

AccountAbleTM Asia

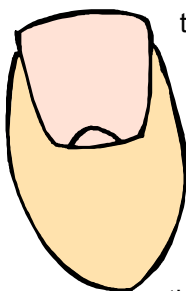
Thumbnail Accounts

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If you take a large painting, such as the Mona Lisa, and paint a smaller version on the nail of your thumb, what do you get? You get a thumbnail sketch!



Thumbnails are also common in the computer world, where large picture files are often shown as thumbnails. In this issue of AccountAble, we discuss the thumbnail format for financial statements.

The Thumbnail Format

As documents have become bigger, thumbnails have grown more useful. Thumbnails allow you to get a quick view of something that may be physically very large.

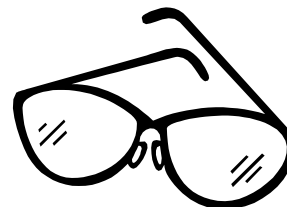
When we talk of large things, audited accounts naturally come to our mind. Some of them run into dozens of pages. These contain schedules and annexures. Trying to read them is good physical exercise for the body. Trying to understand them is a challenging exercise for the mind.

How to simplify these so that an ordinary person can understand them without consulting a Chartered Accountant? Thumbnails are a way out.

The thumbnail format is actually designed for publication in a newspaper. As newspaper space is very expensive, effort is made to condense the information as much as practical.

The thumbnail format takes about 12 column centimeters only. About 3-4 items each are shown in the Balance Sheet and the Income and Expenditure Account. A real-life example may look like the one shown here.

This format is useful when the reader wants a very basic idea of your finances.



This can also be used when space costs money, such as publishing in a newspaper. However, it is not a good idea to give this to a donor who is more than forty years old!

Because it is meant for non-technical people, therefore, the terms are also kept relatively simple. The emphasis is

Lok Jagran Manch, Macchera			
Balance Sheet as at 31-3-04			
Liabilities	Amount	Assets	Amount
Trust Funds	50,00,000	Fixed Assets	50,00,000
Other Funds	1,30,00,000	Investments	1,01,00,000
Other Liabilities	7,00,000	Loans & advances	26,00,000
Accumulated Surplus	6,50,000	Cash and Bank	16,50,000
	<u>1,93,50,000</u>		<u>1,93,50,000</u>
Income & Expenditure Account for year ended 31-3-04			
Expenditure	Amount	Income	Amount
Program Expenses	85,00,000	Grants	80,00,000
Institutional Expenses	25,00,000	Donations	15,00,000
Surplus	3,50,000	Investment & other income	18,50,000
	<u>1,13,50,000</u>		<u>1,13,50,000</u>

All amounts in Indian Rupees (US \$ 1 = Rs.44)

on understanding, rather than technical correctness.

How do you condense a set of accounts that may run into 5-10 pages into a thumbnail? You do this by clubbing common items together. Some general guidance on this is given below. However, your auditors would be best able to guide you on this.

Currency

You should also specify the currency in which the accounts have been presented. This should preferably be your national currency, as that would make sense in a local context.

However, it is also a good idea to indicate the prevailing exchange rate against a common international currency such as US Dollar, British Pound or Japanese Yen. This would help a foreign reader understand your accounts better.

Income and Expenditure Items

Let us first deal with the Income and Expenditure items.

Program Expenses

Money spent on various programs is shown here. This would include direct program expenses, and related program overheads.

What does this mean? Direct program expenses are where money is spent on an activity or for providing relief or other benefits to the beneficiaries. Examples include awareness rallies, mahila melas, field-bunding, housing, etc.

Program overheads include expenses on maintaining field offices, travel, conveyance, printing and stationery at the field offices, salary of program staff, depreciation on field assets, etc.

Institutional Expenses

Here we show those expenses, which cannot be directly related to a program activity. Nevertheless, these are essential to run the organisation itself. Examples include salary to head office staff, audit fees, rent and maintenance of main office, cess paid to government, depreciation on head office assets, etc.

Surplus

If the income for the year is more than the expenditure, then we get a surplus. This surplus is transferred to the Balance Sheet, as discussed later.

Grants

Grants mainly include project grants. These are meant for a specific project or activities. Capital grants are normally transferred to Capital Fund. Grants are mainly made by donor agencies.

Grants may also include general grants, which can be spent as you wish¹.

All grants are shown here, whether these are from foreign donors, national donors or from the Govern-

ment.

Donations

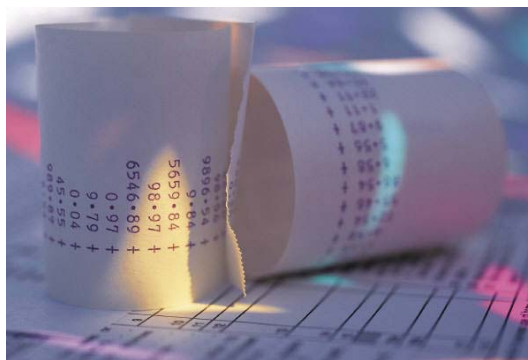
Donations are not earmarked for any specific purpose or project. These are normally given by individuals or business groups. These can be spent for any organizational purposes.

All donations are shown here, foreign or otherwise.

Local contribution from beneficiaries or villagers is also shown here.

Investment and other Income

Interest on bank deposits, on debentures, other securities, etc. is shown here. Also all



¹ For organizational purposes only

other types of income are shown here. This may include income from sale of old newspapers, rental income or other recoveries.

What about income from sale of publications? If it is only a small amount, then it can be included here. However, if it is significant, then it should be shown as a separate item.

Profit on sale of fixed assets would also be included here.

Deficit

If the expenditure for the year is more than the income, then we get a deficit. This deficit is transferred to the Balance Sheet, as discussed later.

Balance Sheets Items

Let us now deal with the Balance Sheet items.

Trust Funds

Trust funds belong to the trust or the society. It has full power to decide what to do with these funds. These may include funds called by various names such as General Fund, Capital Fund, Corpus Fund, Reserve Funds, etc.

Other Funds

Other funds would normally include funds over which donors have some control. These include Unspent Grant Funds², Endowment Funds, Revolving Funds, etc.

Sometimes funds are set up for the benefit of the staff. These funds are also classified with Other Funds.

Other Liabilities

Liabilities that are not in the nature of specific funds³ should be shown here. These would include sundry creditors, provisions for expenses, expenses payable, any taxes and other dues.

² When money has been received for a specific project, but it not yet fully spent.

³ Funds represent money set aside for a purpose.

Accumulated Surplus

Surplus means excess of income over expenditure. This figure is first calculated and shown in the Income & Expenditure account. From there, it is transferred to the liabilities side of the Balance Sheet, each year. This is shown below:

Opening balance on 1-4-03	3,00,000
Add: Surplus for 03-04 as per Income & Expenditure Account	3,50,000
Closing Balance on 31-3-04	6,50,000

The balance shown here represents accumulated surplus of last few years. If the balance becomes negative, then it is shown on the assets side, as deficit.

Fixed Assets

Fixed assets include land, buildings, vehicles, equipment, machinery, etc.

Investments

Show all investments here. These would include shares, debentures, mutual funds, treasury certificates⁴, etc. Also fixed deposits with banks and other permitted corporations should be shown here.

If you have invested funds in a non-profit concern, such as a cooperative society, then these can also be shown here.

Loans and Advances

These include all loans given out. Such loans may have been given to beneficiaries, to staff or to other persons. Advances to staff and others should also be shown here. Grants recoverable⁵ from donors should also be shown under this heading.

If you have sold goods on credit, then the debtors can also be shown here. If these are significant, then a separate heading (Sundry Debtors) should be used.

⁴ Government bonds

⁵ When you have spent funds in advance for a project, but the donor's cheque has been delayed.

Cash and Bank

Under this heading, show your cash in hand and the bank balances. Cheques in hand can also be shown here. Money lying in post office accounts should also be shown here.

Bank balances means funds lying in current or savings accounts. Money lying in term deposits should be classified under investments.

Accumulated Deficit

Deficit means excess of expenditure over income. This figure is first calculated and shown in the Income & Expenditure account. From there, it is transferred to the assets side of the Balance Sheet, each year.

Why has deficit not been shown in the present case? Simply because Lok Jagran Manch has a surplus on 31-3-04. Therefore, it has been shown on the Liability side.

Using the Thumbnails

The thumbnails are designed for a special type of user. Such users are typically not very interested in details or technicalities. They just want to get an overview of the situation. Thumbnails are ideal for use in annual reports or for sharing with individual donors. These can also be put up on the web-site for the general public.

However, there are limitations to the use of thumbnails. You should not use these when detailed audited statements are required.

For example, these can be sent to donor agencies *in addition* to the detailed audited statements. These should not be sent *in place of* the detailed accounts.

Sense of Proportion

Should you use the same technique of clubbing for your audited statements? This

is always a matter of judgment. Clubbing is fine in principle. But the extent of clubbing depends on the scale of operations.

For example, a large corporation like Microsoft may show the result of its operations in Thailand in just one line: 'profit from operations in Thailand'. But it would be senseless for a small company, based in Bangkok, to do the same. That would be like writing the accounts on a grain of rice, rather than on your thumb!

About AccountAid: AccountAid is a private consulting firm based in New Delhi. It works on accounting and regulatory issues concerning NGOs. For this purpose, it conducts research, workshops, and publishes reference material relevant for NGOs and grant-makers. It also provides advice to donor agencies on grant management systems.

What is AccountAble: Each issue of 'AccountAble' covers a different topic related to NGO regulation or accounting and is mailed to about 2,700 persons in NGOs, Agencies and audit firms. AccountAid encourages reproduction or re-distribution of 'AccountAble' in workshops or NGO newsletters for non-commercial use, provided the source is acknowledged.

Interpretation of law: Interpretation of law given here is of a general nature. Please consult your advisors before taking any important decision.

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Comments: Your comments and suggestions can be sent to AccountAid India, 55-A, Pocket C, Siddharth Extension, New Delhi-110 014, India; Phone: +91-11-2634 3128, 2634 6111; Fax: +91-11-2634 3852; e-mail: accountaid@vsnl.com.

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