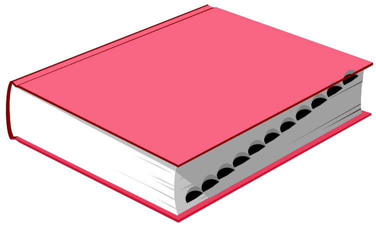
AccountAble™

Your Accounting Policies Issue # 7



Accounting Standard - 1 is compulsory for most Societies / Trusts (NGO's) from Financial Year 93-94 onwards. It covers two matters: Accounting Assumptions and Accounting Policies. What does this mean for your organization?

Accounting Standard[1] - 1

24. All significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed.

25. The disclosure of the significant accounting policies as such should form part of the financial statements and the significant accounting policies should normally be disclosed in one place.

26. Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. In the case of a change in accounting policies which has a material effect in current period, the amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.

27. If the fundamental accounting assumptions, viz. Going Concern, Consistency and Accrual are followed in financial statements specific disclosure is not required. If a fundamental accounting assumption is not followed, the fact should be disclosed.

Accounting Assumptions

The Standard covers three Accounting Assumptions:

- **Going Concern**

It is assumed that the organization will continue working for many years -all assets and liabilities are valued at cost. But if the organization is likely to close down in one or two years, then this assumption can not be followed. In this case, Assets and liabilities should be valued at market value.

- **Consistency**

Same accounting policies should be followed from one year to next.

- **Accrual**

Accrual assumption is generally not being followed by NGO's. Most of the NGO's are maintaining accounts on cash basis. This means that they account for expenses only when payment is made. They do not make provisions for unpaid expenses at the end of the year. This makes it easy to prepare Final Accounts but gives a wrong picture of the actual financial position.

Many auditors have been pointing this out in the audit report. Now all auditors will have to comment on this if the accounts are not made on accrual basis[2]. You are advised to change to Accrual basis of accounting at the earliest to avoid comment in audit report.

[1] Issued by Institute of Chartered Accountants of India
[2] Or the other two assumptions are not followed

Accounting Policies

Different NGO's are following different accounting policies. For example, depreciation is calculated on Straight Line basis or Written Down value basis. Different percentage rates are used for depreciation. Fixed Assets are sometimes recorded at cost less grant. For NGO's running Income Generation projects, different stock valuation methods are used. Grants from donors are sometimes not shown as income. Some of these policies are justified. Others may be considered wrong under law and Generally Accepted Accounting Principles (GAAP). One such example is not showing 'grants' as income.

Now all Accounting Policies (like the above), have to be disclosed. This should be done by attaching a schedule to the accounts "Accounting Policies and Notes on Accounts". All Accounting Policies and clarifications on accounts should be included in this schedule.

If this disclosure is not made, auditors will have to comment on this in their report. If you are following a wrong Accounting Policy[3], they may even have to qualify the audit report.

Suggested Accounting Policies are given below as an example. Please discuss these with your auditors and follow their advice.

Suggested Accounting Policies

Matter	***Suggested Policy***
1. Basis of Accounting	Accounts are maintained on Accrual Basis.
2. Grants Received	All grants received are treated as income and disclosed in Income & Expenditure Account. Provision is created in Accounts for unspent grant balances and shown as a liability in Balance Sheet.
3. Fixed Assets	Grants received for Fixed Assets are transferred to Capital Fund Account. Fixed Assets acquired out of such grants are shown at gross cost of acquisition less accumulated depreciation.
4. Depreciation	Depreciation is charged on Fixed Assets on Written Down Value basis at the rates specified in schedule XIV to the Companies Act, 1956.
5. Inventories	Inventories held for Income Generation Projects are valued at Cost or Net Realizable value, whichever is lower.
6. Investments	Investments are valued at cost. Aggregate market value of quoted investments at year end was Rs............. These investments were purchased for an aggregate cost of Rs..............

Other Accounting Policies may relate to accounting for Community Contribution, Valuing and Recording Donations in Kind, Valuation of liability for Staff Benefits (gratuity, superannuating etc. where relevant).

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[3] Such as not showing 'Grants' as income or recording Fixed Assets at zero value