

# AccountAble

Contribution in Kind

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Many NGOs, including funding agencies, receive a large amount of donations or support in the form of goods or services. These are seldom

## *In cash or in Kind*

Suppose you are building a school for the village. The villagers agree to donate some money and materials. They also agree to put in some labor as *shram-dan*. You issue receipts for whatever money is raised. But the value of labor and materials given by the community is much more. This is sometimes known as 'Contribution in Kind'. Should you account for this also?

If you do not account for these goods and services, the following happens:

- Your accounts show a lower value of the school building - which is not the real value;
- The community's *economic* participation is not reflected in your Income & Expenditure Account or ledger books.

- In the long run, it becomes difficult to have proper internal control over goods received from the community. This may lead to pilferage or wastage.

Contribution in Kind occurs in many forms. Just a few examples are:

- Lunch provided by villagers during a community function;
- One day's free labor in digging a pond or well;
- Allowing free use of tractor-trolley for carrying stone etc.;
- Free saplings during tree plantation;
- Allowing free use of personal shed for school / meetings;

Most field level NGOs are not accounting for these. In some cases, they show receipt of money when actually they have received items or services. Then they show payments out of this money - which had not been received to begin with! This kind of transactions result in questions and doubt.



**Donated Goods or services:  
Headache for Accountants!**

accounted.

How can we value and account for these in our books?

There is another way to account for these properly. This involves passing entries for the *items or services* actually received. This is internationally accepted and will solve a lot of problems faced in reflecting 'local contribution'. Many funding agencies insist that there should be some local contribution in any project budget. Accounting for these materials or services will also make it easier for you to demonstrate the economic value of local contribution.

If you decide to account for local contribution in kind, you will need answers to the following questions:

1. How to estimate the money value of the material or services received;
2. What kind of vouchers/ receipts will be needed;
3. How to pass accounting entries;
4. What kind of disclosure to make in Final Accounts.

Apart from this, you may wish to keep simple stock records (or value un-utilized contribution at the year-end as stock-in-hand). However, this paper deals only with the four questions listed above.

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## *Estimating Values*

The main problem with 'Contribution in Kind' is estimating its value. Accountants are comfortable with clear-cut money figures. Estimating the value of goods or services is likely to give them a head-ache or a nightmare. Some practical suggestions are given below:

- Account only for large value items/ services. For example, it will be difficult to pass an entry every time a person donates ten nails worth Rs.5.
- Account only for those items/ services which have a ready market value. It will be difficult to estimate the value of customary hospitality or sleeping space in the village at night.
- Have a clear basis for valuing the items/ services. Show this basis on the voucher also.
- Do not account for items/ services where there may be serious dispute about estimating the value.

**Lower Wages:** Often the villagers agree to work for lower wages per day. For example, for deepening a village pond, they may agree to work at Rs.20 per day. The local contractor may be paying Rs. 25 per day for road-repair. Can we say here that Rs.5 per day is the community contribution? It can be argued that the villagers may have agreed to accept lower wages because they feel motivated to work for the village.

However, it can also be argued that the villagers may have agreed to work for lower wages because, they will not have walk far to road-repair site. Or they may have accepted lower wages because they will get regular work. Or they may think that deepening a pond is easier than repairing a road.

It can be seen that this is not a clear case of 'Contribution in Kind'. Accounting for Rs.5 per day as 'Local Contribution will give rise to such doubts and arguments. Therefore it would be best not to account for this.

Some other cases are illustrated below:

Free item/ service	How to value
<b>Manual Labor/ <i>Shram-dan</i></b>	At local wage rate per day
<b>Wheat/ rice/ seed</b>	At local market price
<b>Lunch for participants</b>	At the local meal price at a shop
<b>Bricks, stone, old wood, bamboos</b>	At local market price
<b>Use of tractor trolley (without diesel)</b>	At local hire charges for tractor trolley
<b>Use of bullock cart</b>	At common hire charges
<b>Livestock (goats, kid/ calf, pigs etc.)</b>	At local market price
<b>Land</b>	At estimated market value
<b>Services of professionals</b>	At normal fees of such person
<b>Regular use of room for office</b>	At local rent for similar room
<b>Participation in <i>pad-yatra</i></b>	No market value; do not account

***Do not account for items/ services where there may be serious dispute about estimating the value.***



## Accounting Entries

Accounting for 'Contribution in Kind' is easy if you use a double entry voucher (see *AccountAid Kit # 4: The New Voucher*).

Account Head	Amount
Dr. School Building	370
Total	370
Cr. Cont. in Kind: Items	300
Cr. Cont. in Kind: Services	70
Total	370

For the case shown below (Mr. Shamoo), you can prepare the voucher shown alongside. Attach one copy of the Acknowledgment to this voucher as support.

If you keep a journal, you can pass this entry through the journal. You will then post all three amounts to the respective account-heads. If your accounts are computerized, then you can use the journal entry facility.

If you do not maintain a journal, you can pass this entry through the cash book

Receipts		Cash Book		Payments	
Date	Description	Amount	Date	Description	Amount
17.12	Cont. in Kind: Items A/c	300	17.12	School Building A/c	370
17.12	Cont. in Kind: Services A/c	70			

also. After making the entry, your cash book will look like the one shown alongside.

These entries can be posted to respective

ledger heads in the usual manner.

**Acknowledgment:** You will also need an Acknowledgment form (see below). This can be printed and bound like a Cash Receipt book. The Cash Receipt is used for cash / cheques etc. The Acknowledgment form will be used for items/ services. In other respects, it is similar to the Cash Receipt and can be bilingual.

It will not be necessary to account for all the acknowledgments which are issued. In some cases, the accountant may find that the amount is too small. Or it may be difficult to value the items (see page 2). In such cases, a particular acknowledgment may not be valued and accounted. But the reason for this should be recorded on the third copy of the acknowledgment.

The number/ date of the accounting voucher should also be put on the third copy of the acknowledgment. This will help you cross-link the entries and make the auditors' job easier.

First copy: Give this to the Donor as a receipt.

Lok Jagran Manch, Machhera, AP

### Acknowledgment

Date 17 Dec. '96

No. 118

Received with thanks, from ~~Ms.~~ / Mr. Shamoo s/o Sri Kaloo Prasad of (address) Village Machhera the following services /material as donation:

Occasion / Event / Purpose: School construction at Machhera

S. No.	Description	Quantity	Rate	Value (Rs.)
1.	Labor for two days (15,16 Dec.)	2 days	35	70
2.	Old roof tiles	50 pcs.	2	100
3.	Wooden beam (8 ft.)	1 pc.	200	200
<b>Total</b>				<b>370</b>

Estimated value of Donation: Rupees Three hundred and seventy only

Received by  
Vijay Kumar

Donor  
Kkeea

Secretary / Treasurer

Second copy: attach this to your accounts voucher as support.

Third copy: this can remain in the Acknowledgment book

## Balance Sheet Disclosure

If you account for contribution in kind, then you need to disclose this in your Income & Expenditure Account (*see example*):

In addition, you should give the following notes as part of your final audited accounts:

**“Accounting Policies:** Contribution received in Kind, whether items or services, is accounted at estimated values. However, only those materials or services are valued and accounted which are:

- material (large value) in amount;
- which have a ready market and would have been otherwise purchased for money; and,
- which can be valued on a reasonable basis.

Materials or services for which a lower price has been paid are not treated as contribution in kind.

**Contribution in Kind:** During the year 96-97, items and services worth a total of Rs.63,810 were received as contribution in kind (*see Income & Expenditure Account*). These were utilized as below:

- Construction of village school sheds Rs. 23,250
- Deepening of Ponds Rs. 30,360
- Training Camps Rs. 10,200

The above have been accounted as expenditure in the Income & Expenditure or as assets in the Balance Sheet, as appropriate.”

The above form of disclosure is given as a suggestion. Your auditors can help you choose suitable wording for the notes in your case. For example, the following notes appear in the audited Balance Sheet of an international funding agency:

**“Donated Materials & Services:** Donated materials and equipment, if material, are reflected as contribution in the accompanying statements at their estimated values on the date of receipt. Donated services, if material, are recorded when the following criteria are met: the services performed are a normal part of the program or supporting services and would otherwise be performed by salaried personnel; the corporation exercises control over the employment and duties of the donors of the services; and the Corporation has a clearly measurable basis for determining the amount. Certain amounts have been reflected in the financial statements for donated services; however, a substantial number of volunteers, for which no amount has been reflected in the accompanying financial statements, have donated significant amounts of their time in furtherance of the Corporation’s objectives and program services.

**Donated services:** During the year ended \_\_\_\_\_, 1995, the managers of the Corporation donated two weeks of their time to the Corporation. The value of this donation was \$ \_\_\_\_\_ and has been reflected as both contributions and salaries expense in the accompanying statement of functional expenses.”

Income & Expenditure Account for year ended 31st March 1997			
Expenditure		Income	
Deepening of Ponds	129,350	Contribution in Kind:	
Teachers’ Salaries	87,470	- As Materials	29,360
Training Camps	93,810	- As services	34,450



Your auditors can help you choose suitable wording for the notes in your case.

We would welcome your views, comments and questions on this circular. Please send these to:

**AccountAid India**

55-B, Pocket C, Siddharth Extension,  
New Delhi -110 014

Phone: 011-2634 3128; Ph./Fax: 2634 6041

e-mail: [accountaid@vsnl.com](mailto:accountaid@vsnl.com); [accountaid@gmail.com](mailto:accountaid@gmail.com)

