

# AccountAble™

Intricacies of FC-3 (Part-1)

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In AccountAble 20, we discussed some of the basic issues related to filling up FC-3. Here we take up some of the more intricate issues.

## Opening Items

### Address

In most cases, you should give the address of your registered office in FC-3. This should be done even if the registered office is merely an address of convenience and the main office is else where in the city/ state.

However, in some cases, the FCRA account is transferred to another state. For example, your registered office may be in Delhi and

your FCRA account may have been shifted to Orissa<sup>1</sup>. In such a case, you should give the address that is given in the revised FC-8<sup>2</sup>.

Similarly, if you have shifted your office within the city or state, you would have sent a letter to FCRA department regarding the new address<sup>3</sup>. When filling up FC-3, you should use this new address only.

### FCRA registration cancelled

In some cases, an NGO's FCRA registration may be cancelled. Such NGOs can not accept any more funds without prior permission. However, in many cases, they are allowed to use up the existing FC balance with them. Such NGO should also file FC-3 till the time any balance of FC contribution remains with them.

### Summary of Interest

Under this head, all interest earned through assets in the FCRA Balance Sheet should be shown. This interest income should be taken into FCRA Receipts & Payment Account. Interest earned on endowments, corpus, micro-credit loans, Fixed Deposits, Savings bank Account, etc. can also be shown here.

Remember, that this is merely a summary of the interest earned. The receipt and utilization of interest has to be shown in table 2 and again in tables 4<sup>4</sup> and 5<sup>5</sup> as well.

## Table 2: Receipt & Utilisation

### FCRA Loans

Loans taken from a foreign source should

<sup>1</sup> This is done after approval by FCRA authorities and filing of fresh FC-8.

<sup>2</sup> Filed with FCRA department at the time of shifting of FCRA account.

<sup>3</sup> See 'Undertaking' in form FC-8

<sup>4</sup> Donor-wise Receipt of foreign contribution

<sup>5</sup> Country-wise Receipt of foreign contribution



be deposited in FCRA bank account and reported in FCRA receipt & payment account. These loans should also be reported in FC-3 as receipt of foreign contribution<sup>6</sup>.

Repayment of FCRA loan is treated as utilisation of FC funds.

### Receipts in Kind

'Receipts in kind' are different from assets purchased by your organisation out of foreign funds. These are items (goods, materials, etc.) donated or given at a nominal price by a foreign source. These are treated as foreign contribution<sup>7</sup>. These should be reported in columns 6 or 8 of table 2.



### Valuation

How should these be valued? The valuation does not have to be very accurate. You can give estimated values, which are reasonably fair. You can also talk to the donor and find out approximate landed price in India. Or you can find out the value from insurance documents. In some cases, you may have received a Pro-forma invoice also.

### FC-6

The items and figures (for materials) that you report in the FC-3 should tie up with your FC-6 as well. Remember that FC-6 is like a stock record and this should not be filed with the FCRA<sup>8</sup>.

### Materials not reported...

Some NGOs have not been reporting material received and distributed by them under various 'food-for-work' type schemes. This is sometimes due to lack of clarity on part of the various agencies involved. Sometimes these are reported at the regional level – further distribution is reflected as having been done by the regional agency. How-

ever, in reality, the distribution is done by village or block level NGOs.

### Who should report?

If you are distributing food/ material received in your custody, then you should report it to FCRA. The primary responsibility of fulfilling FCRA formalities will always remain with the receiver. You can not avoid this liability by entering into an agreement with the Donor Agency.

### Micro-credit / Revolving Fund

This topic has been discussed in detail in AccountAble 24 'Revolving Funds'. A separate item (item 10: Micro-finance projects, including setting up banking co-operative and self-help groups) is now provided in form FC-3 for this.

### '56: Other Activities'

Any receipt or expenditure, which does not fit any of the specific items, should be given here. You may have to attach an annexure giving summary listing of the items of expenditure. Expenditure out of FCRA interest, and out of small donations etc. can also be shown here.

### Interest

#### Bank Interest

Some donor agencies ask for accounting of interest earned on their funds lying in the bank account. Such interest can be shown as addition to their funds in column seven of the relevant row. This refers to the row where their main project funds are shown such as 'rural development' or 'animal husbandry', etc.

However, some agencies do not insist on allocation of interest to their project. Some bank interest, therefore, remain surplus. Such un-allocated<sup>9</sup> bank interest can be shown under item '56: Other Activities'.

#### Revolving Fund Interest

This includes interest and service charges on micro-credit loans. This income can be

<sup>6</sup> Section 2(1) (c) does not make any distinction between grant and loan funds – both are treated as foreign contribution.

<sup>7</sup> Section 2 (1)(c) (i)

<sup>8</sup> See 'AccountAble 58: Maintaining FC-6' for more information on this.

<sup>9</sup> Interest that has not been allocated to particular grant making agency

shown under item '56: Other Activities', under the sub heading 'interest / service charges on revolving fund'. You can use column seven for this.

Any interest paid out on revolving fund capital can be shown in column ten (utilisation) of the same row.

### Corpus Interest

This interest income would come from investments made out of Corpus/ Endowment Fund. This can be shown in column seven, item 55 (i) (a) 'Establishment of Corpus Fund'.

Alternatively, you can show this income under item '56: Other Activities' as 'interest on corpus / endowment investments'.

It will be useful to give a footnote showing the nature of this income in the FC-3.

### Second Recipient

In some cases, the funding agency's Indian office may be registered in India under FCRA (e.g. Actionaid). You should then show receipts from such agencies in the 'second recipient' columns (7 & 8).

### Non-earmarked Donations

Any foreign donations that are received in cash should also be shown here. Such donations are often not earmarked by the donor for any particular activity. These should be shown under 'miscellaneous' category (item '56: Other Activities').

### Sale of Assets

With the donor's consent, you can sell FCRA assets to any one (whether they have FCRA or not).

If you sell off any asset (purchased earlier with foreign funds), then show the amount received as sale price here. This can be shown under the activity for which the asset was originally received (such as 'rural development').



gram or under direction of Funding Agency should be shown against item '56: Other Activities'. The FCRA number (or prior permission reference), name and address of the second recipient should be given as a footnote.

### Level of Detail

How much detail should be given in FC-3 or FCRA receipts & payments account? This depends on the amount of total funds involved and the nature of programmes. For instance, if utilisation of a crore of Rupees is shown in one line as 'rural development', then the purpose of reporting is not met<sup>10</sup>.



Your auditors should be able to guide in this. However, in general, you should try to break down the figures so that each line item is not more than 5% of total receipts or Rs.1 lakh, which ever is higher.

For example, if your total receipts are Rs.10 lakhs, then you should try to break down individual line items to Rs.1 lakh or lower. However, if your total receipts are Rs.2 crores, then you can show individual line items up to ten lakhs each.

### Unutilised balances

#### In Cash

For working out the unutilised cash balance, look at the chart below:

3		5		7		10		12
Previous Balance in cash	+	Received as first receiver in cash	+	Received as second receiver in cash	-	Utilised in cash	=	Balance in cash

<sup>10</sup> In such cases, FCRA department often issues show-cause notice or makes a field-visit.

### In Kind

Similarly for working out the balances in kind, add up column 4, column 6 and column 8. From this deduct column 11.

4		6		8		11		13
Previous Balance in kind	+	Received as first receiver in kind	+	Received as second receiver in kind	-	Utilised in kind	=	Balance in kind

You have to do the above exercise for each row and write the figures in the last column (column 12 or 13: Balance in cash or kind, as the case may be).

### Loan transactions with Indian Section

#### For opening bank account

When you opened the FCRA bank account, you would have deposited a small amount in this account from Indian funds. This money remains in the bank account. It can be shown in the FCRA balance sheet as below (Note that the FCRA bank account balance of Rs.20,500 includes Rs.500 which was deposited initially to open the account):

Liabilities		Assets	
Loan from Indian section	500	FCRA Bank Account	20,500

#### During the year

Can you have loan transactions with the Indian section of your account books? FCRA regulations prohibit any mixing of Indian and FCRA funds. However, as we have seen above, the FCRA account itself is opened with Indian funds. Does this not result in mixing of funds? The FCRA law is silent on this.

Clearly the intention of FCRA law is to avoid mixing of funds. Following this opening, many NGOs frequently borrow / lend money to the Indian section. This happens when

FCRA funds are delayed but the project has to continue.

Our suggestion here is limited only to the accounting and disclosure aspects<sup>11</sup>. Such loans can be shown in the Receipts and Payments Account and Balance Sheet as below:

Receipts		Payments	
Grants received	90,000	Project Expenditure	92,000
Loan from Indian section	10,000	Loan returned to Indian section	6,000

Liabilities		Assets	
Loan from Indian section	4,500	Grant receivable	2,000
		FCRA Bank Account	22,500

*Continued in AccountAble 73....*

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<sup>11</sup> Whether this is legal or not is a separate issue.