

AccountAble™

109. Accounting for FC-4

May'17

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FCRA became law in 1976. It called on NGOs to keep separate accounts for foreign contribution, and file reports. Unfortunately, the accounting rules were not clear. Forty years later, some rules remain unclear even under the new version of FCRA 2010. This often makes it difficult to prepare and reconcile FC-4, the annual FCRA return.

This issue of AccountAble tries to explain how FCRA accounting should be done. It also suggests a method to link your account books with FC-4.

BOOKS OF ACCOUNT

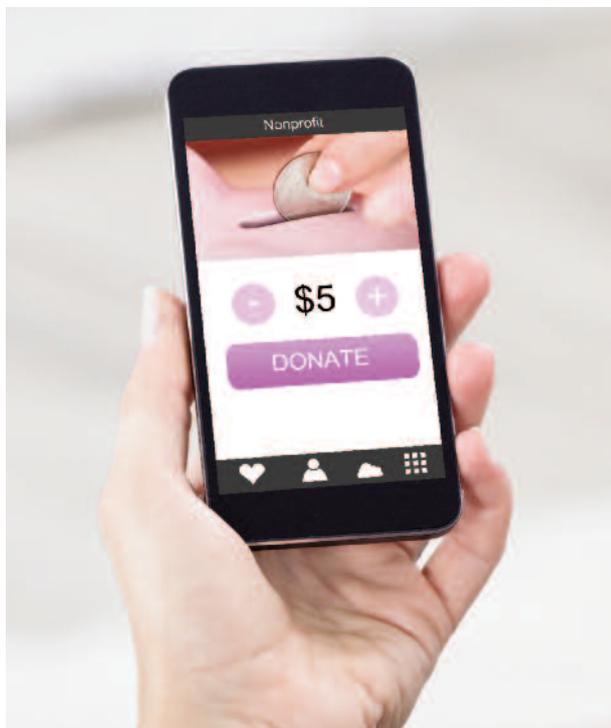
All FCRA accounts and records must be kept separately. You should avoid any transfers or transactions between FCRA and non-FCRA funds.¹ If you keep your accounts in Tally, open separate companies for FCRA and non-FCRA funds.²

Most donors ask for separate accounting for their funds. This should be done by using separate group of accounts within the same Tally company. Alternatively, you can use cost centres to track each donor's funds. Avoid opening project-wise companies in Tally for each donor.

BASIS OF ACCOUNTING

FCRA rules do not say whether you should follow cash basis of accounting or accrual. Therefore, you can keep your accounts on whichever basis you prefer.

Sec. 8 (or sec. 25) companies must always follow accrual basis of accounting. NGOs with income-generating activities (fees, sales, etc.) are also expected to follow accrual basis of accounting.



However, most donor agencies require that you report utilisation of their funds on cash basis. Therefore, if you are following accrual basis of accounting, you should prepare their reports using the Receipts & Payments Account.

BASIS FOR FC-4

FCRA rules call for reporting utilisation of foreign funds. These are silent on whether utilisation should be reported on accrual basis or cash basis.

¹ This can lead to non-FCRA bank accounts also being frozen in case of FCRA suspension.

² Use group company feature to get an overview of both.

Sample Utilisation Worksheet for FCRA Accounting & Reporting

Figures in Rs.

	Cultural	Econ.	Edu.	Social	Admin.	F. Assets	Total
Donor X							
Honorarium - Field Workers					150,000		150,000
Doctors' Fee				120,000			120,000
Rent for Clinics				50,000			50,000
Celebration of Festival	75,000						75,000
Skill Training Program		150,000					150,000
Health Camps				70,000			70,000
Audit Fees					20,000		20,000
Computers						50,000	50,000
Ambulance Purchased						500,000	500,000
Ambulance Running				20,000			20,000
Travel Expenses					60,000		60,000
Total Donor X	75,000	150,000	-	260,000	230,000	550,000	1,265,000
Donor A							
Part honorarium of Executive Director					300,000		300,000
Salaries - Teachers			250,000				250,000
School Rent			60,000				60,000
Office Rent					12,000		12,000
Gandhi Jayanti Celebration				20,000			20,000
Counselling for Students			50,000				50,000
Village Group Meetings				36,000			36,000
PTA Meetings			12,000				12,000
Audit Fees					15,000		15,000
School Building Extension						200,000	200,000
Accountant Salary					60,000		60,000
Electricity for Schools			60,000				60,000
Total Donor A	-	-	432,000	56,000	387,000	200,000	1,075,000
Other donors / interest / own FC funds							
Eye Camps				70,000			70,000
Honorarium to Executive Director					100,000		100,000
Office Rent					30,000		30,000
Travel for GB meetings					20,000		20,000
Audit Fees					25,000		25,000
Laptop						45,000	45,000
Accountant Salary					25,000		25,000
Travel Expenses					70,000		70,000
Total Other Donors / Funds	-	-	-	70,000	270,000	45,000	385,000
Total Utilised	75,000	150,000	432,000	386,000	887,000	795,000	2,725,000

Nevertheless, it appears that FC-4 should be prepared using the Receipts & Payments Account.³ The Receipts & Payments Account is always prepared on cash basis. Therefore, FC-4 would naturally be prepared on cash basis.

FINANCIAL STATEMENTS

Three financial statements must be prepared for FCRA funds separately.⁴ These are:

1. Balance Sheet
2. Income & Expenditure Account
3. Receipts & Payments Account

The Receipts & Payments Account forms the basis of reporting in Form FC-4. This should be prepared by sec. 8 (or sec. 25) companies also.⁵

CHART OF ACCOUNTS

Structuring your chart of accounts is the key to trouble-free financial reporting. There are three different reporting needs that NGOs must satisfy:

1. General Purpose Reporting:

Accountants have long used ledger accounts such as salaries, rent, travel, to track expenditure. These are called natural accounting heads. These are suitable for general purpose reporting. However, these do not meet donor reporting needs.

2. Donor Reporting:

Most donors ask for reports aligned with budget line items. Such reports tend to focus on purpose of expenditure, rather than nature of expense. For example, how much was spent on education, or on administration. In such cases, it is best to use the budget line items as accounting heads, such as 'Education - Salary of Teachers', 'Education - School Rent', 'Administration - Office Rent', etc.

3. FCRA Reporting:

In the past FCRA Department asked for utilisation

figures broken down under 50+ heads. This has now been brought down to just five purposes, in addition to reporting for administration and fixed assets:

- Cultural
- Religious
- Economic
- Educational
- Social
- Administration Expenses (per rule 5)
- Fixed Assets



³ The FCRA tracking mechanism focuses on receipts and on unspent foreign contribution. The audit certificate with FC-4 also emphasises receipt of funds. The auditor is required to certify the Balance Sheet and the Receipts & Payments Account only. The Income & Expenditure Account is not even mentioned in the audit certificate.

⁴ These are different from consolidated financial statements for general purpose reporting and for tax returns.

⁵ In addition to a Cash Flow Statement (compulsory) under Companies Act, 2013. A Cash Flow Statement is *not a substitute* for Receipts & Payments Account.

The above classification is simple where each donor is funding only one type of activity. However, donors often give funds for multiple purposes. How does one track and compile such expenses?

One method is to continue doing your accounting in the normal way under budget heads. At the end of the year, these can be tabulated to derive FC-4 reporting figures. A sample table is given on second page. You can also download the template for this table from www.accountaid.net.

NO ROOM FOR ERROR

There is no facility for filing a revised FC-4. Therefore please match the figures of utilisation carefully with your audited FCRA Receipts & Payments Account⁶ and with CA certificate. Our next issue, Accountable 110, explains how to reconcile your FC-4 with your books before filing it.

⁶ Form FC-4 should be filled using figures of FC Receipts & Payments Account and Balance Sheet. Ignore the figures given in FC Income & Expenditure Account.

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