

Background Paper

For

Accounting & Auditing Aspects

Seminar on Audit & Taxation of Charitable Organisations

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The origin gives us better perspective

The words 'Philanthropy' and "Charity" are used interchangeably. Social scientists opine 'Charity' which involves alms giving generally addresses the symptoms while Philanthropy defined as love of mankind tends to strike the root of various issues facing society. This is reflected in the adage "You give fish to a poor man you have done charity. You teach him to fish, that is philanthropy".

One of the oldest record of "giving" is in 'The Book of the Dead' which is the chief monument of religious literature of Egypt, which was from 4000 BC. It says, "I have given bread to the hungry man and water to him that was athirst and apparel to the naked man and a ferry boat to him that had no boat. I have made propitiatory offerings and given cakes to Gods....."

In India, feeding the cow, the dog and the Brahmin was practically a routine. Rig Veda has devoted a Chapter to charity where Charity is divided into three classes – Satvik, Rajasi and Tamasi (1180 AD)

The Zoroastrian religion is not a religion in the sense commonly understood. It is a scientific and rational explanation of existence of reality as a whole, of man's place in it, his duties while in this life and the high Destiny which he can achieve by establishing his conduct in accordance with Eternal and Immutable Law of Nature which Zaustra called the Law of Asha. Five things were considered worthy of merit (1) Truthfulness (2) **Charity** (3) Skill (4) Endeavour and (5) **Giving encouragement to others in good deeds.**

Happiness comes to him who seeks happiness for others
(Yasna 43.1)

AS 12 Accounting for Government Grants

Presentation of Grants Related to Revenue

Grants related to revenue are sometimes presented as a credit in the profit and loss statement either separately or under a general heading such as "Other Income". Alternatively they are deducted in reporting the related expense.

Recommended method will be to show it as Income as well as expense.

Assume a trust running a school. The grant for teachers should be shown gross as income and the salary paid as expense. Since the salary paid will equal to the grant, either should not matter is what one feels. However, there is impact on Income tax savings. 85% of the total income needs to be utilised for the objects of the trust or the balance will be taxed. So, if the trust reflects the gross grant on the income side, the savings permitted under the Income Tax Act will be higher.

Sale or Lease of a Trust's Immovable Property

According to section 36(1) of the Bombay Public Trust Act 1950 (Now renamed as Maharashtra Public Trust Act 1950)

- a. No sale, exchange or gift of any immovable property and
- b. No lease for a period exceeding ten years in case of agricultural land or for a period exceeding three years in case of non-agricultural land or a building belonging to a public trust

Shall be valid without the previous sanction of the Charity Commissioner.

Foreign Contribution (Regulation) Act 1976

Maintenance of Accounts

According to Section 13 of the Act, every Association referred to in in Section 6 shall maintain in the prescribed form and manner

1. An account of any foreign contributions received by it and
2. A record as to the manner in which such contribution has been utilized by it.

Rule 9(b) of the Foreign Contribution (regulation) Rules provides that a separate set of books of accounts and record shall be maintained exclusively for the foreign contribution received and utilized, in the cash book and ledger on double entry basis, where the foreign contribution relates to currency received and utilized, and a separated Bank account shall be maintained in respect of such contributions.

Format of Audit Report

Report of an auditor relating to
under sub-section (2) of section 13
rule 19 of the Bombay Public Trusts Act, 1950

Registration No. _____

Name of the Public Trust _____

For the year ending _____

- (a) Whether accounts are maintained regularly and in accordance with the provisions of the Act and the rules ;
- (b) Whether receipts and disbursements are properly and correctly shown in the accounts ;
- (c) Whether the cash balance and vouchers in the custody of the manager or trustee on the date of audit were in agreement with the accounts ;
- (d) Whether all books, deeds, accounts, vouchers or other documents or records required by the auditor were produced before him ;
- (e) Whether a register of movable and immovable properties is properly maintained, the changes therein are communicated from time to time to the regional office, and the defects and inaccuracies mentioned in the previous audit report have been duly complied with ;
- (f) Whether the manager or trustee or any other person required by the auditor to appear before him did so and furnished the necessary information required by him ;
- (g) Whether any property or funds of the Trust were applied for any object or purpose other than the object or purpose of the Trust ;
- (h) The amounts of outstandings for more than one year and the amounts written off, if any ;
- (i) Whether tenders were invited for repairs or construction involving expenditure exceeding Rs. 5,000/- ;
- (j) Whether any money of the public trust has been invested contrary to the provisions of Section 35 ;
- (k) Alienations, if any, of the immovable property contrary to the provisions of Section 36 which have come to the notice of the auditor ;
- (l) All cases of irregular, illegal or improper expenditure, or failure or omission to recover monies or other property belonging to the public trust or of loss or waste of money or other property thereof, and whether such expenditure, failure, omission, loss or waste was caused in consequence of breach of trust or misapplication or any other misconduct on the part of the trustees or any other person while in the management of the trust ;
- (m) Whether the budget has been filed in the form provided by rule 16A ;
- (n) Whether the maximum and minimum number of the trustees is maintained ;
- (o) Whether the meetings are held regularly as provided in such instrument ;
- (p) Whether the minute books of the proceedings of the meeting is maintained ;
- (q) Whether any of the trustees has any interest in the investment of the trust ;
- (r) Whether any of the trustees is a debtor or creditor of the trust ;
- (s) Whether the irregularities pointed out by the auditors in the accounts of the previous year have been duly complied with by the trustees during the period of audit ;
- (t) Any special matter which the auditor may think fit or necessary to bring to the notice of the Deputy or Assistant Charity Commissioner.

Expenditure side of Income and Expenditure Account

The Bombay Public Trusts Act, 1950

Name of the Public Trust _____

Income and Expenditure Account for the year ending _____

EXPENDITURE			
To	Expenditure in respect of properties :-		
	Rates, Taxes, Cesses	..	..
	Repairs and maintenance	..	..
	Salaries	..	..
	Insurance	..	..
	Depreciation (by way of provision of adjustments)		..
	Other Expenses	..	..
To	Establishment Expenses	..	..
To	Remuneration to Trustees	..	..
To	Remuneration (in the case of a math) to the head of the math, including his household expenditure, if any	..	
To	Legal Expenses	..	..
To	Audit Fees	..	..
To	Contribution and Fees	..	..
To	Amount written off :		
	(a) Bad Debts	..	..
	(b) Loan Scholarship	..	..
	(c) Irrecoverable Rents	..	..
	(d) Other Items	..	..
To	Miscellaneous Expenses	..	..
To	Depreciation	..	..
To	Amount transferred to Reserve or Specific Funds	..	..
To	Expenditure on Objects of the Trust	..	..
	(a) Religious	..	..
	(b) Educational	..	..
	(c) Medical Relief	..	..
	(d) Relief of Poverty	..	..
	(e) Other Charitable Objects	..	..
To	Surplus carried over to Balance Sheet	..	..
			Total Rs.....

Income side of Income and Expenditure Account

Rule 17 (1)] Reg

INCOME			
By Rent	(accrued)	†	.. .. .
	(realised)		.. .. .
By Interest	(accrued)	†	.. .. .
	(realised)		.. .. .
On Securities			.. .. .
On Loans			.. .. .
On Bank Account			.. .. .
By Dividend			.. .. .
By Donations in Cash or Kind			.. .. .
By Grants			.. .. .
By Income from other sources (in details as far as possible)			.. .. .
By Transfer from Reserve			.. .. .
By Deficit carried over to Balance Sheet			.. .. .
Total Rs.....			

Liability Side of Balance Sheet

Name of the Public Trust _____			
Balance Sheet As At _____			
FUNDS & LIABILITIES			
Trusts Funds or Corpus :-			
Balance as per last Balance Sheet	..	..
Adjustment during the year (give details)	..	..
Other Earmarked Funds :-			
(Created under the provisions of the trust deed or scheme or out of the Income)			
Depreciation Fund	..	..	..
Sinking Fund	..	..	..
Reserve Fund	..	..	..
Any other Fund	..	..	..
Loans (Secured or Unsecured) :-			
From Trustees	..	..	..
From Others	..	..	..
Liabilities :-			
For Expenses	..	..	..
For Advances	..	..	..
For Rent and Other Deposits	..	..	..
For Sundry Credit Balances	..	..	..
Income and Expenditure Account :-			
Balance as per last Balance Sheet	..	..
Less : Appropriation, if any	..	..
<u>Add : Surplus</u> as per Income and			
Less : Deficit Expenditure Account	..	..
			Total Rs...

Asset Side of the Balance Sheet

PROPERTY AND ASSETS	
Immovable Properties :- (At Cost)	
Balance as per last Balance Sheet	.. ..
Additions during the year	.. ..
Less : Sales during the year	.. ..
Depreciation up to date	.. ..
Investments :-	
Note : The market value of the above investments	
is Rs.	
Furniture & Fixtures :-	
Balance as per last Balance Sheet	.. ..
Additions during the year	.. ..
Less : Sales during the year	.. ..
Depreciation up to date	.. ..
Loans (Secured or Unsecured) : Good / doubtful	
Loans Scholarships	.. ..
Other Loans	.. ..
Advances :-	
To Trustees	.. ..
To Employees	.. ..
To Contractors	.. ..
To Lawyers	.. ..
To Others	.. ..
† Income Outstanding :-	
Rent	.. ..
Interest	.. ..
Other Income	.. ..
Cash and Bank Balances :-	
(a) In Current Account with ..	.. ..
In Fixed Deposit Account with	.. ..
(b) With the Trustee	.. ..
(c) With the manager	.. ..
Income and Expenditure Account :-	
Balance as per Balance Sheet	.. ..
Less : Appropriation, if any	.. ..
Add : Deficit as per Income and	.. ..
Less : Surplus Expenditure Account	.. ..
Total Rs.....	
† Income Outstanding :	
(If accounts are kept on cash basis)	
Rent :	
Interest :	
Other Income :	
TOTAL Rs. :	
	The above Balance Sheet to the
	of the Funds and Liabilities and
	Dated at _____

Calculation of Contribution to Charity Commissioner

The Bombay Public Trusts
SCHEDULE - IX
(Vide Rule 32)

Statement of income liable to contribution for the year ending _____

Name of Public Trust : _____

Registered No. _____

	Rs.	P.	Rs.
I. Income as shown in the Income and Expenditure Account (Schedule IX)			
II. Items not chargeable to Contribution under Section 58 and Rules 32 :			
(i) Donations received from other Public Trusts and Dharmadas			
(ii) Grants received from Government and Local authorities			
(iii) Interest on Sinking or Depreciation Fund ...			
(iv) Amount spent for the purpose of secular education			
(v) Amount spent for the purpose of medical relief			
(vi) Amount spent for the purpose of veterinary treatment of animals			
(vii) Expenditure incurred from donations for relief of distress caused by scarcity, drought, flood, fire or other natural calamity			
(viii) Deductions out of income from lands used for agricultural purposes :-			
(a) Land Revenue and Local Fund Cess ...			
(b) Rent payable to superior landlord ...			
(c) Cost of production, if lands are cultivated by trust			
(ix) Deductions out of income from lands used for non-agricultural purposes :-			
(a) Assessment, cesses and other Government or Municipal Taxes			
(b) Ground rent payable to the superior landlord			
(c) Insurance premia			
(d) Repairs at 10 per cent of gross rent of building			
(e) Cost of collection at 4 per cent of gross rent of buildings let out			
(x) Cost of collection of income or receipts from securities, stocks, etc. at 1 per cent of such income ...			
(xi) Deductions on account of repairs in respect of buildings not rented and yielding no income, at 10 per cent of the estimated gross annual rent			
Gross Annual Income chargeable to contribution Rs.			

Certified that while claiming deductions admissible under the above Schedule, the Trust has not claimed any amount either wholly or partly, against any of the items mentioned in the Schedule which have the effect of double -

Trust Address :

Dated : _____
Chartered Accountant
Auditor

TAX PRINT, 177, Perin Nariman (Bazargate) St.,
Fort, Mumbai - 1. Phones : 2269 3321 • 2269 5676

Dated : _____
Trustee

(e) Other charitable objects.
 To Surplus carried over to Balance Sheet.

Dated
 Trustee

Total

Total
 As per our report of even date

CHARTERED ACCOUNTANTS
 Auditors.

SCHEDULE IXA

[vide Rule 17]

Statement of income for the year ending.....

Name and registered number of public trust

Income from immovable property					Income from other property including securities (if any)			Total realisation and outstanding				
Particulars of property	Arrears of income at the end of the previous year	Demand of rent fixed for the current year	Amount realised during the year	Arrears outstanding with details of the year to which they belong	Description of property	Arrears of income at the end of the previous year	Amount to be recovered during the current year	Amount realised during the year	Arrears outstanding	Total amount recovered during the year	Total arrears outstanding	Remarks
1	2	3	4	5	6	7	8	9	10	11	12	13

Format for small trusts having gross income less than or equal to Rs. 5000

SCHEDULE-IXB
[vide Rule 17]

Statement of expenditure for the year ending.....

Name and registered number of public trust

Assessment, cesses and other Government dues	Municipal and other taxes	Charges incurred for maintenance and necessary improvement of property including repairs	Remuneration to managers and/or trustees	Pay and allowances of servants	On religious objects	On charitable objects	Miscellaneous expenses (including contribution)	Total expenditure	Total income	Balance	Remarks
1	2	3	4	5	6	7	8	9	10	11	12