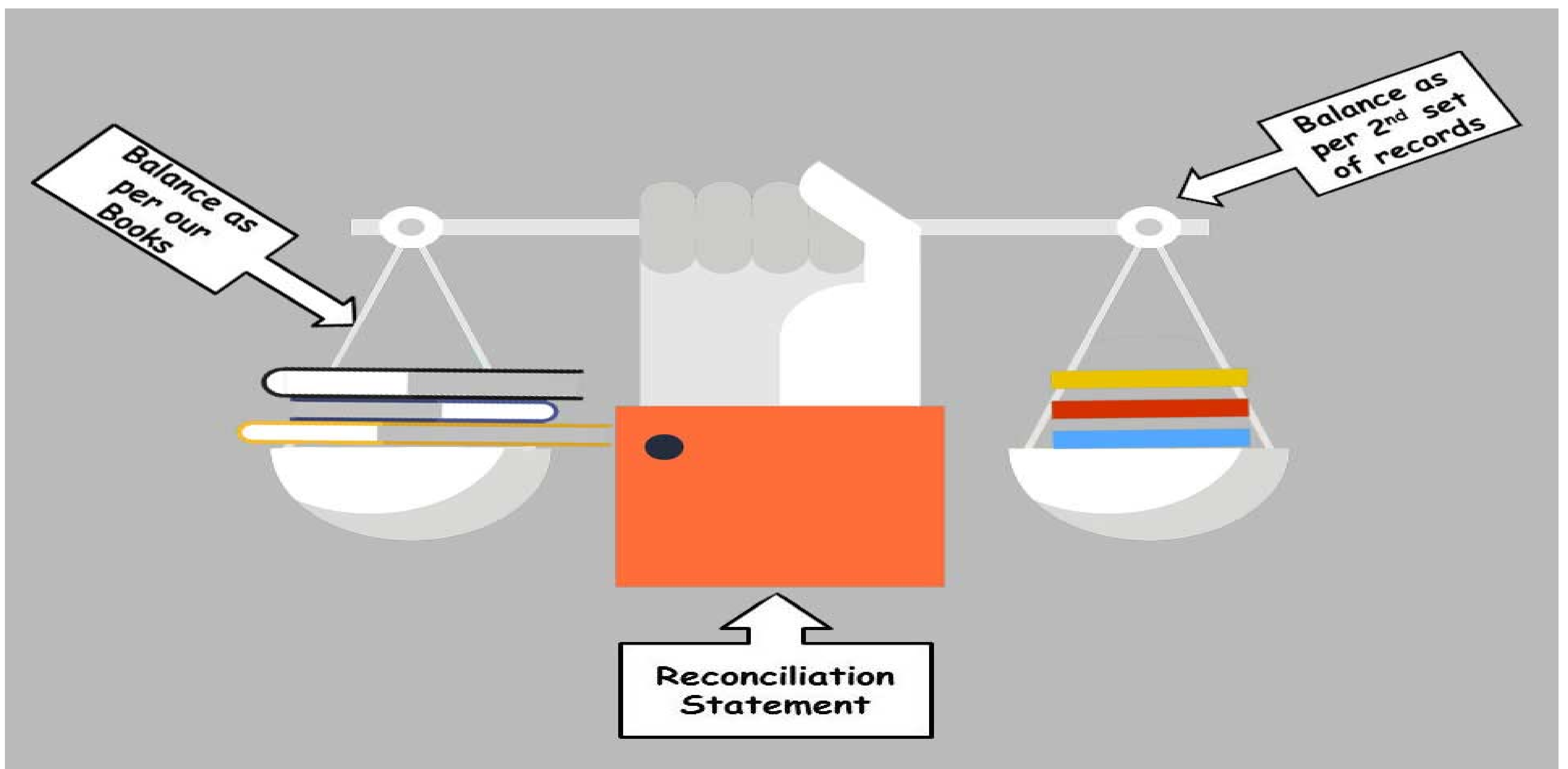
This is the most important internal control system in any organization. Organisation should have reconciliation system every month without fail. There are two types of reconciliation in the charitable organisation are follows:-

## Reconciliation of Ledgers

All ledgers, subsidiary ledgers, and underlying supporting documents are systematically maintained and reconciled in a timely manner.

## Reconciliation of the Bank balance with the Books of Account

Comparing of the bank statement with cash book/Bank Account (books of account). Example: - Bank reconciliation is where you see the actual bank balance as shown on the bank statement and compare it to the balance on the same date in cash book.







**CPA SERVICES**



**CPA SERVICES (P) LIMITED**  
**A-5, SECTOR -26, NOIDA**

---

<https://www.cpaservices.in>



**CPA SERVICES**

