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Non-profit organisations in Asia raise funds for their work in three main ways: 1. Fees from services or sale of products; 2. Donations from public; and 3. Grants from Government or donor agencies. Some organisations also receive income from assets (such as land or buildings) or investments.

Of these sources, grants form a major source of funds for most mainstream NGOs. Grants may be project grants, capital grants or core-support grants. The present issue discusses accounting and disclosure for project grants in NGO accounts.

What are Project Grants?

Project grants are meant for specific activities. Quite often, these are detailed in a project document and the accompanying budget. In some cases, NGOs also receive core-support grants. Here the NGOs are free to spend the money as they wish, so long as the spending is within the broad parameters of the NGO's objectives.

How are these grants accounted and presented in final accounts? Current practices show three variations:

1. Grants as liability

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 a deduction from this. The unspent balance is carried forward, for spending in the following year.

The presentation under this method is shown in figure 1. Note how the Income &

Balance Sheet as at 31-Mar-04

Liabilities	Rs. (Lakhs)	Assets	Rs. (Lakhs)
Corpus	20.00	Building	18.00
Surplus	0.30	Cash & Bank	10.30
Grant from XYZ:			
Opening Balance	5.00		
Add: Recd. this year	20.00		
Less: Spent this year	17.00		
Closing Balance	8.00		
Total	28.30	Total	28.30

Income & Expenditure Account for year ended 31-Mar-04

Expenses	Rs. (Lakhs)	Income	Rs. (Lakhs)
Office rent	0.50	Membership fees	0.25
Salaries	0.60	Donations	1.05
Other expenses	0.05	Misc. Income	0.15
Surplus	0.30		
Total	1.45	Total	1.45

Receipts & Payments Account for year ended 31-Mar-04

Receipts	Rs. (Lakhs)	Payments	Rs. (Lakhs)
Opg. Balance	7.00	Program Exp.	17.00
Grant from XYZ	20.00	Office rent	0.50
Membership	0.25	Salaries	0.60
Donations	1.05	Other expenses	0.05
Misc. income	0.15	Closing Balance	10.30
Total	28.45	Total	28.45

Figure 1: Grants as liability



Expenditure does not show the program expenses incurred during the year. This may mislead people into thinking that the NGO is not very active.

2. Grants as income

Under this method, any project grant is treated as income for the year and credited in full to the Income & Expenditure Account. Expenditure against this grant may be incurred over one or two years. The difference between the grant and expenditure is shown as surplus or deficit.

If this method is followed, then the financial statements may appear as shown in figure 2. The Receipts and Payments Account is not affected, and is not shown again.

Note how this method shows a higher figure of surplus for the year. The difference of Rs.3 lakhs is the unspent grant money from XYZ. This presentation gives a misleading impression



that this money is available to the NGO for spending. This method results in a situation where the income of the organisation may go up and

down like a wildly bucking horse. This is shown in the line chart. In reality, this surplus is part of earmarked funds granted by a donor. The NGO can not spend it for a different purpose without the donor's consent. The funds do not belong to the NGO.

In a subsequent year, the NGO may show a deficit, when it spends the unused grant from XYZ. This is shown in figure 5 on the last page. As observed earlier, the surplus and deficit figures do not show the actual financial position.

Balance Sheet as at 31-Mar-04			
Liabilities	Rs. (Lakhs)	Assets	Rs. (Lakhs)
Corpus	20.00	Building	18.00
Surplus:		Cash & Bank	10.30
Opening Balance	5.00		
Add: for the year	3.30		
Closing Balance	8.30		
Total	28.30	Total	28.30

Income & Expenditure Account for year ended 31-Mar-04			
Expenses	Rs. (Lakhs)	Income	Rs. (Lakhs)
Program Exp.	17.00	Grant from XYZ	20.00
Office rent	0.50	Membership fees	0.25
Salaries	0.60	Donations	1.05
Other expenses	0.05	Misc. Income	0.15
Surplus	3.30		
Total	21.45	Total	21.45

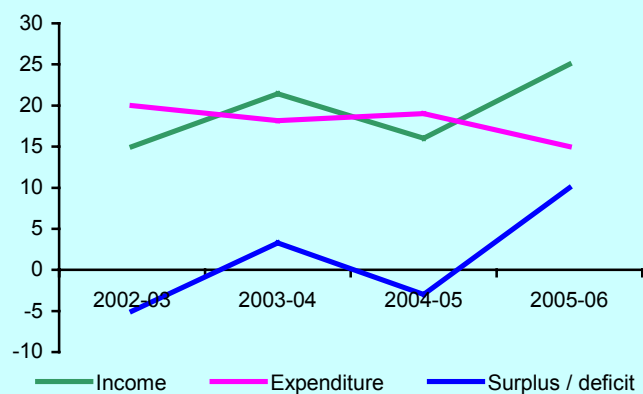


Figure 2: Grants as income (2003-04)
(Receipts & Payments Account same as in Figure 1)

3. Grants as conditional income

Under this method, any project grant is treated as income for the year to the extent it is actually spent during the year. The bal-

ance amount is carried forward to the next year as unspent grant.

If this method is followed, then the financial statements may appear as shown in figure 3 below.

Balance Sheet as at 31-Mar-04					
Liabilities		Rs. (Lakhs)	Assets		Rs. (Lakhs)
Corpus		20.00	Building		18.00
Surplus		0.30	Cash & Bank		10.30
Unspent grants:					
- XYZ		8.00			
Total		28.30	Total		28.30

Income & Expenditure Account for year ended 31-Mar-04					
Expenses		Rs. (Lakhs)	Income		Rs. (Lakhs)
Program Expenses		17.00	Grant from XYZ:		
Office rent		0.50	Received this year		20.00
Salaries		0.60	Add: unspent balance brought forward from previous year		5.00
Other expenses		0.05	Less: Unspent balance at end of year carried forward		8.00
Surplus		0.30	Balance grant for the year		17.00
			Membership fees		0.25
			Donations		1.05
			Misc. Income		0.15
Total		18.45	Total		18.45

Figure 3: Grants as conditional income
(Receipts & Payments Account same as in Figure 1)

Which is better?

Let us now look at how the three alternative approaches present the financial picture. The comparative analysis (Figure 4) gives a broad overview. It shows how the assets, liabilities, income and expenditure would appear in the financial statements under the three alternative approaches.

It is clear from the table that the third method presents a fairer picture:

FASB

In June 1993, the Financial Accounting Standards Board in USA issued SFAS¹ 116. This statement deals with accounting for donations received by NPOs. Some donations have restrictions attached to them. Some others are conditional donations.

Conditional donations are similar to what we call project grants. For such donations, the FASB has this to say:

“Conditional promises to give... are recognized when they become unconditional, that is, when the conditions are substantially met.”²

What does this mean? It means that if you receive a project grant, you should account for it as income only when all the conditions of the grant are fulfilled.

This treatment is similar to that suggested in method 3, Figure 4.

ICAI

The Institute of Chartered Accountants of India (ICAI) also recommends the third method in its latest technical guide (2003):

“Since NPOs receive large volume of grants to meet certain revenue expenses, it is recommended that both the grant (*to the extent utilised during the period*) and the relevant expense should be disclosed

¹ Statement of Financial Accounting Standards

² Summary of SFAS 116, available at <http://www.fasb.org/st/index.shtml>; <http://store.yahoo.com/fasbpubs/publications.html>

Items	Grants presented in Financial Statement		
	As Liability (method 1)	As Income (method 2)	As Conditional Income (method 3)
Assets are	Shown fairly	Shown fairly	Shown fairly
Liabilities are	Shown fairly	Understated	Shown fairly
Income is	Understated	Overstated / understated	Shown fairly
Expenditure is	Shown fairly	Shown fairly	Shown fairly

Figure 4: Comparative Analysis

separately in the Income and Expenditure Account. Such a disclosure would be useful in appreciating the operations undertaken

by the NPO during the period.”³

Tax management

Apart from fairer disclosure as shown above, another advantage of the third method is that it makes income tax management easier for NGOs. This is because unspent grant balances (from project grants) are not credited to Income & Expenditure Account, but are carried forward. Only non-earmarked income is taken to the Income & Expenditure Account. This way, the NGO is able to see exactly how much it needs to spend⁴ in any particular year.

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³ Page 76; Technical Guide on Accounting and Auditing in Not-for-Profit Organisations. Feb-2003. Emphasis added.

⁴ This depends on local tax laws and varies from one country to another.

Balance Sheet as at 31-Mar-05					
Liabilities (Lakhs)		Rs.	Assets (Lakhs)		Rs.
Corpus			Building		18.00
I & E Account:			Cash & Bank		7.30
Opening Balance	8.30				
Less: Deficit for the year	3.00				
Closing Balance		5.30			
Total		25.30	Total		25.30

Income & Expenditure Account for year ended 31-Mar-05					
Expenses		Rs. (Lakhs)	Income		Rs. (Lakhs)
Program Exp.		17.50	Grant from XYZ		14.00
Office rent		0.50	Membership fees		0.25
Salaries		0.60	Donations		1.00
Other expenses		0.40	Misc. Income		0.75
			Deficit		3.00
Total		19.00	Total		19.00

Receipts & Payments Account for year ended 31-Mar-05					
Receipts		Rs. (Lakhs)	Payments		Rs. (Lakhs)
Opening Balance		10.30	Program Exp.		17.50
Grant from XYZ		14.00	Office rent		0.50
Membership		0.25	Salaries		0.60
Donations		1.00	Other expenses		0.40
Misc. income		0.75	Closing Balance		7.30
Total		26.30	Total		26.30

Figure 5: Grants as income (2004-05)