

# 4. Book-keeping

## a) Integrated Cash Book

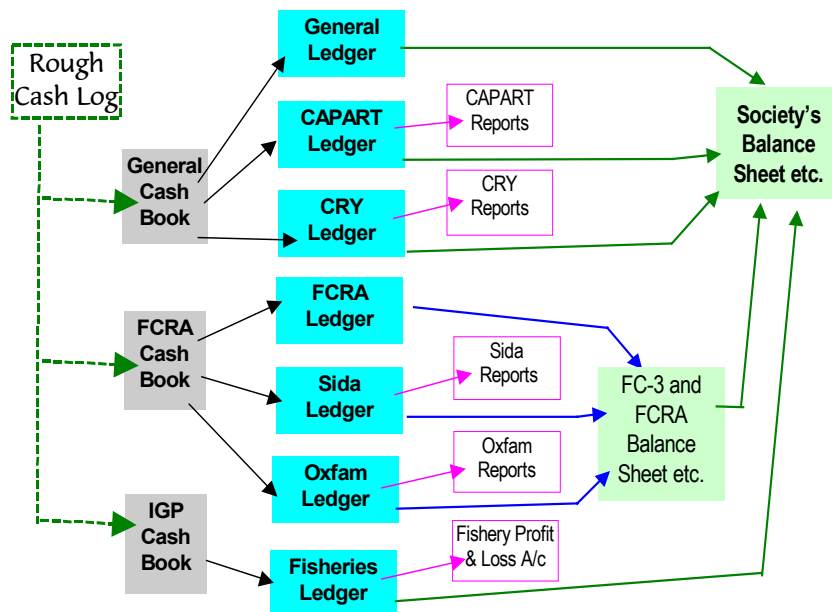
NGOs receiving FCRA funds are required to keep a separate cash book for FC funds. But should they keep separate cash books for each funding agency / project as well? Many NGOs maintain separate cash books, sometimes as many as fifty each year!

This practice apparently started with a misinterpretation. Most agency agreements say that separate accounts will be kept for the funds given by them. This actually means that the NGO should keep separate ledger accounts for their expense heads. This does not mean that they should keep a 'separate set of account books'. At some point of time, the meaning was twisted and separate cash books emerged.

This practice increases work-load of Accounts Department. It also weakens cash control. It is because of this that many NGOs keep a separate rough cash book for controlling cash.

Is there a simpler alternative? People have experimented with columnar cash books. One column is kept for each agency on the receipts side and another on the payments side. This is feasible only if you are working with 3-4 agencies. Further, you need to get such cash books printed specially.

Another alternative (recommended) is to use the standard cash book. Each entry is marked suitably with the name of the agency. This is then posted to the relevant ledger<sup>1</sup>. The overall accounting system may look as below:



<sup>1</sup> Separate ledgers are kept for each agency / project. This is explained under the heading 'Separate ledgers'.

The next question that arises is how do you make entries (which will be posted to several ledgers) in one cash book. For this, each entry should be marked with the ledger where it would be posted. An example is given below:

Receipts			Payments		
Date	Particulars	Amount	Date	Particulars	Amount
			4.4.98	<u>Salaries (Diakonia)</u> Salary to teachers for March '98	8,600
			4.4.98	<u>Salaries (Sida)</u> Salary to Sida project staff per details	14,200
			6.4.98	<u>Travel (Oxfam)</u> Visit to Ahmedabad by Sri Venkat for meeting	1,230
			10.4.98	<u>Sapling purchase</u> <u>(SIDA)</u> Mango saplings purchased by Sri Venkat from rolling imprest	780

Over a period of time, we expect that people will gradually switch back to integrated cash books. In the short run, some of the agencies you work with may continue to insist on a separate cash book.

However, a separate cash book should not be kept for Sida funds. These should be reflected in the main FCRA cash book itself.

### b) Separate Ledger

While you can keep a common cash book as discussed above, a separate ledger would be needed for each agency (shown in blue colour on the chart). Each ledger will be labelled with the Agency / project name. You can post entries into these ledgers directly from the General Cash Book or the FCRA cash book. There is no need to post these into a Control Account.

Such ledgers are called sub-ledgers. These help you keep separate accounts for each agency without loss of control over cash. In the sub-ledgers you can open ledger accounts according to the budget heads of the relevant agency. This will help you prepare financial reports for the agency.

Ledger Accounts which are not related to any specific agency are kept in the General Ledger or the FCRA ledger.

For Sida expenses and assets, a separate sub-ledger should be maintained.

### c) Vouchers

Some NGOs do not use vouchers whenever a cash memo is available. However, this is not satisfactory. A covering voucher should be used for each entry, including those for which a cash memo is available.

A covering voucher carries useful information such as why an expense was made, who made the payment and the account-head to which it should be debited. The voucher is also used as an authorisation for the expense.

There are many different types of vouchers in use by NGOs. Generally, you can find receipt vouchers, cash vouchers, payment vouchers and journal vouchers. This of course means that you have to print and keep separate stocks of each type.

A simpler alternative is to print a voucher that can take care of all these transactions. Such a design is suggested below:

**Lok Jagran Manch, Machhera, A.P.**

Voucher No .

Date

Budget / Account Head	Project / Agency	Amount (Rs.)	
Dr.			
Dr.			
Dr.			
<b>Total</b>			
Cr.			
Cr.			
<b>Total</b>			
Description			
<b>Total</b>			

Use this rubber stamp to mark Sida vouchers and supports.

Sida Funds

Total Rupees (in words)

Amount paid (in words) Rs.

Revenue stamp > 5,000

Accountant

Project Incharge

Treasurer/ Secretary

Receiver

Whatever the design you use, try to ensure the following while printing the voucher:

- There should be enough space on the left-hand side for punching and filing. Leave adequate margins around the other sides to allow for curling and tearing during storage.

- ❑ You should use a standard size, keeping in mind the paper sizes available. Odd-sized vouchers result in wastage of paper and are difficult to file.
- ❑ Use a paper that will not tear easily and will last for ten years. Flimsy paper (less than 70 gsm<sup>1</sup>) is not suitable.
- ❑ You can save money by using a simple black and white design, over white paper. Each colour you add will increase the printing cost.
- ❑ Ask the printer to glue the vouchers in pads of 50-100 vouchers each. If you plan to punch the vouchers on the left-hand side, ask for the gluing on the left-hand side.
- ❑ Don't use a different colour for FCRA vouchers. Sometimes, you may not know in advance whether an expense relates to FCRA or Indian funds.

You can also get rubber stamps to mark different agency names on the vouchers and supports. In any case, all Sida vouchers and supports must be marked with a rubber stamp as shown above. Current vouchers must be filed<sup>2</sup> sequentially and not kept loose or in packets.

It is also important that all vouchers should be marked with serial numbers. This number should also be given on the cash book and ledger so that vouchers can be located easily.

## d) Computerised Accounts

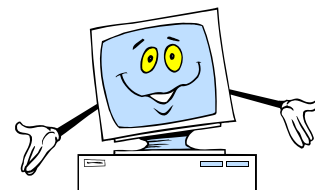
If your accounts are computerised, the above concepts remain applicable. However, you may need to consult your auditors or computer consultants for this.

### (1) Selecting a Software Package

Most popular packages allow sub-ledgers or groups. In some cases (e.g. Tally 5.4), you can use cost-centre facility also for this purpose. You can also make groups and sub-groups under Tally. Tally now also has a Windows version, called Tally 6.3. It has some additional features and works with Windows 98, ME, NT and 2000. Tally is the most common package in NGO sector today. It is also easier to find accounting staff who are familiar with Tally.

Wings is a good accounting package though not as well known as Tally. It has similar features but a better user-interface. There are different modules – depending on your needs, you can pick up the ones you need.

QuickBooks is another interesting package. This package is extremely user-friendly and has very good search, reporting and budget tracking features. However, some of the terminology is unusual. The package uses registers for ledgers and books and class for cost-centres.



When shopping for a package, do not be misled into believing that NGO accounting needs special packages. All accounting works on Debit and Credit. There are things which you should do by hand. For example, we have not yet seen an accounting package that can give you a true Receipts & Payments Account.

<sup>1</sup> Grams per square meter: standard measurement system for paper weight

<sup>2</sup> You can use a spring file, index file or a lever file.

Try to avoid a custom-made package or a package, which promises you everything from voucher printing to Balance Sheet. These packages are usually inflexible, difficult to implement, create power centres within Accounts Dept., and have any number of bugs.

## (2) Setting up your system

What happens after you have installed the accounting package on your computer? You have to set up the package for use. This involves defining accounting groups and ledger accounts. If you give some thought to this, you could save yourself a lot of trouble later on. The following illustration gives you an idea how to set up a package for your use.

Lok Jagran Manch is an NGO. It receives funds from Indian sources. It also has FCRA registration and receives funds from international donor agencies. In addition, it has a unit for manufacturing Chyawanprash. It also has a micro-credit program, under which loans are given to people.

According to law, a separate cash book and ledger is required for FCRA. Similarly, a separate cash book and ledger is required for Income Generating activities, such as sale of Chyawanprash.

Lok Jagran Manch wants to know how much funds it has received from each source. It also wants to know its profit or loss from Chyawanprash unit. It wants to keep a track of the revolving fund loans also.

How has Lok Jagran Manch set up its accounts?

It has opened one company called 'Lok Jagran Manch 2004-05'. Why is the year mentioned? To make sure it can keep its books for each year in separate files. Strictly speaking this is not necessary, but some accountants find this more comforting.

It has then defined the main groups. The groups help in summarising information when you make a trial balance or balance sheet. For example, all the bank accounts can be grouped under 'Bank Accounts'. This does not mean that you will maintain all bank accounts in one account. You will still keep them separate. But for reporting, you will be able to group them or see them separately as you want. A sample list of groups is shown on page 130.

<b>Group / Sub-group</b>	<b>Grouped under</b>
<b>Advance – FCRA</b>	Primary
<b>Advance – General</b>	Primary
<b>Branch / Divisions</b>	Primary
<b>Capital Account</b>	Primary
<b>Reserves &amp; Surplus (Retained Earnings)</b>	Capital Account
<b>Capital Fund</b>	Primary
<b>Chavanprash Unit</b>	Primary
<b>Contribution From Beneficiaries</b>	Primary
<b>CRY Project Exp.-FCRA</b>	Primary
<b>Current Assets</b>	Primary

How do the groups help? Firstly, they help in keeping all accounts of one project together at one place. For this, you define each project as a group. All expense accounts for that group will be opened under the group. As an example see the accounts opened under the group ‘Sida Project Expenses - FCRA’ on page 138.

Sl.	List of Accounts	Nature	Grouped under	Type
200.	<b>Sida Project Exp.-FCRA</b>	Group	Primary	Expenses
201.	<i>Ambulance - Sida</i>	Account	Sida Project Exp.-FCRA	Expenses
202.	<i>Computer - Sida</i>	Account	Sida Project Exp.-FCRA	Expenses
203.	<i>Conveyance - Sida</i>	Account	Sida Project Exp.-FCRA	Expenses
204.	<i>Electricity - Sida</i>	Account	Sida Project Exp.-FCRA	Expenses
205.	<i>Electricity &amp; Water - Sida</i>	Account	Sida Project Exp.-FCRA	Expenses
206.	<i>Fuel &amp; Maintenance - Sida</i>	Account	Sida Project Exp.-FCRA	Expenses
207.	<i>Jeep - Sida</i>	Account	Sida Project Exp.-FCRA	Expenses
208.	<i>Medical Equipments - Sida</i>	Account	Sida Project Exp.-FCRA	Expenses
209.	<i>Medicine - Sida</i>	Account	Sida Project Exp.-FCRA	Expenses
210.	<i>Motor Cycle - Sida</i>	Account	Sida Project Exp.-FCRA	Expenses
211.	<i>Printing Charges - Sida</i>	Account	Sida Project Exp.-FCRA	Expenses

Secondly, we can open multiple cash books in the same company. We can also group these together under ‘Cash Account’. An example is shown on page 133 where three cash books have been opened: FCRA, General and IGP. In Tally, cash books are opened by opening a cash account. All the three cash books have been grouped under ‘Cash Account’.

Sl.	List of Accounts	Nature	Grouped under	Type
42.	<b>Bank Accounts</b>	Sub-Group	Current Assets	Assets
43.	<i>Bank of Magadh, FCRA A/c- 10040</i>	Account	Bank Accounts	Assets
44.	<i>Bank of Magadh, General A/c-20040</i>	Account	Bank Accounts	Assets
45.	<i>Bank of Magadh, IGP A/c-30040</i>	Account	Bank Accounts	Assets
46.	<b>Cash-in-hand</b>	Sub-Group	Current Assets	Assets
47.	<i>Cash – FCRA</i>	Account	Cash-in-hand	Assets
48.	<i>Cash – General</i>	Account	Cash-in-hand	Assets
49.	<i>Cash – IGP</i>	Account	Cash-in-hand	Assets

Same applies to Bank accounts also. An example is shown on page 133.

What is the disadvantage in opening separate companies for FCRA and Indian funds? You have to switch between companies to make entries for FCRA and Indian funds. Also it becomes more difficult to prepare a consolidated report. Sometimes, transfer entries are made in one company but mirror entries (in the other company) are forgotten.

For the Revolving Fund, Lok Jagran Manch has opened a separate asset group called ‘Loan to Beneficiaries’ (see page 136).

Sl.	List of Accounts	Nature	Grouped under	Type
133	<b>Loan to Beneficiaries - French Aid</b>	Group	Primary	Assets
134	<b>Mohanpura - FA</b>	Sub-Group	Loan to Beneficiaries - French Aid	Assets
135	<i>Smt. Kalawati Devi, Mohanpura-FA</i>	Account	Mohanpura - FA	Assets
136	<i>Smt. Maheshari Devi, Mohanpura-FA</i>	Account	Mohanpura - FA	Assets
137	<i>Smt. Shukri Devi, Mohanpura-FA</i>	Account	Mohanpura - FA	Assets
138	<i>Smt. Sugani Devi, Mohanpura-FA</i>	Account	Mohanpura - FA	Assets
139	<i>Smt. Sundari Devi, Mohanpura-FA</i>	Account	Mohanpura - FA	Assets
140	<b>Pakud - FA</b>	Sub-Group	Loan to Beneficiaries - French Aid	Assets
141	<i>Smt. Eisther Ekka, Pakud-FA</i>	Account	Pakud - FA	Assets
142	<i>Smt. Marian Jones, Pakud-FA</i>	Account	Pakud - FA	Assets
143	<i>Smt. Marry Thomas, Pakud-FA</i>	Account	Pakud - FA	Assets
144	<i>Smt. Rabadi Devi, Pakud-FA</i>	Account	Pakud - FA	Assets
145	<i>Smt. Rohini Devi, Pakud-FA</i>	Account	Pakud - FA	Assets

Under this group, it has opened separate sub-groups for each of the villages where the revolving fund is operational. Then it has opened a separate loan account for each of the beneficiaries. These are classified under the various villages. Remember to add the name of the spouse / parent when opening a beneficiary's loan account (Ram Singh s/o Prakash Chander). This will help avoid confusion.

What kind of reports will the computer generate?

A summary Balance Sheet is shown on page 140. A more detailed Balance Sheet is shown on page 141.

Similarly the system can also generate a Profit & Loss Account, which is the same as your Income & Expenditure Account. Remember to correct the name in the print-out before sending the accounts to the auditors! A summary Income & Expenditure Account is shown on page 143. A detailed Income & Expenditure Account is also shown on page 144.

Tally can not generate a Receipts and Payments Account in the format normally used by NGOs. However, this can be prepared manually by using a spreadsheet program.

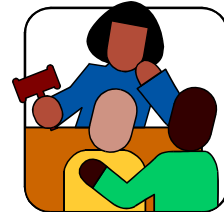
Sida recommends that only one company should be opened by an NGO partner for all its funds and projects. Further, groups should be used as illustrated above to keep meaningful account books.

### e) Revenue Stamps

There is a lot of confusion about use of revenue stamp. Essentially, a revenue stamp of one Rupee is required whenever a person acknowledges receipt of money. It is required only on payments *exceeding* Rs.5,000<sup>1</sup>. Use of the stamp is required under law<sup>1</sup>. Other things to keep in mind are:

<sup>1</sup> Limit raised to Rs.5,000 w.e.f. 10-Sep-2004. Earlier, the limit was Rs.500.

- ❑ The Act covers both cash and cheque payments.
- ❑ You have a right to demand a stamped receipt<sup>2</sup> if you pay more than Rs.5,000.
- ❑ The person who receives the money should pay for the stamp.
- ❑ The stamp should always be cancelled by drawing a cross or signing across.
- ❑ No stamp is required on receipts issued for donations<sup>3</sup> because these are payments without consideration. However, a grant is different from a donation.
- ❑ A revenue stamp is not required on cash memos.
- ❑ No revenue stamp is required when you give an advance for expenses to an employee. But it is required when a loan or salary is given to the employee.



If you don't fix a stamp what happens? The penalties are very small in terms of money. However, if a receipt is not stamped properly, it can be confiscated. Also, the person who received the money can not use it in a court case.

We suggest that you follow the law in all payments, especially transactions related to Sida funds.

### f) Pencilled totals, alterations, blank lines

When you write a cash book, mistakes are always possible. Accountants therefore often total up the cash book in pencil. But how long should these totals remain in pencil?

If you are writing your cash book regularly and also tally your physical cash at least once a month, you should ink up the totals<sup>4</sup> each month. **Preparing a trial balance regularly is important for checking that the cash book and ledgers are written properly.** If you draw up (and tally) a monthly trial balance, then may be the cash book totals should be inked up by 7<sup>th</sup> of the following month.

Suppose you do all these things and still find an error later on. This could be a missing voucher, a totalling mistake, an amount entered wrongly etc. What do you do then?

Mistake	Solution
Forgot to enter a voucher	Enter it on the day you discover it. Mark both the dates (original date and current date) in the date column.
Entered a smaller amount by mistake (50 instead of 500)	Enter the difference (Rs.450) on the date you discover this, on the same side (payment or receipt). Give reference of the original entry.

<sup>1</sup> Indian Stamp Act, 1899 and Rules (1925)

<sup>2</sup> Section 30

<sup>3</sup> Exemption b, Article 53 of Schedule I to the Act

<sup>4</sup> We mean all the totals, including carry forward figures and brought forward figures. These should be inked up both on the receipts side as also the payments side.

Mistake	Solution
	Also go back to the original entry and make a note there: 'difference entered on page ___'
Entered a larger amount by mistake (950 instead of 590)	Enter the difference (Rs.360) on the date you discover this on the <i>opposite</i> side of the cash book. Give reference of the original entry. Also go back to the original entry and make a note there: 'difference entered on page ___'
Made a totalling or carry forward mistake	Adjust the cash difference on the date you discover it. Give reference of the original total. Also go back to the original total and make a note there: 'difference adjusted on page ___'
Made an entry on the wrong side (receipt instead of payment or vice versa)	Enter double the amount on the correct side. Give reference of the original entry. Also go back to the original entry and make a note there: 'counter-balancing entry on page ___'

If you follow the above procedure, you won't need to keep eraz-ex in the Accounts Department. There will also be no need for any cuttings or alterations in the cash book.

A related problem is leaving blank lines between entries in the cash book. It is normal practise to leave one blank line between each entry in the cash book. This is done so that each entry is separated. There is no objection to this. But can you leave more than one blank line or blank pages in the cash book?

The answer is no. If more than one line is left blank in the cash book, entries can be inserted afterwards. Similarly if blank pages are left in the middle of the cash book, the cash book can be altered.

A good cash book would therefore look as below:

Receipts			Payments		
Date	Particulars	Amount	Date	Particulars	Amount
4.4.98	Balance b/f	5,680	4.4.98	Sri Venkat Imprest: (FCRA - main) Cash given as rolling imprest	1,000
			10.4.98	Sapling purchase (SIDA) Mango saplings purchased by Sri Venkat from rolling imprest	780
				Total spent	1,780
				Cash in hand c/f	3,900
	Total	5,680		Total	5,680

**Sida requires that:**

- ❑ Cash book entries should not be pending for more than seven days at any point of time.
- ❑ Cash book totals must be inked up by the 7<sup>th</sup> of next month at the latest.
- ❑ Unnecessary blank lines or blank pages should not be left in the cash book.

We also suggest that cuttings and alterations of figures should be avoided.

**g) What about ledgers?**

Similar reasoning applies to ledgers as well. In this case, it is customary to leave one blank line whenever posting for a new month begins. This line is used for totalling up the entries in pencil. The balance is then normally written in the balance column. This balance should also be inked up once the trial balance has tallied.

A good ledger account may look like the one below:

Account of Conveyance Expenses - SIDA						
Date	Particulars	CBF	Debit	Credit	Dr/Cr	Balance
4.4.98	Paid to Ms. Ramawati for March '98		435			
4.4.98	Paid Mr. Venkat for March '98		246			
7.4.98	Local conveyance to Ms. Maya		34			
15.4.98	Hire of rickshaw		110			
20.4.98	Office to station for guest		38		Dr.	863
			863			
3.5.98	Paid to Ms. Ramawati for April '98		220			
6.5.98	Paid Mr. Venkat for April '98		285			
10.5.98	Local conveyance for stationery		24		Dr.	1,392
			529			

**Sida therefore requires that:**

- ❑ Unnecessary blank lines will not be left in the ledger.
- ❑ Ledger balances appearing in the Balance column will be inked up.

Sida also suggests that cuttings and alterations in the ledger should be minimised.