

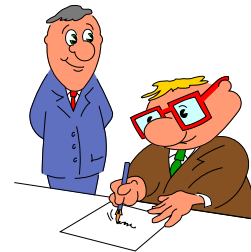
6. Bank Transactions

Special issues related to bank transactions are taken up below:

a) Signatories

The number of signatories is given in the articles or bylaws. Usually there are at least two signatories. Objective is to ensure that more than one person controls the bank transactions.

In practice, however, often one of the signatories signs blank cheques in advance. These are later filled up by the accountants and then signed by the chief functionary. Is this a good practice?



Most people would agree that it is not. It violates the basic rule of joint control, expects one person to trust another blindly¹, and also sometimes causes fraud. It is also a tribute to our societal values that people can do things like this and sleep peacefully. But in a similar situation, a cashier once forged the signatures of the other trustee and encashed a cheque for Rs.20,000.

Is there a practical alternative to this? NGO functionaries are often in travel. Then the other signatory may be an honorary member, not attending office every day. Can you go to the other signatory every day and ask them to sign cheques?

One possible solution is to have a multi-tier signatory arrangement. This is common in companies and Agencies where hundreds of cheques have to be signed every day. Under this arrangement, you can set a limit below which cheques can be signed by just one person. Above this, cheques have to be signed by both the signatories. An example could be as below:

Cheque amount	Authorisation
Upto Rs.10,000	Any one of three: President, Secretary or Treasurer
Upto Rs.50,000	Any two of three: President, Secretary or Treasurer
Above Rs.50,000	All three: President, Secretary and Treasurer

If you want to keep one person as a 'must' signatory, you can set the limits like this:

Cheque amount	Authorisation
Upto Rs.10,000	Secretary
Upto Rs.50,000	Secretary and any one of two: President or Treasurer
Above Rs.50,000	All three: President, Secretary and Treasurer

¹ Sometimes this can lead to serious consequences under the law.

(1) Bank Resolution

For this, you will need to pass a resolution for the bank, which may look like the one below. Check with your bank for the exact procedure / wording:

Certified True Copy of Resolution passed at Meeting of Board of Trustees / Governing
Body of _____ (name of NGO)
on _____ (date)

“Resolved that with respect to the Savings Account No. _____ in the name of the Society / Trust being maintained with the _____ Bank, _____ (Address of Bank) and that the said bank be and is hereby authorised to honour all cheques, Bills of Exchange, promissory notes drawn, accepted and all negotiable instruments whatsoever made and signed on behalf of the Society / Trust either by Ms./Mr. _____ (name), _____ (designation), or by Ms./Mr. _____ (name), _____ (designation), of the Society / Trust, **provided that the value of any such individual instrument does not exceed Rs. _____ (Rupees _____ thousand only).**

Also resolved that the said bank be and is hereby authorised to honour all cheques, Bills of Exchange, promissory notes drawn, accepted and all negotiable instruments whatsoever made and signed on behalf of the Society / Trust, jointly by Ms./Mr. _____ (name), _____ (designation), and Ms./Mr. _____ (name), _____ (designation), of the Society / Trust irrespective of the value of any such individual instrument.

Resolved further that the above resolution be communicated to the said Bank and is to remain in force until the same is cancelled or modified by the Board of Trustees / Governing Body by another resolution and extract whereof forwarded to the Bankers by the Chairperson / President / Secretary / Treasurer / Trustee of the Society / Trust.”

(2) Amending bylaws

In some cases, your bylaws may not permit this kind of bank resolution. Then you will have to amend these.

For this, check the Articles or Bylaws of Association. There you may find a clause which says that such and such office-bearers will be authorised to sign the cheques.

If you find such a clause, then you can not follow the above procedure right away. You will have to first call a General Meeting and change your bylaws to say the following:

“ bank accounts in the name of the Society may be operated by such persons as are authorised by a resolution of the Board/ Executive Committee, which should have been passed at a meeting attended by not less than 75% of the members of the Board/ Executive Committee....”

After passing this resolution, you will have to register the change with the Registrar of Societies in your state. The procedure for this varies from state to state.

The bank will ask for a copy of the amended bylaws before registering your new resolution.

However, in some states, the registrars may object to this amendment. Your auditors will be able to advise you on this.

b) A/c Payee crossing

There was a time when a simple crossing on a cheque was considered enough. And an 'Account Payee only' crossing was absolutely safe. But some years ago, a massive scam involving Rs.2,000 crores was discovered in Bombay. Investigators found that lakhs of cheques with simple 'A/c Payee only' crossing were endorsed by scamsters. Then they got together with a bank manager in Andheri. He credited these cheques to their accounts.

The reason is that in India an 'A/c Payee Only' cheque remains negotiable¹. Having learnt a lesson from this, companies paying dividend and some banks now cross their pay-orders / drafts differently. They mark these as 'A/c Payee only; Not Negotiable'. The crossing appears as shown in the illustration below.

27 July 20 04

**A/c Payee Only
Not Negotiable**

Pay M/s Didwania Brothers, Udaipur -----X-----X-----X----- **या धारक को or bearer**

रुपये Rupees Thirty Three thousand four hundred and seventy five only -----X-----

-----X-----X-----X-----X----- **अदा करें** **₹.Rs.33,475/=**

Bank of Magadh
South Extn. Pt. I, New Delhi

for Lok Jagran Manch
Jaya Pandey. *T.R. Singhi*
Secretary Treasurer

A/c. No. 10040

|| 067153 || 11006451 || 835912 || 10

It would be a good idea to start using this kind of crossing whenever you make a payment by cheque. The crossing should always be put in the top left-hand corner. Make sure that you cover some of the coloured pattern on the cheque with the crossing. You can make the crossing by hand (in ink) or use a rubber stamp.

There are some other simple precautions you can use to make cheque transactions safer:

- ❑ Put a carbon (black side up) under the cheque when making it. This will leave a black tracing on the reverse of the cheque, making it more difficult to alter.
- ❑ If sending a cheque or draft by mail, send it by registered post. This is also a postal rule.
- ❑ Most people use a ball-point pen for making a cheque. If you want to use a fountain pen, then use permanent ink or indelible ink. Indian ink used by money-lenders, traditional business people or for land records is also very good for this.
- ❑ You can also get special transparent stickers which can be put over the amount and name to prevent alteration. But please do not use ordinary cello-tape instead – this will get stuck in the MICR machines during clearing.

¹ Till 1994, a/c payee cheques were negotiable under UK laws also.

c) Cash withdrawals

How much cash can you withdraw and keep? This depends on many factors. One is how much money do you normally spend each day. The other is how far is your bank. Another factor is availability of signatories.

Therefore, if your bank is next door, both signatories attend office every day and your average expenditure is Rs.5,000 per day, then you may want to keep just Rs.10,000. You will of course draw extra cash for salaries and large program expenses, whenever you need to pay for these.

In another situation, if the bank is far away, you may want to carry one week's or a fortnight's cash float¹. The important point is that cash withdrawals should be linked to requirement and the existing cash in hand.

Sida therefore suggests that cash withdrawals from bank should be made keeping in mind the need, amount of cash in hand and the effort required to make a withdrawal.

d) Cash payments

In the areas where NGOs work, banking facilities are not very developed. Sometimes, cheques are not easily accepted. This has resulted in a situation where many NGOs prefer making payments in cash only. This results in several complications. The amount of cash to be withdrawn and carried increases. The chances of making mistakes increases. There is also a higher risk of defalcation or misuse.



(1) Expenses and assets²

On the other hand, often you can convince regular suppliers to accept payment by cheque. Depending on you location, you can also pay a larger proportion of the staff by cheque. Professionals such as auditors, doctors, consultants always have bank accounts and you can pay by cheque. Same applies to travel agents, printers etc. Remember, a bank payment (through account payee cheque) is always considered more reliable and authentic.

Sida suggests that, wherever practical, payments may be made crossed cheques or bank drafts. This applies to payments below Rs.20,000 as well.

(2) Loans³

It sometimes becomes necessary for an NGO to borrow money for a short while. These temporary loans are often taken from officer bearers, friends, relatives or even staff

¹ Cash which is sufficient to meet one week's or a fortnight's payments

² Income Tax implications of cash payments discussed under the heading ' Large Loans or Expenses in Cash' in the section on Income Tax

³ The word 'loan' includes deposits and advances as well.

members. Later when funds become available, these are repaid. How should these loans be transacted¹?

Properly speaking, all loans (whether large or small) should be taken by crossed account payee cheques. Only exception would be where a clear cut emergency has occurred. In such cases, the nature of the emergency should be noted on the voucher. For all loans taken, a receipt should be issued. The receipt should give the name and address of the person who has given the loan. Under no circumstances, an anonymous loan should be accepted.

All loans² must be repaid by crossed account payee cheques. If a loan is repaid in cash, there should be a very good reason for it, which should be recorded on the voucher. When the loan is repaid, the receiver³ should acknowledge the repayment by signing on the voucher. The name of the receiver should be given on the voucher.

Sida requires that the above procedure would be followed whenever a loan is taken or repaid for Sida fund transactions.

Sometimes a loan may be taken from General Fund⁴ for Sida expenses. This means the loan would be paid from General Fund into Sida funds. This is an internal loan and may be a simple cash loan or a bank payment.

A related loan from another person may appear as a receipt into General Fund. This loan would be called an external loan. Sida therefore requires that the above procedure would be followed for the external loan as well.

(3) Income Tax Implications

Under Income Tax Act⁵, loans above Rs.20,000 have to be taken or repaid by crossed account payee cheque or draft. What does the limit of Rs.20,000 mean? Obviously, any loan bigger than Rs.20,000 is covered. But the ban also applies when the amount due to one person adds up to more than Rs.20,000.

This is explained more clearly in the section on Income Tax ('Large loans or expenses in cash' on page 42).

Under the Income Tax Act, you should also not make any payment (for expenses or assets⁶) above Rs.20,000 in cash⁷. If you do, then 20% of the amount will be added back to your income. There are some exceptions to this⁸. These include payments to farmers for farm products and to cottage industries. If you make a payment to a person who lives in a place without a bank, then you can make it in cash.

¹ Income Tax implications of cash loans discussed under the heading 'Large Loans or Expenses in Cash' in the section on Income Tax

² Including an emergency loan which may have been taken in cash

³ The person who gave the loan in the first place

⁴ There may be adverse FCRA implications.

⁵ Section 269SS

⁶ Remember that NGOs get 100% deduction for assets.

⁷ Section 40A(3)

⁸ Rule 6DD

Sometimes, business persons are advised to split up large payments so that each payment is below Rs.20,000. This is not a good idea for NGOs, who are more responsible and accountable socially.

e) Salary payments

As mentioned earlier, salary payments by account payee cheques (or direct bank transfer) should be encouraged. In some cases, this may not be possible because of various factors.

Sida suggests that, wherever practical, salary payments should be made by crossed account payee cheques or by bank transfers.

f) Bank Reconciliation

As cheque transactions increase, controls over bank account should be strengthened. A simple control is a bank reconciliation. What is a bank reconciliation?

A Bank Reconciliation is somewhat like a routine medical check-up. If you do it regularly, you will never feel the need for it. If you don't do it regularly, one day you will wish you had gone to the doctor every month.



(1) What is a Bank Reconciliation?

Do a simple experiment to understand this. Take out one of the pass books which has frequent transactions. Note down the balance in the pass book on any date, say 31st July 1998. Open your cash book or ledger. Check the bank balance on 31.7.98 shown in the cash book or ledger. Note it down in the second line:

Pass book balance on 31.7.98	_____
Ledger/ Cash book balance	_____
Difference	

Compare the two balances. Chances are that the two balances will be different.

(2) Why a difference?

A difference may be simply due to some cheque which has not reached your bank for payment. Or it may be due to normal clearing delay for some cheque which you deposited.

Sometimes the problem can be more serious. The difference may be due to a dishonoured cheque. Or the bank may not have credited some deposit to your account. In either case, the earlier you know, the better it is. You can then contact the bank and have the problem corrected.

Apart from this, small charges like collection charges, bank charges etc. are levied on your account from time to time. Normally the bank does not send you any intimation. Also the bank credits interest to your account twice a year. You have to pass entries in your books for these transactions.

Sometime the bank makes totalling errors. Also someone may alter a cheque and draw a large sum of money from your account.

When a difference appears between your ledger balance and the pass book, you have to prepare a Bank Reconciliation to understand the reasons.

(3) Making a Bank Reconciliation

You need four things to prepare a bank reconciliation. (i) Your Pass Book; (ii) Your Cash Book or Ledger containing the Bank Account; (iii) A colour pencil or pen; (iv) Previous reconciliation, if there was difference in opening balance. After having armed yourselves with these, proceed as follows, with extreme caution:

(a) Ticking Off common items

- ❑ First decide the period for which you want to reconcile. Let's say you decided on 1.4.98 to 31.7.98.
- ❑ Compare the opening balance (1.4.98) of the Pass book and the Ledger.
- ❑ If there is a difference in the opening balances, locate the previous reconciliation. Your auditors will probably have a copy.
- ❑ Now you have to start ticking off the common items in the pass book and the ledger.
- ❑ For this see the first entry in the ledger on debit side. Locate this entry in the pass book also (in Deposits column).
- ❑ Compare both the entries – are the amounts same? If there is a small difference, it may be due to collection charges. Note the difference separately.
- ❑ Tick off both the entries if these match.
- ❑ In this manner, tick off all matching entries on debit side right upto 31.7.98.
- ❑ Now look at the Credit side of the ledger. Compare these entries with those in Withdrawal column of pass book. Match cheque numbers also if possible.
- ❑ Tick off all common entries one by one.

(b) Correcting Our Ledger Balance

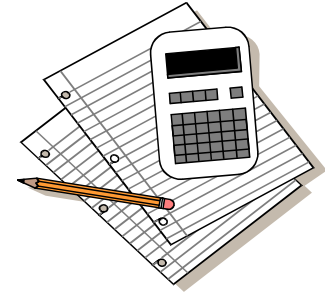
Now we can prepare the first part of the Reconciliation:

- ❑ Take a fresh sheet of paper and note down the closing balance as per ledger.
- ❑ From this deduct any bank charges (or collection charges) or cheques that may have been dishonoured.
- ❑ This will give you the corrected ledger balance.

(c) Reconciling the Pass Book balance

Finally we reconcile the Pass Book balance:

- ❑ Note down the balance as per pass book.
- ❑ To this balance add those cheques which have been deposited but not yet cleared. You will find these as unticked items on the Debit side of the ledger.
- ❑ Then deduct the cheques which you have issued but which have not reached your bank. These will appear as unticked items on the Credit side of the ledger.
- ❑ The resulting balance should be the same as the corrected Ledger balance.



If a difference remains, scan the pass book and ledger for unticked items. Check the totalling and the manner in which you have added or deducted items. If the difference still remains, you will have to tick the items again. Use a different colour pen this time. And be more careful!

Reconciling A Bank Account

Bank Pass Book

Date	Particulars	Withdrawals	Deposits	Balance	Initial
	B/F			66,714	<i>m</i>
12/4/98	Ch. 470181	6,000			
29/4	To cash: 470182	1,000			
4/5	Ch. 470183	4,500			
12/5	By Deposit		23,150		
15/5	Ch. net.	23,150		55,214	<i>ds</i>
20/5	By ch.		23,150		
20/5	Coll. Fee	50			
25/6	To cash	2,000			
1/7/98	S. Das - 470186	1,450			
4/7/98	Cash	5,000			
30/7	Cash	5,000		64,864	<i>rs</i>
	Total c/a			64,864	

Contra items (items that appear on both sides of the same record) are marked with a 'C' like this.

Collection charges of bank are not entered in our ledger. We should reduce this from our balance.

For the second part of Reconciliation, start with closing balance as per Pass book.

Bank Reconciliation - 31.7.98

Balance as per our Ledger	Dr.	66,914
Deduct: Collection fees charged by bank		-50
Corrected Balance as per our Ledger	Dr.	66,864
Balance as per Bank Pass Book	Cr.	64,864
Add: Grant cheque deposited but not cleared (28.7.98)		10,000
Deduct: Cheque issued but not presented (470188 for Rent Deposit: 27.7.98)		-8,000
Corrected Balance as per Bank Pass Book	Cr.	66,864

Start the first part of Reconciliation by writing down the bank balance as per our ledger.

Bank Account in our ledger

Date	Particulars	Folio	Debit	Credit	Dr/ Cr	Balance
1.4.98	Opening Balance		66,714		D	
12.4.98	By Ch. 470181: Mr.			6,000	C	
29.4	By cash: 470182			1,000	C	
30.4	By Ch 470183			4,500	C	
12.5	To Grant received		23,150		D	
24.6	By Cash drawn - 470184			2,000	C	
30.6	By Mr. Das - 470186			1,450	C	
4.7	By Cash 470187			5,000	C	
27.7	By Rent deposit: 470188			8,000	C	
28.7.98	To Grant cheque		10,000		D	
29.7.98	By Cash - 470189			5,000	C	66,914

This cheque has not been collected yet. When collected it will increase the balance.

When this cheque is presented, bank balance will reduce. Therefore, we deduct it from the Pass Book Balance

(4) Follow-up Steps

After reconciling the bank, you must look into the items that appear on the list. Pass entries in the ledger for bank charges, interest etc. Pass entry for dishonoured cheque also. Depending on reasons for dishonour, talk to the concerned party or your bank.

If the amount for any cheque which you issued is different from your records, approach the bank immediately. Find out the reason for the difference. If there is a mistake at the bank, have it corrected. If there is an unauthorised alteration, consult your auditors. They will be able to guide you.

(5) How often

This depends on the way you use your bank account. If you have many bank transactions (say more than 50 a month), then you should reconcile your accounts each month. Otherwise, a quarterly bank reconciliation may be sufficient. At a minimum, you must reconcile your bank account each year.

Sida suggests that you should reconcile your bank accounts periodically and pass correction entries as necessary.

g) Field Bank Account

Sida does not require or expect that its funds will be deposited in a special or separate bank account. However, Sida is classified as a 'foreign source' under FCRA. You need to deposit and keep Sida funds in the designated¹ FCRA bank account.



In some cases, NGOs open additional bank accounts in the field because the main FCRA bank account is too far away.

Strictly speaking this is not allowed under the FCRA² and it is possible that FCRA authorities may object to this.

Sida suggests that you consult your legal advisers about obtaining a separate FCRA registration for the field office³ instead of taking such a step.

¹ See the section on FCRA

² Section 6(1)(b), Rule 8(1)(b)

³ You need to file an application in form FC-8 for this and designate a bank account for the purpose. A separate FC-3 will be filed for the field office.