

## **BOOKS OF ACCOUNTS & METHOD OF ACCOUNTING**

### **Accounting for foreign contribution received in kind**

As per rule 8(1)(a), account has to be maintained for foreign contribution received in kind. Form FC-6 provided the format and the manner in which the receipt as well as the utilisation of contributions received in kind. The entries made in FC-6 should correspond with entries made in Form FC-3.

Maintenance of form FC-6 - An organisation may keep the Form FC-6 in a book form. Form FC-6 requires the following information to be recorded in case of receipt :

- (i) Date
- (ii) Name and Address of the Donor
- (iii) Mode of receipt
- (iv) Purpose of receipt
- (v) Quantity received
- (vi) Approximate value
- (vii) Date of intimation send to Central Government

Recording of specified information - With regard to utilisation and disposal of contributions received in kind, Form FC-6 requires the following information to be recorded :

- (i) Date
- (ii) Name and Address of the Donee
- (iii) Purpose
- (iv) Quantity utilised by the organisation
- (v) Quantity sold
- (vi) Quantity otherwise transferred
- (vii) Quantity, if sold, the amount for which sold
- (viii) Reference to entry in FCRA account
- (ix) Quantity in stock

It may be noted that it is not necessary to file Form FC-6 with FCRA return in Form FC-3. In case when article is sold and some revenue is generated in Indian currency, such amount should be shown as receipt in Form FC-3 as well as the FCRA cash book.

Approximate value of Contribution received in kind :- Form FC-6 is like a stock register, where the receipt movement and closing balance of all goods received in kinds are maintained in quantitative term. But, column-6, of the Form requires approximate value of the goods to be specified.

In this context, it may be further noted that, the approximate or the estimated value of contribution received in kind is required to be reported in Form FC-3, column 6&8. Therefore, for reporting purposes of contribution received in kind, column 6 & 8 of the Form FC-3 are relevant and Form FC-6 is just a format for preparing the books of accounts with regard to contribution received in kind.

## **Does FCRA prescribe 'Cash Basis' of method of accounting**

There is a commonly prevailing understanding that FCRA prescribes 'Cash Basis' of method of accounting. Such presumption has resulted due to the requirement of furnishing receipt and payment account along with Form FC-3 as per Rule 8(2). But, there is no specific mention of the method of accounting to be followed by the organisation for FCRA purposes. Section 13, talks about the maintenance of accounts, but there is no reference to the method of accounting to be followed by the organisation. The text of section 13 is reproduced as under:

“Recipients of foreign contribution to maintain accounts etc.

very association, referred to in section 6, shall maintain, in such form and in such manner as may be prescribed,-

- (a) an account of any foreign contribution received by it, and
- (b) a record as to the manner in which such contribution has been utilised by it.

s it is evident from Section 13 that no specific method of accounting has been prescribed. But the intent and requirement of FCRA in this regard are to some extent clarified in Rule 8 of FCR Rules, 1976. The text of Rule 8 is reproduced as under:

### **“Maintenance of Accounts-**

(1) separate set of accounts and records shall be maintained, exclusively for foreign contribution received and utilised-

(a) In Form FC-6, where the foreign contribution relates only to articles as referred to in item (I) of sub-clause(c) of clause (1) of section 2;

(b) In the cashbook and ledger account on double entry basis, where the foreign contribution relates to currency received and utilised, and a separate bank account shall be maintained in respect of such contribution;

(c) In Form FC-7, where the foreign contribution relates to foreign securities.

(2) Every account specified in sub-rule (1) shall be maintained on an yearly basis, commencing on the 1st day of April each year and every such yearly account, duly certified by a chartered accountant in Form FC-3 along with a Balance Sheet and statement of Receipts and Payments, shall be furnished, in duplicate, to the Secretary to the Government of India, in the Ministry of Home Affairs, New Delhi, within four months of the closure of the year”.

From the above, it can be seen that as per Rule 8(1)(b), all organisations are required to maintain separate books of account for foreign contribution received and utilised. The books of accounts required are ledger and cash book maintained on the principles of double entry. Further Rule 8(2), specifies that Balance Sheet and Receipts & Payments Account should be submitted. There is no mention of the specific method of accounting to be followed by the organisation.

## **Press note issued by Central Government**

The Ministry of Home Affairs (FCRA division) issued a press note dated 09.01.98, where some clarification with regard to books of account and annual return are given. Press Note issued by The Ministry of Home Affairs has been annexed in Annexure 10.1. The relevant extract of the press note is as under :

“You must maintain a separate set of accounts and records exclusively meant for the foreign contribution received and utilized by you as indicated below :

(a) in Form FC-6, where the foreign contribution is in the form of an article.

(b) in the cash book and ledger account on double entry basis, receipt and utilization, where the foreign contribution is in the form of currency, (a separate Bank account is also to be maintained in respect of such foreign contribution); and

(c) in Form-7, where the foreign contribution is in the form of foreign securities. Every account, as indicated above, must be maintained on an yearly basis, commencing on the 1st day of April each year. Every yearly account, duly certified by a Chartered Accountant, in Form FC-3, along with a balance sheet and a statement of receipt and payment, must be furnished, in duplicate, to the Secretary to the Govt. of India, in the Ministry of Home Affairs, FCRA Division, Lok Nayak Bhavan, New Delhi-110003 by 31st July of the succeeding year.”

In the light of Section 13, Rule 8 and press note dated 09.01.98, it seems that FCRA require maintenance of separate cash book and ledger on double entry basis for the receipt and utilisation of foreign funds. None of the above three legislations specify the method of accounting to be followed.

Should one shift from ‘Accrual’ to ‘Cash Basis’ after FCRA registration

It has to be appreciated that books of account and method of accounting is not a post FCRA registration phenomenon. An organisation applying for FCRA registration is expected to have domestic transaction. And it is also expected to maintain books of account on the basis of permissible methods of accounting. Suppose an organisation prior to FCRA registration is following ‘Accrual Basis’ of accounting, will FCRA registration imply shift to ‘Cash Basis’ of accounting specifically for FCRA purpose? In our opinion, there is nothing in FCR Act or Rules to suggest that an organisation has to maintain books of account for Cash Basis Only. The FCRA is completely non-interfering in this regard. But as far as reporting requirements are concerned FCRA is very clear about submission of receipt and payment account and Form FC-3. The Form FC-3 should be on the basis of actual receipt and utilisation thereof. It is very clear that the FCR Act and Rules require detailed submission of FC receipt and payment during the year, irrespective of the method of accounting. Therefore, organisation following Accrual Basis of accounting can continue with the same method of accounting

The legal intent of FCRA could not have been against Accrual Basis of accounting. The very fact that the FCR Rules require the submission of the Receipts & Payments Account, itself signifies that both the method of accounting are permissible. Because specific mention of Receipts & Payments Account becomes relevant only when an organisation follows Accrual Basis of accounting otherwise for an organisation following Cash Basis of accounting, even the Income &

Expenditure Account is like a Receipts & Payments Account, particularly in case of NGOs where capital expenditure are also advisable.

### **Does FC-3 necessitate 'Cash Basis' of accounting**

From the reporting requirement of FCRA, it is evident that the authorities are interested in the actual receipts and utilisation of FCRA funds. If we see the Form FC-3, we find that the reporting is to be made for the receipts and utilisation of FC. FCRA also requires submission of receipt and payment account along with FC-3 return. The intent of FCRA is very clear that it wants the organisation to report all the FC transactions on cash basis. In other words, the organisation should report the actual receipt and payment of foreign funds during the previous year irrespective of the method of accounting followed. The organisation which are following accrual basis of accounting should not prepare the FC-3 statement on the basis of their income and expenditure account. The FC-3 return should be based on the receipt and payment account. As long as the organisation is complying with the reporting requirements of FCRA, it does not seem necessary to change the method of accounting only for the purposes of FCRA.

### **Concluding remark**

In the light of the above discussions, we believe that there is no necessity to deviate from normal method of accounting for FCRA purposes. Only care which should be taken is that, separate books of accounts for FC should be maintained and the organisation should be in a position to provide the details of all the FC and the utilisation of such FC during the previous year. Further, the organisation should also produce a receipt and payment account. The remaining statements such as income and expenditure account, Balance Sheet, may be prepared both for FC and domestic purposes separately on the basis of method of accounting followed by that organisation. The FC-3 return should be based on the receipt and payment account, in other words, for reporting purposes the computation of FC receipts and utilisation should be done on cash basis only.

### **Overall Summary**

To sum up the discussions :

- (i) All associations, which have received foreign contributions are required to maintain separate books of accounts
- (ii) FCRA specifies that the books of account should be maintained on the principles of double-entry book keeping on yearly basis from 1st April to 31st March of the year.
- (iii) Every year Balance Sheet and Receipts and Payments accounts are required to be prepared and certified by a Chartered Accountant
- (iv) Record of contribution received in kind is required to be maintained as per Proforma provided in FC-6
- (v) Where organisation has received foreign securities, Form FC-7 is required to be followed to maintain the records of such securities

(vi) It may be noted that separate books of accounts specifically for foreign contribution are required to be maintained.

(vii) Under no circumstances, domestic contributions should be mixed up with foreign contributions

(viii) In case of contributions received in kind, the approximate value is required to be mentioned in Form 6 and is also required to be reported in Form FC-3

(ix) FCRA does not specifically prescribe any method of accounting. Therefore, an organisation should continue to maintain its account on the method of accounting it has been following prior to FCRA registration

(x) The FC-3 statement should be prepared on cash basis, based upon the receipt and payment account.

### **Annexure 10.1**

Press note, dated 09.01.1998

issued by Government of India, Ministry of Home Affairs,

Foreign Contribution and (Regulation) Act, 1976 and Rules Framed there under

1. Associations registered/permitted to accept foreign contribution.
2. Chartered Accountants.

1. All associations registered / permitted to accept foreign contribution are reminded that they are required to submit an annual return in the revised Form FC-3. This includes details of the amount of foreign contribution received by them during the year, its source, the manner of its receipt, its purpose and the manner in which it was utilized by them. The annual returns for the year 1997-98 must be submitted by 31-07-1998. Please note that if even no foreign contribution was received by you during the year, it is mandatory to file a 'Nil' return.

2. You must maintain a separate set of accounts and records exclusively meant for the foreign contribution received and utilized by you as indicated below :

(a) in Form FC-6, where the foreign contribution is in the form of an article.

(b) in the cash book and ledger account on double entry basis, receipt and utilization, where the foreign contribution is in the form of currency, (a separate Bank account is also to be maintained in respect of such foreign contribution); and

(c) in Form-7, where the foreign contribution is in the form of foreign securities.

Every account, as indicated above, must be maintained on an yearly basis, commencing on the 1st day of April each year. Every yearly account, duly certified by a Chartered Accountant, in Form FC-3, along with a balance sheet and a statement of receipt and

payment, must be furnished, in duplicate, to the Secretary to the Govt. of India, in the Ministry of Home Affairs, FCRA Division, Lok Nayak Bhavan, New Delhi-110003 by 31st July of the succeeding year.

3. Chartered Accountants, before certifying the accounts in Form FC-3, must ensure that these have been prepared in accordance with the provisions contained in the Foreign Contribution (Regulation) Act, 1976 and the Rules framed thereunder.

4. Non-submission of the return in time; furnishing of false information; mis-utilisation or diversion of foreign contribution for purposes other than those for which such contribution was received; transfer of contribution to any other organisation who have not been permitted to receive foreign contribution either by way of registration or prior permission, constitute a violation of the provisions of the Act and attract penal action.