Diploma in Financial Management & Accountability

- a joint initiative of TISS & FMSF

Course Material

Project Fund Accounting
Paper – V

Module - III
Faculty – Sanjay Patra

UNIT- 8. OTHER FUNDS

Learner's Objectives:

- **To understand the various funds created by NGOs for control and efficient management of resources.**

8.1 INTRODUCTION

NGOs may also create various funds for control and efficient management of resources. All funds may not necessarily reflect expendable financial resources. It is not necessary that all funds should be supported with liquid or semi-liquid financial assets. For instance, an organisation may create a depreciation fund to reflect those assets, which have been written off from the books of accounts.

Organisations may also create fund to regulate specific type of activities. For instance, an organisation engaged in giving scholarship to students may create a scholarship fund, from which all scholarship receipts and payment could be reflected. Few of such funds are discussed in this chapter.

8.2 ASSETS OR DEPRECIATION FUND

Many charitable organisations write off 100% of their capital expenditures in their Income & Expenditure accounts. As a result, the capital asset is extinguished from the books of account. But to give a proper reflection of the state of affairs, the assets are shown in the Balance Sheet by creating asset fund on the liability side. These assets fund are gradually reduced by deduction of depreciation from both the sides of the balance sheet.

The legal complexities of each country may also necessitate creation of assets/depreciation funds. For instance, in India there is a lot of incongruity between the tax laws and accounting conventions. In strict accounting parlance, contribution received towards purchase of assets is capital receipts therefore, cannot be treated as income. But under Indian Tax Laws, all voluntary contributions except corpus contribution are treated as income. Once the contribution received towards an asset is shown as income then the purchase of asset is also shown as expenditure. As a result, the book value of the asset becomes nil. To correct such an anomalous situation, assets or depreciation funds are created where the assets are reinstated into the balance sheet at their fair value through creation of asset fund on the liability side.

In commercial accounting whenever assets are purchased, they are supported by the capital or loan from which they are purchased. Any increase in the asset side of the balance sheet will result in an equal increase in the liability side or decrease in some other asset. Therefore, under double entry book keeping system all assets are in any case supported by a capital/liability.

In an NGO, if a grant towards procurement of asset is not shown as income in the income and expenditure account, then the grant received is shown as an asset fund in the liability side of the balance sheet and any asset purchased is reflected in asset side. A asset fund is created against a grant so received. The asset fund may be a fund contingent upon the useful life of the asset and therefore subject to depreciation every year. Now every year the fund has to be reduced to the extent of depreciation. Otherwise the asset fund may be permanent in nature. In such a case, the depreciation is charged to the income and expenditure account. As a result the asset fund remains intact although the asset is depreciated over its useful life. The following illustration will further elucidate the issue and the accounting entries involved.

Illustration - Suppose Rs. 1, 00,000 is received for purchase of an asset. An asset is purchased for Rs. 1, 00,000 to be depreciated in a period of 5 years on straight line method i.e. Rs. 20,000 per year. The accounting entries and statements will be as under. First if depreciation is not charged to income and expenditure account and secondly if depreciation is charged to income and expenditure account.

At the time of receipt of the grant and purchase of assets the journal entries passed and the subsequent accounts are as under:

Journal Entries (Box-1)

Date	Particulars	L.F No.	Debit Amount Rs.	Credit Amount Rs.
	Cash/Bank Account Dr. To Asset Fund Account (Being grant received for the purchase of the Asset)		1,00,000	1,00,000
	Asset Account Dr. To Cash/Bank Account (Being Asset purchased)		1,00,000	1,00,000

Asset Fund Account Balance Sheet (Box-2)

Liabilities	Amount Rs.	Assets	Amount Rs.
Asset Fund	1,00,000	Asset	1,00,000
	1,00,000		**1,00,000**

At the end of the year the following entries are required to be passed if the depreciation is not charged to the income and expenditure account. In other words both the asset and the fund account balance are reduced to the extent of depreciation:

Journal Entries (Box-3)

Date	Particulars	L.F No.	Debit Rs.	Credit Rs.
	Depreciation Account Dr. To Asset Account (Being depreciation charged on the asset)		20,000	20,000
	Asset Fund Account Dr. To Depreciation Account (Being depreciation charged to Asset Fund A/c.)		20,000	20,000

Asset Fund Account Balance Sheet (after depreciation) (Box-4)

Liabilities	Amount Rs.	Assets	Amount Rs.
Asset Fund	80,000	Asset	80,000
	80,000		**80,000**

At the end of the year the following entries are required to be passed if the depreciation is charged to the income and expenditure account.

Journal Entries (Box-5)

Date	Particulars	L.F No.	Debit Rs.	Credit Rs.
	Depreciation Account Dr. To Asset Account (Being depreciation charged on the asset)		20,000	20,000
	Income & Exp. Account Dr. To Depreciation Account (Being depreciation charged to I&E A/c.)		20,000	20,000

Asset Fund Account Balance Sheet (Box-6)

Liabilities	Amount Rs.	Assets	Amount Rs.
Asset Fund	1,00,000	Asset	80,000
		Cash at Bank	20,000
	1,00,000		**1,00,000**

8.3. SCHOLARSHIP FUND

Scholarship fund is created when an organisation is engaged in providing scholarship and other help to students/beneficiaries. A special fund is created for such purposes. All receipts on such account are directly transferred into such funds and expenditure is made from there only. Such funds may be created through restricted funds directly related for such purposes. Therefore, such fund may be restricted/designated or a combination of both.

8.4. MICRO-CREDIT REVOLVING FUND

Special funds are created for the purposes of providing financial assistance to various SHGs and beneficiary groups. A micro credit revolving fund, hereinafter referred to as MCRF is distinct from micro finance fund. In a MCRF, loans are given to the beneficiaries, which are paid back to be revolved further. A MCRF therefore is a fund where there is constant circular movement. Unlike other funds, where the movement is linear i.e. money comes from one source and goes to another destination. But in a MCRF the money keeps on rotating. Such funds may also involve income generation through interest and service charges.

A MCRF is also a type of current fund but its *modus operandi* is analogous to banking activities where loan and subsidies are provided and the entire amount or a portion of such disbursal is recoverable in nature.

There may be some projects where one time grant is given to Self Help Groups (SHGs) and Community Based Organisations (CBOs). If such one time grant is not recoverable by the NGO concerned then they are not treated as revolving funds. The funds may revolve at the end of the SHGs or CBOs but as far as the NGO is concerned it should be treated as any other project activity under a MCRF.

Self- Assessment Exercise

1. **Why is it important for an NGO to create various funds?**
2. **How is a scholarship fund created?**
3. **What is the rationale behind the creation of Asset or Depreciation Fund?**
4. **What is a Micro- credit Revolving Fund (MCRF)?**
5. **How is a Micro- credit Revolving Fund (MCRF) different form other types of funds?**