



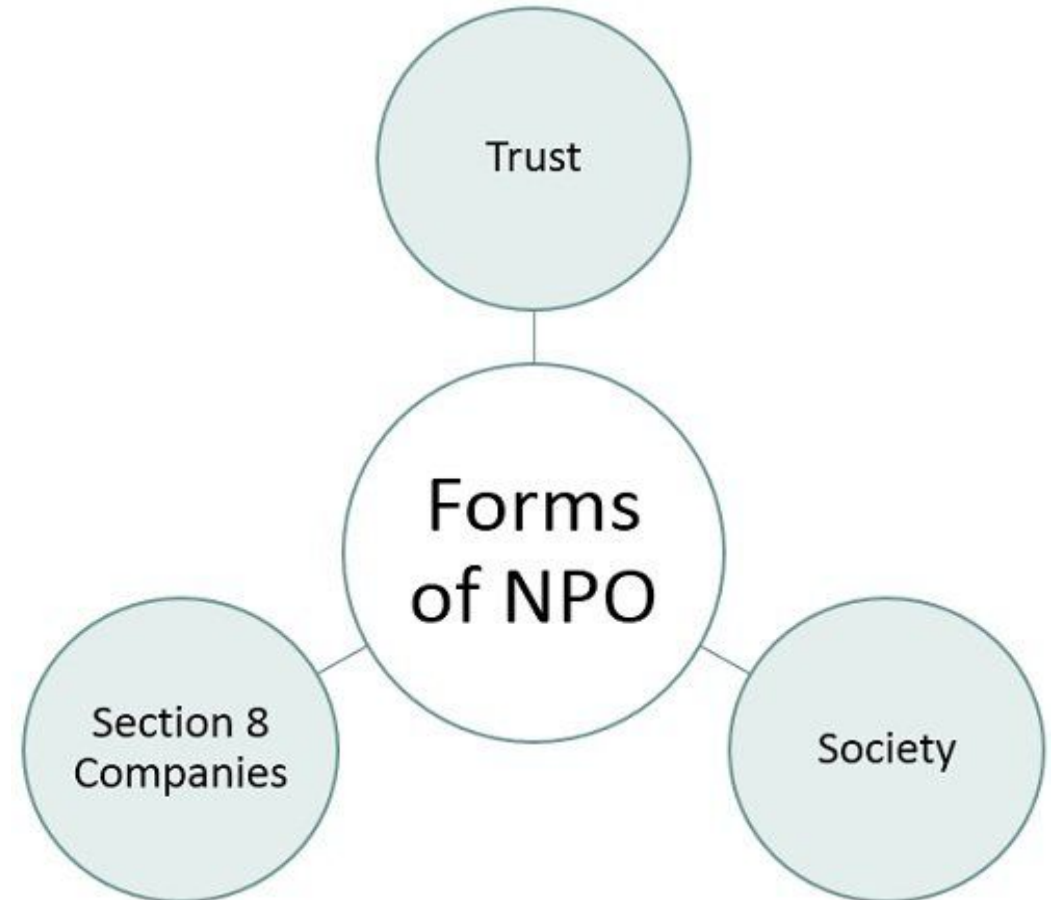
ACCOUNTING PRACTICES FOR NON-PROFITS

Types of NPOs in India

In India, NPOs are also known as Non-Governmental Organizations (NGOs).

NPOs consist of three types:

1. Trusts
2. Societies
3. Section 8, Companies Act



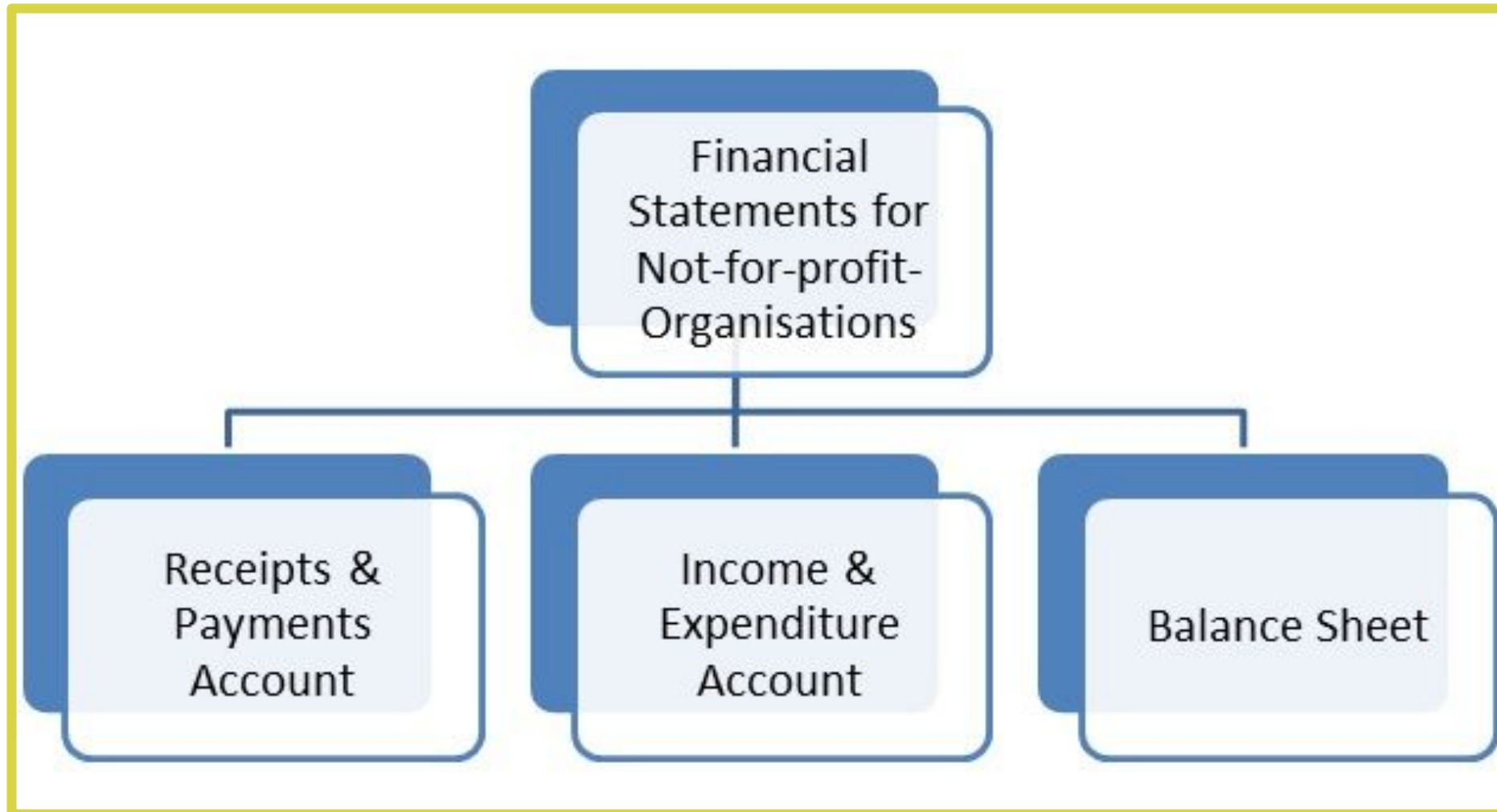


The Following forms of associations may act as an NGO:

- a) A trust of two or more persons as Trustees therein. The Trust may be registered under the Indian Trusts Act, 1982.
- b) A company registered u/s 8 of [Companies Act, 2013](#). Usually clubs, associations of professionals get registered under this provision of the Companies Act.
- c) A society of persons registered under the provisions of the Societies Registration Act, 1860 with the Registrar of the Societies, with aims and objects and a structure as laid down in the said Act.
- d) A statutory body consisting of membership of persons constituted by or under a statute, having a structure as laid down in the statute by which it is constituted.
- e) A charitable trust constituted under the Charitable Endowments Act, 1920.
- f) Any other organization akin to a society.

Thus, an NGO in India can either be registered as a trust, society or as a company under Sec 8. In this document, we have included major laws applicable to NGOs and the related compliances required to be carried out by NGOs.

Accounting for Nonprofit Organization



Receipt and Payment Account

1. It is created at the end of the financial year using cash receipts and cash payments documented in the cash book.
2. It is a concise summary of Cash Book.
3. It starts with the opening balance of money in hand and money at the bank and ends with the year-end balance of cash in hand/cash at the bank.
4. Receipts and payments could be capital or revenue; they may relate to the current, previous, or subsequent year; as long as they are received or paid, they must be recorded in this account.
5. It begins with the opening balance and concludes with the closing balance.
6. It should be acknowledged that this account does not include any non-cash items such as depreciation.

Income and Expenditure Account

- It is a summary of income and expenditure for the fiscal year. It is similar to a profit and loss account prepared on an accounting system in the case of a business organization.
- On the debit side, it documents all losses and expenses, and on the credit side, it documents all income and gains.
- The Income and Expenditure Account only shows the part of revenue income and expenses that correspond to the current financial year.
- It displays the company's net result as a surplus (excess of revenue over spending) or deficit (excess of expenses over earnings), which is transferred to the capital fund shown on the balance sheet.

- 1. 'Not-for-Profit' Balance sheets are prepared by organizations to determine the company's financial position. Their Balance Sheet is prepared in the same manner as business entities.
- 2. It displays assets and liabilities as of the end of the accounting year. The assets can be seen on the right, and the liabilities are seen on the left.
- 3. It is sometimes necessary to prepare a Balance Sheet at the start of the year to identify the opening balance of the capital/general fund.

Balance Sheet



- Bookkeeping for Nonprofit organization.

- A non-profit organization's accounting and bookkeeping are different from those of a for-profit organization.
- The accounting tasks and principles are a bit customized for tracking and analyzing the financial transaction for the non-profit organization.
- NGO is a non-profit making organization so the accounting and bookkeeping requirements are unique.

NGO Accounting

Select an accounting method

A proper bookkeeping depends upon choosing an accounting method for recording inflow and outflow of money.

Just like any business, it needs adequate cash flows to pay for employees' wages, utility bills, rent, etc.

It has sources of revenue such as contributions from the donors, membership fees, etc.

Thus, to account for all the incoming receipts and outgoing payments.

These two methods of accounting are to follow: cash basis of accounting and accrual basis of accounting.

The cash basis works on the actual exchange of cash whereas the accrual basis works on when a transaction occurs irrespective of receipt/payment of cash.

- ✓ Prepare appropriate financial statements
- ✓ A nonprofit accounting also requires them to prepare financial statements to report their finances.
- ✓ There are three main financial statements:
 - ✓ Statement of activities.
 - ✓ Statement of financial position.
 - ✓ Statement of cash flows.

FINANCIAL STATEMENT



Statement of cash flows

- ❑ It helps to track all the cash flows of the organization.
- ❑ It represents the cash generated from the investing, operating, and financing activities.
- ❑ The nonprofit version of the cash flow statement shows the change in the net assets and lists cash flows restricted to certain uses.
- ❑ It will have items such as membership fees, fundraising proceeds, and donor contributions, program fees, etc.



**A CHECK LIST FOR COMPLIANCE OF CSR
ACTIVITIES BY
TRUSTS / NGOS CARRYING OUT CSR ACTIVITIES
ON BEHALF
OF THE COMPANIES**



Sr. no.	Particulars	Reply Yes/No/NA
1	Eligibility criteria:	
	In case of a non government trust:	
1.1	Whether the trust is:	
	a company registered under section 8 of the Act	
	a trust registered under the provisions of a state Act	
	A trust registered under the Society registration Act	
1.2	If yes, whether:	
	the above entity is also registered under the provisions of the Income Tax Act 1961:	
	Under section 12 A	
	Under section 80G	
1.3	Whether new registration obtained under section 12A and section 80G for the accounting period starting on or after 1 st April 2021?	
1.3	In case the trust is not established by the company i.e. a third party trust, whether it has an established track record of at least three years in undertaking similar activities.	
1.4	In case of projects / programmes undertaken after 31 st March 2021, whether the trust is:	



	Registered with the Ministry of Corporate affairs	
	In case of government trusts:	
1.5	Whether the trust is established by any state government or governments or with central Government	
1.6	Whether the trust is established by an act of parliament or a state legislature	
1.7	In case of projects / programmes undertaken after 31 st March 2021, whether the trust is Registered with the Ministry of Corporate affairs:	
2	Implementation of CSR activities:	
2.1	Whether the utilisation of funds is made on the items as specifically allowed as per Schedule VII?	
2.2	Whether the details of financial year wise CSR funds received and spent are maintained by the trust?	
2.3	Whether the records for utilised and unutilised CSR funds records are maintained and can be readily available?	
2.4	Whether the records can provide the details of extra expenditure incurred over and above the funds received from the company for the financial year	
2.5	Whether the records maintained by the trust can provide the balance of the CSR funds available at the year end which has not been spent during the year for each financial year?	
3	In case of CSR activities undertaken on behalf of more than one company:	



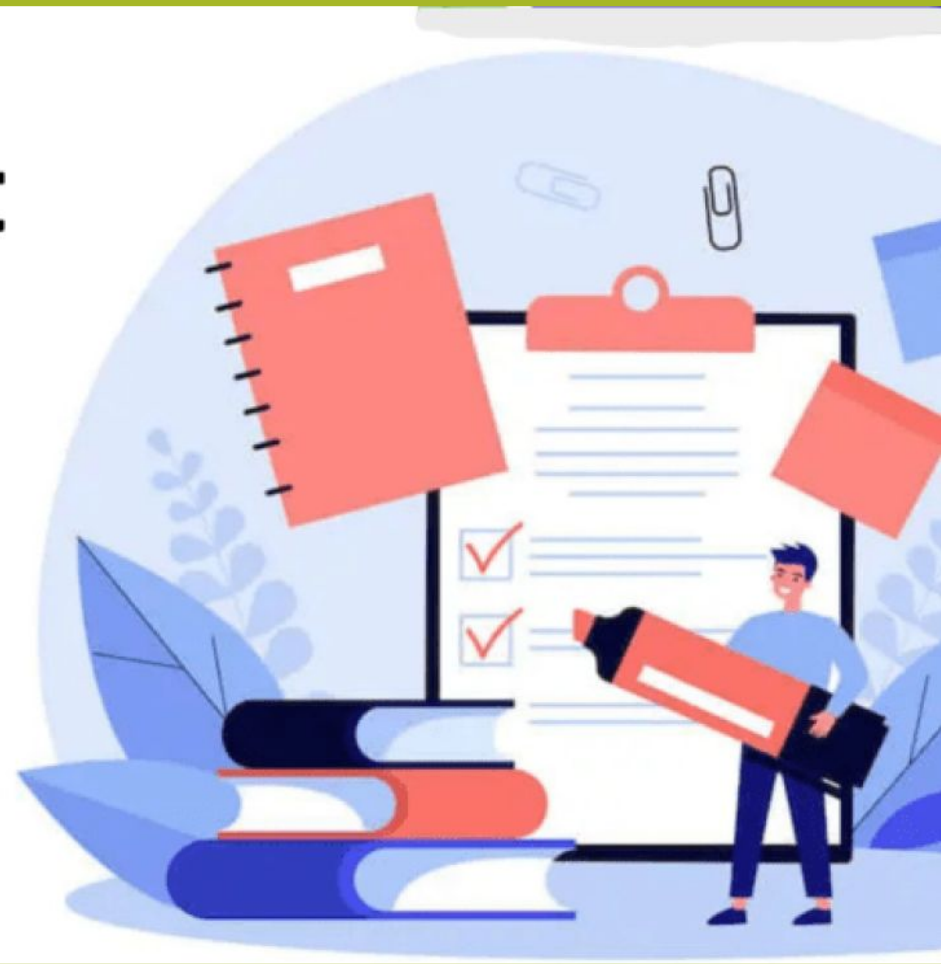
3.1	Whether company wise and financial year wise records are maintained for the CSR funds received and the CSR expenditure incurred on behalf of each company?	
3.2	Whether for each company, the amount of CSR funds utilised and funds remaining unutilised can be identified?	
3.3	Whether the trust has separate bank accounts for each of the companies for which CSR activities is carried out?	
4	Separation of own funds:	
4.1	Whether the Trust has a system to identify its own accounting records other than CSR activities carried out on behalf of the company /companies?	
4.2	Whether the trust maintains a separate bank account for its own activities other than CSR activities carried out on behalf of the company /companies?	
5	Classification of CSR activities:	
5.1	Whether the trust has classified the CSR activities separately as "ongoing projects" and "One time Projects" ?	
5.2	Whether the trust is maintaining a separate bank account for "ongoing projects" and "One time Projects" on behalf of the company/ies?	
5.3	Whether the trust communicates and confirms the balances in hand of the CSR funds unspent at the year end with the company/ies classifying separately the amounts in respect of "ongoing projects" and "One time Projects"	
5.4	Whether the revenue and capital expenditure separately identified?	
5.5.	If there is capital expenditure, whether the asset is transferred in the name of the trust or any other institution as per the direction of the company.	



6	Classification of CSR funds received and its recognition:	
6.1	Whether the trust recognizes the CSR funds as an income or a liability/obligation until the CSR activities are completed?	
6.2	If it recognises the CSR funds received as income, then its income can be taxable in the year when the CSR funds are not spent to the extent of 85% of its income.	
	Therefore, whether form no. 10 filed online for accumulation of funds/ setting apart the income before the due date of filing the return?	
	Whether the funds accumulated/set apart invested in specified investments under section 11(5) of the Income Tax Act 1961?	
6.3	If it recognises the CSR funds received as a fund liability, then probably the tax liability may not arise as the excess funds can be considered as an obligation, i.e. a liability. In such case, whether the funds have been invested in the manner provided under section 11(5) of the Income Tax Act, 1961?	
6.4	Whether there is a communication from the company for contribution to specific CSR fund if the CSR funds are recognised as a liability?	



Maintenance of books of account and other documents for Trust or NGO under New Rule 17AA



CBDT has notified Rule 17AA w.e.f. 10/08/2022 providing form and manner of the books of account to be maintained and also providing for place at which such books of accounts to be kept and the period for which books of accounts to be preserved.

Rule 17AA has four (4) Sub Sections [(1) to (4)] and it provides for –

a) Books of Accounts and Other documents required to be maintained[17AA(1)(a)(b)(c)&(d)]



b) Form of keeping Books of Accounts & Other documents [17AA(2)]

c) Place of maintaining such books of accounts and other documents[17AA(3)]

d) Period for which books of accounts & other documents should be kept[17AA(4)]

BOOKS OF ACCOUNTS REQUIRED TO BE MAINTAINED [17AA(1)(A)(B)&(C)]

•17AA. (1) Every fund or institution or trust or any university or other educational institution or any hospital or other medical institution which is required to keep and maintain books of account and other documents under clause (a) of tenth proviso to clause (23C) of section 10 of the Act or sub-clause (i) of clause (b) of sub-section (1) of section 12A of the Act shall keep and maintain the following, namely:—

- books of account, including the following, namely: -
 - Cash book;
 - (ii) Ledger;
 - (iii) Journal;



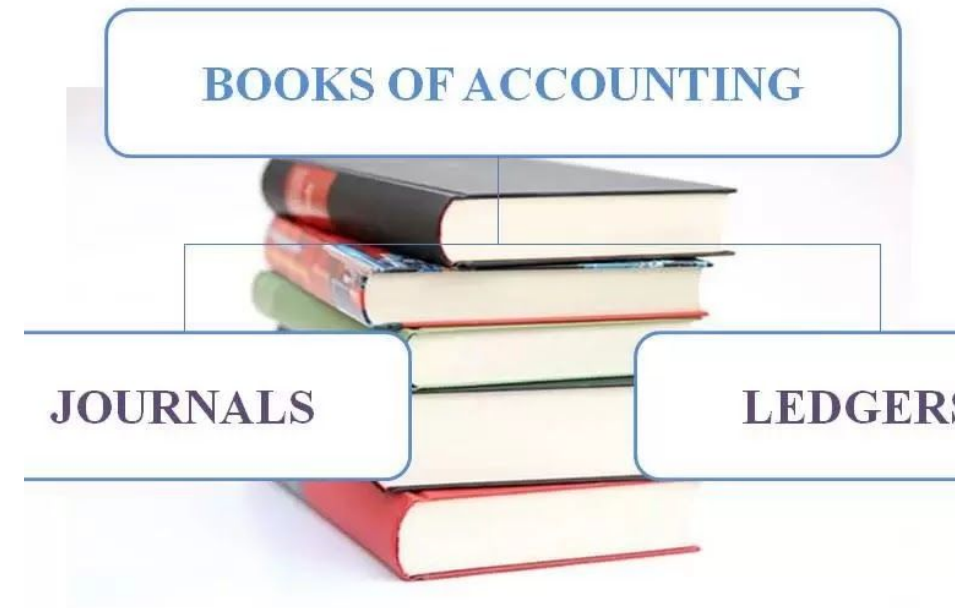
- ✓ (iv) copies of bills, whether machine numbered or otherwise serially numbered, wherever such bills are issued by the assessee, and copies or
- ✓ counterfoils of machine numbered or otherwise serially numbered receipts issued by the assessee;
- ✓ (v) original bills wherever issued to the person and receipts in respect of payments made by the person;
- ✓ (vi) any other book that may be required to be maintained in order to give a true and fair view of the state of the affairs of the person and explain the transactions effected;



BOOKS OF ACCOUNTS

- ✓ (b) books of account, as referred in clause (a), for business undertaking referred in sub-section (4) of section 11 of the Act;
- ✓ (c) books of account, as referred in clause (a), for business carried on by the assessee other than the business undertaking referred in sub-section (4) of section 11 of the Act;
- ✓ Hence organisation having income subject to section 11(4) and 11(4)(a) is required to maintain separate set of books of account of such income in line with the provision under Income Tax Act.
- ✓ It is to be noted that the books of accounts as defined under section 2(12A) includes copy of day-books and ledgers but the books of accounts specified under Rule 17AA also includes copy of bills, receipts, etc.

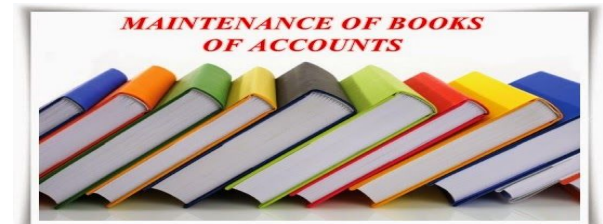
- ✓ Moreover the requirement of 17AA is the original bills in respect of the application of income, whereas the practice of receiving softcopy of bills has been started.
- ✓ Hence it needs to be clarified what shall constitute original bills for the purpose of meeting the requirement of Rule 17AA.



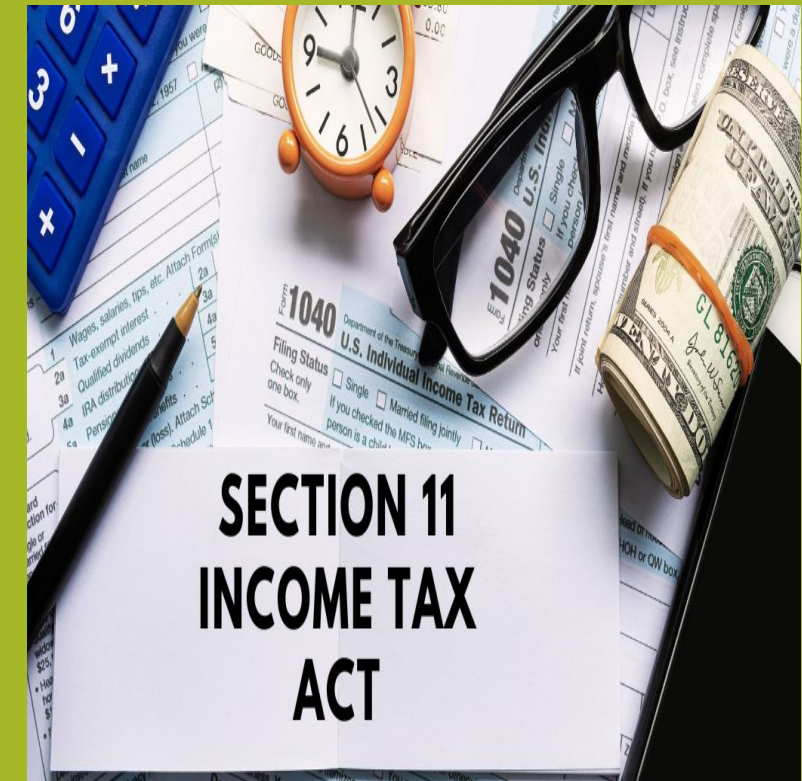
OTHER DOCUMENTS REQUIRED TO BE MAINTAINED ***[17AA(1)(D)]***

In addition to books of accounts as mentioned in Rule 17AA (1)(a)(b)&(c) there is another requirements of keeping other documents for maintaining records of ten specific items, details of which is summarised herein below :

- (i) record of all the projects and institutions run by the person containing details of their name, address and objectives;
- (ii) record of income of the person during the previous year, in respect of,—
 - (I) voluntary contribution containing details of name of the donor, address, permanent account number (if available) and Aadhaar number (if available);



- ✓ (II) income from property held under trust referred to under section 11 of the Act along with list of such properties;
- ✓ (III) income of fund or institution or trust or any university or other educational institution or any hospital or other medical institution other than the contribution referred in items (I) and (II);
- ✓ (iii) record of the following - out of the income of the person during the previous year :-
- ✓ (I) application of income in India, containing details of amount of application; name and address of the person to whom any credit or payment is made and the object for which such application is made; amount credited or paid to any fund or institution or trust or any university or other educational institution or any hospital or other medical institution referred to in sub-clause (iv) or sub-clause (v) or sub clause (vi) or sub-clause (via) of clause (23C) of section 10 of the Act or other trust or institution registered under section 12AB of the Act, containing details of their name, address, permanent account number and the object for which such credit or payment is made;



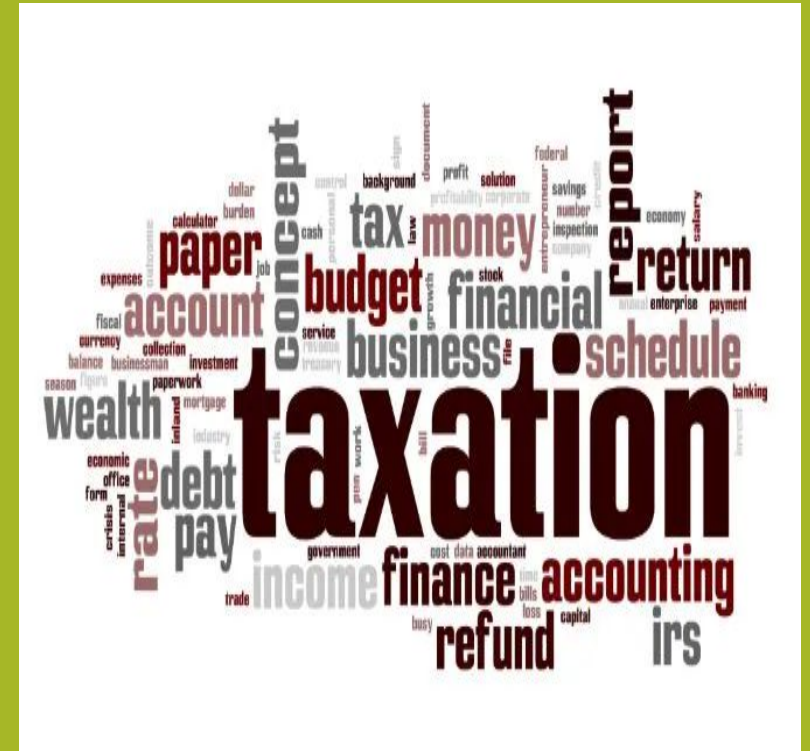


- ✓ (II) application of income outside India, containing details of amount of application, name and address of the person to whom any credit or payment is made and the object for which such application is made;
- ✓ (III) deemed application of income referred in clause (2) of Explanation 1 of sub- section (1) of section 11 of the Act containing details of the reason for availing such deemed application;
- ✓ (IV) income accumulated or set apart as per the provisions of the Explanation 3 to the third proviso to clause (23C) of section 10 or subsection (2) of section 11 of the Act which has not been applied or deemed to be applied containing details of the purpose for which such income has been accumulated;

- (V) money invested or deposited in the forms and modes specified in subsection (5) of section 11 of the Act;
- (VI) money invested or deposited in the forms and modes other than those specified in subsection (5) of section 11 of the Act;
- (iv) record of the following - out of the income of the person of any previous year preceding the current previous year :—
- (I) application out of the income accumulated or set apart containing details of year of accumulation, amount of application during the previous year out of such accumulation, name and address of the person to whom any credit or payment is made and the object for which such application is made;



- ✓ (II) application out of the deemed application of income referred to in Clause (2) of Explanation 1 of sub-section (1) of section 11 of the Act, for any preceding previous year, containing details of year of deemed application, amount of application during the previous year out of such deemed application, name and address of the person to whom any credit or payment is made and the object for which such application is made;
- ✓ (III) application, other than the application referred in item (I) and item (II),
- ✓ out of income accumulated during any preceding previous year containing details of year of accumulation, amount of application during the previous year out of such accumulation, name and address of the person to whom any credit or payment is made and the object for which such application is made;



(IV) money invested or deposited in the forms and modes specified in subsection (5) of section 11 of the Act;

(V) money invested or deposited in the forms and modes other than those specified in sub-section(5) of section 11 of the Act;

(v) record of voluntary contribution made with a specific direction that they shall form part of the corpus, in respect of,—

(I) the contribution received during the previous year containing details of name of the donor, address, permanent account number (if available) and Aadhaar number (if available);





- ✓ (II) application out of such voluntary contribution referred to in item (I)
- ✓ containing details of amount of application, name and address of the person to whom any credit or payment is made and the object for which such application is made; amount credited or paid towards corpus to any fund or institution or trust or any university or other educational institution or any hospital or other medical institution referred to in sub-clause (iv) or sub-clause (v) or sub-clause (vi) or sub-clause (via) of clause (23C) of section 10 of the Act or other trust or institution registered under section 12AB of the Act, out of such voluntary contribution received during the previous year containing details of their name, address, permanent account number and the object for which such credit or payment is made;
- ✓ (III) the forms and modes specified in sub-section (5) of section 11 of the Act in which such voluntary contribution, received during the previous year, is invested or deposited;

- ✓ IV) money invested or deposited in the forms and modes other than those specified in sub-section (5) of section 11 of the Act in which such voluntary contribution, received during the previous year, is invested or deposited;
- ✓ (V) application out of such voluntary contribution, received during any previous year preceding the previous year, containing details of the amount of application, name and address of the person to whom any credit or payment is made and the object for which such application is made;
- ✓ (VI) amount credited or paid towards corpus to any fund or institution or trust or any university or other educational institution or any hospital or other medical institution referred to in sub-clause (iv) or sub-clause (v) or sub-clause (vi) or sub-clause (via) of clause (23C) of section 10 of the Act or other trust or institution registered under section 12AB of the Act, out of such voluntary contribution received during any year preceding the previous year, containing details of their name, address, permanent account number and the object for which such credit or payment is made.

INCOME TAX ACT

(VII) the forms and modes specified in sub-section (5) of section 11 of the Act in which such voluntary contribution, received during any previous year preceding the previous year, is invested or deposited;

(VIII) money invested or deposited in the forms and modes other than those specified in sub-section (5) of section 11 of the Act in which such voluntary contribution, received during any previous year preceding the previous year, is invested or deposited;

(IX) amount invested or deposited back in to such voluntary contribution (which was applied during any preceding previous year and not claimed as application) including details of the forms and modes specified in sub-section (5) of section 11 in which such voluntary contribution is invested or deposited.

(vi) record of contribution received for the purpose of renovation or repair of temple, mosque, gurdwara, church or other place notified under clause (b) of sub-section (2) of section 80G which is being treated as corpus as referred in Explanation 1A to the third proviso to clause (23C) of section 10 or Explanation 3A to sub-section (1) of section 11, in respect of,-

- (I) *the contribution received during the previous year containing details of name of the donor, address, permanent account number (if available) and Aadhaar number (if available);*
- (II) *contribution received during any previous year preceding the previous year, treated as corpus during the previous year, containing details of name of the donor, address, permanent account number (if available) and Aadhaar number (if available);*

(III) application out of such voluntary contribution referred to in item (I) and item (II) containing details of amount of application, name and address of the person to whom any credit or payment is made and the object for which such application is made; amount credited or paid towards corpus to any fund or institution or trust or any university clause (iv) or sub-clause (v) or sub-clause (vi) or sub-clause (via) of clause (23C) of section 10 of the Act or other trust or institution registered under section 12AB of the Act, out of such voluntary contribution received during the previous year containing details of their name, address, permanent account number and the object for which such credit or payment is made;

IV) the forms and modes specified in sub-section (5) of section 11 of the Act in which such corpus, received during the previous year, is invested or deposited;

- (V) money invested or deposited in the forms and modes other than those specified in sub-section (5) of section 11 of the Act in which such corpus, received during the previous year, is invested or deposited;
- (VI) application out of such corpus, received during any previous year preceding the previous, year, containing details of amount of application, name and address of the person to whom any credit or payment is made and the object for which such application is made;
- (VII) amount credited or paid to towards corpus any fund or institution or trust or any university or other educational institution or any hospital or other medical institution referred to in sub-clause (iv) or sub-clause (v) or sub-clause (vi) or sub-clause (via) of

clause (23C) of section 10 of the Act or other trust or institution registered under section 12AB of the Act, out of such voluntary contribution received during any year preceding the previous year, containing details of their name, address, permanent account number and the object for which such credit or payment is made;

- (VIII) the forms and modes specified in sub-section (5) of section 11 of the Act in which such corpus, received during any previous year preceding the previous year, is invested or deposited; money invested or deposited in the forms and modes other than those specified in sub-section (5) of section 11 of the Act in which such corpus, received during any previous year preceding the previous year, is invested or deposited;



(vii) **record of loans and borrowings,—**

- (I) *containing information regarding amount and date of loan or borrowing, amount and date of repayment, name of the person from whom loan taken, address of lender, permanent account number and Aadhaar number (if available) of the lender;*
- (II) *application out of such loan or borrowing containing details of amount of application, name and address of the person to whom any credit or payment is made and the object for which such application is made;*
- (III) *application out of such loan or borrowing, received during any previous year preceding the previous year, containing details of amount of application, name and address of the person to whom any credit or payment is made;*
- (IV) *repayment of such loan or borrowing (which was applied during any preceding previous year and not claimed as application) during the previous year;*

•(viii) record of properties held by the assessee, with respect to the following, namely,—

- immovable properties containing details of,

- nature, address of the properties, cost of acquisition of the asset, registration documents of the asset;

•(ii) transfer of such properties, the net consideration utilised in acquiring the new capital asset;

•(II) movable properties including details of the nature and cost of acquisition of the asset;

- (ix) record of specified persons, as referred to in sub-section (3) of section 13 of the Act,-

- containing details of their name, address, permanent account number and Aadhaar number(if available);

- (II) transactions undertaken by the fund or institution or trust or any university or other educational institution or any hospital or other medical institution with specified persons as referred to in sub-section (3) of section 13 of the Act containing details of date and amount of such transaction, nature of the transaction and documents to the effect that such transaction is, directly or indirectly, not for the benefit of such

- specified person;

- (x) any other documents containing any other relevant information.

FORM OF KEEPING BOOKS OF ACCOUNTS & OTHER DOCUMENTS [17AA(2)]

- The books of account and other documents specified in sub-rule (1) may be kept in written form or in electronic form or in digital form or as print-outs of data stored in electronic form or in digital form or any other form of electromagnetic data storage device.
- The above definition enables an organisation to maintain books in any form including electronic or in digital form. This is a landmark shift which will enable the organisations to maintain books of account only in digital or electronic form.

- Normally, physical printouts of cash book and ledgers were required to be taken even in case of electronic or digital book keeping.
- However, organisations should be extremely careful in not keeping physical copies of the books of accounts because such books have to be kept in safe custody for more than 10 years.
- With regard to documents, one has to keep the hard copies where the originals were generated in hard form. Further, one should ensure the admissibility of any supporting document in electronic/digital form before doing away with the physical copies.

**FORM OF KEEPING BOOKS OF ACCOUNTS & OTHER
DOCUMENTS [17AA(2)]**

9.01 The books of account and other documents specified in sub-rule (1) shall be kept and maintained for a period of ten years from the end of the relevant assessment year:

Provided that where the assessment in relation to any assessment year has been reopened under section 147 of the Act within the period specified in section 149 of the Act, the books of account and other documents which were kept and maintained at the time of reopening of the assessment shall continue to be so kept and maintained till the assessment so reopened has become final.

Under Rule 17AA(4), books of account and other documents are required to be kept for a period of **ten** years from the end of the relevant Assessment Year.

9.02 This is a change which will have far reaching impact because organisations will effectively be required to preserve the books of account for **11 years**. It may be noted under Foreign Contribution Regulation Act, 2010 (FCRA 2010) the requirement of preservation is limited to 6 years. However, in the light of this amendment in the Income Tax rules, even the FCRA records will have to be preserved for 11 years.

9.03 It is to be noted, that for the purpose of preservation, the books of accounts as specified in Rule 17AA(4), shall also include copies of all the bills & supporting documents and not only the cash book, bank book & ledger.

PLACE OF MAINTAINING SUCH BOOKS OF ACCOUNTS & OTHER DOCUMENTS [17AA(3)]

OTHER RELATED ISSUES

- Effective Date Of Notification
- Notification for maintaining specified books of account and other records is
- effective from 10th August 2022, the question arises about the implication for the accounts already maintained i.e. from 01/04/2022 to 10/08/2022.
- In our opinion, the effective date will be 10/08/2022 and it will not be treated as a violation if some documents or information's are not maintained in a specified manner between the period 01/ 04/2022 to 10/08/2022.

The Finance Act, 2022 inserted Section 13(10) and 13(11) with effect from the assessment year 2022-23 to provide that if the trust or institution has not maintained the books of account, the income chargeable to tax shall be computed after allowing a deduction for expenditure incurred for the objects of the institution as specified in this section.

The newly inserted section provides that the income chargeable to tax shall be computed after allowing the deduction for the expenditure (other than capital expenditure) incurred in India for the objects of the trust or institution, subject to fulfilment of the following conditions, namely:

- (a) Such expenditure is not from the corpus standing to the credit of such trust or institution as on the last day of the financial year immediately preceding the previous year relevant to the assessment year for which the income is being computed;
- (b) Such expenditure is not from any loan or borrowing;
- (c) Claim of depreciation is not in respect of an asset, acquisition of which has been claimed as an application of income in the same or any other previous year; and

IMPLICATION OF NON-MAINTEN ANCE OF BOOKS OF ACCOUNT

(d) Such expenditure is not in the form of any contribution or donation to any person.

- ❑ The provisions of Section 40(a)(ia), Section 40A(3) and Section (3A) shall, mutatis mutandis, apply as they apply in computing the income chargeable under the head “Profits and gains of business or profession”.
- ❑ Therefore, the disallowances shall be made for the cash payment of expenditure and non-deduction or non-payment of TDS on the sum payable to a resident.
- ❑ Further, no deduction of any expenditure or allowance or set-off of any loss shall be allowed to the assessee under any other provision of the Act.





Funding of NGO's through CSR

Many Indian companies have been contributing to the society through Corporate Social Responsibility (CSR) arms and foundation since their inception, like Tata group, Aditya Birla group, among many others. So, CSR is not an entirely new concept in Indian context. But the Companies Act 2013 has put CSR in the forefront, with a 'comply or explain' mandate, for companies that have more than 5 crores INR as net profit for a year.

This mandate has thus opened new doors for Indian NGOs, and has provided a huge opportunity to be tapped. But not many NGOs have been able to take advantage of this, and thus many still do not have access to CSR funds, because of a number of reasons like lack of initiative, little understanding of the scenario, no network, etc.

Concept of Corporate Social Responsibility (CSR) as per Companies Act, 2013

“Corporate Social Responsibility (CSR)” means the activities undertaken by a Company in pursuance of its statutory obligation laid down in section 135 of the Act in accordance with the provisions contained in these rules, but shall not include the following, namely:-

- **Activities undertaken in pursuance of normal course of business of the company:**
Provided that any company engaged in research and development activity of new vaccine, drugs and medical devices in their normal course of business may undertake research and development activity of new vaccine, drugs and medical devices related to COVID-19 for financial years 2020-21, 2021-22, 2022-23 subject to the conditions that-
- Such research and development activities shall be carried out in collaboration with any





- Details of such activity shall be disclosed separately in the Annual report on CSR included in the Board's Report;
- Any activity undertaken by the company outside India except for training of Indian sports personnel representing any State or Union territory at national level or India at international level;
- Contribution of any amount directly or indirectly to any political party under section 182 of the Act;
- Activities benefitting employees of the company as defined in clause (k) of section 2 of the Code on Wages, 2019 (29 of 2019);
- Activities supported by the companies on sponsorship basis for deriving marketing benefits for its products or services;
- Activities carried out for fulfilment of any other statutory obligations under any law in force in India;

How Indian NGOs can mobilize funds through CSR?

Here is a step-by-step guide for NGOs on how they may mobilize CSR funds:



Understand the Clause 135 of Companies Act 2013:

In India, clause 135 of Companies Act of 2013 governs the CSR, and was passed on 29th of August 2013. NGOs need to understand the applicability of the clause on companies, its details, permitted themes for intervention, etc. To give a snapshot, the CSR provisions in the act apply for companies with an annual turnover of 1000 crores INR or more, and with more than 5 crores INR as net profit for a year. The act mandates spending of at least 2% of the average net profit in three consecutive years on CSR activities. The themes are also well-defined, along with what will be and what will not be considered expense on CSR. NGOs may ask a legal consultant to understand the act better.

Statutory requirements for NGOs:

Most of the corporate donors donate only to those NGOs which have certificates like 80G registration (Provides 50% Income Tax exemption to the donor), 12A registration (Tax-free income for NGO), apart from NGO Registration certificate. It is in best interest of the NGO to get these registrations done to increase the chances of receiving funds. Foreign companies may donate funds only if the NGO has an FCRA (Foreign Contribution Regulation Act) registration. Ensure that your NGO has all the documentation in place, and do not forget to renew these every year.

Map and understand the corporate donors in your area:

Map the existing companies in your area. Start by understanding their profile, preferences and policies. Try to find out whether they are already undertaking some activities under CSR. And finally, fix a meeting with the CSR team or HR.

Start building a network:

NGOs need to step-out and explore the various possibilities for funding. Events are being organized by many agencies devoted for CSR. Online and offline campaigns are going on year-round. These events provide a very good platform for active participation, networking with prospective donors, and building relationships. These may result in fruitful associations in long run.

Keep documented evidence ready:

Apart from the legal documents, corporate donors also look for authentic evaluation reports, impact data, and third-party evaluations to ensure that NGO is credible, and is doing outstanding work in its field. Make sure to keep the documentation up-to-date.

Look for resources required:

Indian companies are willing to provide support to NGOs in terms of funding, and also in terms of volunteers for the projects. This will also give them a 'hands-on' experience of the NGO sector.

Ask for feedback from your current donors:

Your current donors can help you in improving your systems and processes, but only if you ask for their feedback. Make it a routine activity to ask them for feedback for your processes, communication, engagement strategies and every new thing you implement.

Set expectations right:

It is very important to set the expectations right, since the beginning itself, in terms of requirement of resources, activities under the project, intended outcomes and impact. While it is important to aim for a positive impact for the target community, NGOs must let the donor know that timelines also matter a lot. Social change is certainly not an overnight process, and many other factor come into play in this context. To quote the Head of a renowned Indian CSR foundation, donors need to know that 'Social development is not a low-hanging fruit, rather it is a seed to be sown which will gradually be grown into the tree of desired impact in the years to come!'



Important Notification issued by Ministry of Corporate Affairs

Notification issued by Ministry of Corporate Affairs dated 22nd January 2021, it is mandatory for all NGO's which wants to raise CSR Funding to enroll with MCA w.e.f 01/04/2021 to get CSR Funding. As per this notification from 01 April 2021 onwards, every entity, covered under sub-rule (1), who intends to undertake any CSR activity, shall register itself with the Central Government by filing the Form CSR-1 electronically with the Registrar. On successful submission of Form CSR-1, a unique CSR Registration Number shall be generated by system automatically.

Which NGO's are eligible to file Form CSR-1?

Following type of NGO's are eligible to file Form CSR-1 on MCA Portal for getting CSR Funding

- A company established under section 8 of the Act, or a registered public trust or a registered society, registered under section 12A and 80 G of the Income Tax Act, 1961 (43 of 1961), established by the company, either singly or along with any other company, or

- A company established under section 8 of the Act or a registered trust or a registered society, established by the Central Government or State Government; or
- Any entity established under an Act of Parliament or a State legislature; or
- A company established under section 8 of the Act, or a registered public trust or a registered society, registered under section 12A and 80G of the Income Tax Act, 1961, and having an established track record of at least three years in undertaking similar activities

Documents Requirement for filing Form CSR-1

Following documents are required for filing Form CSR-1

- Copy of PAN Card of the NGO
- Mail ID and Mobile Number
- Details of Governing Body Members
- Copy of Registration Certificate
- Digital Signature of the Authorised Person with his PAN Number

ALL ABOUT NEW E-FORM CSR-1



Documents for Filing CSR-1

- 1 PAN Card
- 2 Email ID & Mobile no.
- 3 Details of Members
- 4 Registration Certificate
- 5 DSC of Chairperson

Can Companies provide CSR funds to NGO beyond three years

What is ongoing project?

Under section 2(i) of the Companies (CSR Policy) Amended Rules 2021 'Ongoing project' means a multi-year project undertaken by a Company in fulfilment of its CSR obligation having timelines not exceeding three years excluding the financial year in which it was commenced, and shall include such project that was initially not approved as a multi-year project but whose duration has been extended beyond one year by the board based on reasonable justification.



- ❑ In other words, the reference here is to a Multi-year Project (not the CSR Implementing partner or NGO) undertaken by a Company in fulfilment of its CSR obligation having timelines not exceeding three years excluding the financial year in which it was commenced.
- ❑ Also, it is pertinent to remember that the amendment pertaining to ongoing project only kicks in if the company fails to spend such amount (i.e., at least two per cent of the average net profits of the company made during the three immediately preceding financial years) on CSR activities.
- ❑ In other words, Subsection (5) of Section 135 of the Indian Companies Act 2013 pertains specifically to the company spending the two per cent in the financial year and allows a carry forward of the unspent amount only if it is for an ongoing project.



What is project?

A project is essentially a carefully planned initiative or scheme to achieve a particular goal or objective. Project requires a sequence of tasks (input) that must be completed to attain a certain output and outcome.

Points for companies to remember



1. Any ongoing project must commence within the financial year to be termed as 'ongoing'.
2. An ongoing project shall be deemed to have 'commenced' when the company has either issued the grant order pertaining to the project or awarded the contract/grant for execution of the project.
3. The time period of an ongoing project cannot be extended beyond its permissible limit i.e., the financial year in which it has commenced, plus three financial years.
4. The Board of the company may terminate or modify an ongoing project, partially or wholly, under exceptional circumstances, during the prescribed project period as per the recommendation of its CSR Committee, and by providing reasonable justification for the same. The budget outlay earmarked/dedicated for the abandoned or terminated project can be used against another project.
5. Companies are not permitted to spend the unspent CSR amount, which does not pertain to ongoing project, on any CSR activity during the intervening period of six months after the end of the financial year.

What NGOs can do?

1. NGOs working on single focused themes such as only education or health care must place before companies clear Project proposals of the ongoing project/s with duration of three years.
2. Once the project is successfully completed, the NGO may provide the company with new Project Proposal/s.
3. In any given fiscal year, the NGO may implement more than one ongoing project for the same company
4. The company may consider partnering with the same NGO for as long as it wishes and support new CSR Project/s whether ongoing or otherwise for several years.

Spending means utilisation

Both companies and NGOs must understand that under the amendments Notified in January 2021, mere disbursal of funds for implementation of a project does not amount to 'spending' unless the implementing agency (NGO) utilises the whole amount.

A company may ask the NGO to return the unspent CSR funds and deposit the same in the Company's "Unspent CSR Account".



Accounting of Expenditure in the books of Company

14. The CSR Committee of Institute of Chartered Accountants of India (ICAI) has already issued a “Technical Guide on Accounting for Expenditure on Corporate Social Responsibility Activities” in June 2020.
15. The brief issues elaborated in the above publication are narrated as under:
 - General Recognition & Measurement criteria of CSR Spend
 - Treatment of Unspent CSR Amount
 - Treatment of Excess CSR Spent
 - Measurement of CSR spend made in Kind
 - Treatment of Surplus arising out of CSR Activities
 - Presentation & Disclosure Requirements

All the above issues have already been dealt with in detail for which reference is drawn to the Technical Guide issued by CSR Committee of ICAI.

Brief of Third Parties

16. In India, social activities can be undertaken through various legal structures such as registered public trusts, registered societies or companies with charitable objects. The choice of a legal structure may depend on several aspects including limitation on liability of persons involved and ease of regulatory compliances.
17. Section 8 Company is a Company that is licensed under Section 8 of the Companies Act, 2013 (erstwhile referred as the Section 25 Company under the Companies Act, 1956) which has its main object; inter alia, promoting research, social welfare, religion, charity, commerce, art, science, sports, education, and the protection of the environment or any such other object, provided that the profits, if any, or the other income is applied for promoting only towards the objects of the company and are not to be distributed as dividend. However, in sec. 8(2) of Companies Act 2013, it is expressly provided

that these companies will enjoy the privileges and be subject to all the obligations of limited companies.

18. Therefore, section 8 companies are treated as limited companies and unless there is a specific deviation provided for (in terms of compliance with any provisions of the Act), have to comply with the provisions applicable to a regular limited company.
19. Societies may be registered with the charitable objectives under the Central / State Government regulations. The Law / Act applied to societies is Societies Registration Act, 1860.
20. Trusts with the charitable objectives may be registered under the State Government regulations, if any, like in Maharashtra it is regulated by the Bombay Public Trust Act, 1950, in Rajasthan is governed by the Rajasthan Public Trust Act, etc. There are various states, which do not have any regulation to register such charitable trusts. In such cases, they should be registered with the Income Tax Act, 1961.
21. It is important here to note that as per the amended rules the above referred Section 8 Company or registered public Trust or registered Society should be registered both under section 12A as well as under section 80G of the Income Tax Act, 1961.
22. For receiving funds from foreign companies such entities should have registration under Foreign Contribution Regulation Act (FCRA).

CSR contribution received by third parties from a foreign source

23. The charitable entities can accept foreign contribution from a foreign source only if they are registered under Foreign Contribution Regulation Act (FCRA). Without FCRA approval, charitable entities in India cannot legally receive foreign contributions. The FCRA deems an Indian subsidiary of a foreign company to be a foreign company, and consequently, a foreign source. Further, Indian companies with foreign ownership of more than 50% may also be treated as foreign source if the nominal value of its share capital is not within the limits specified for foreign investments under FEMA 1999.
24. The Proviso to Section 2(1)(j) of FCRA provides that:

“Provided that where the nominal value of share capital is within the limits specified for foreign investment under the Foreign Exchange Management Act 1999, or the rules or regulation made thereunder, then, notwithstanding the nominal value of share capital of a company being more than one half of such value at the time of making the contribution, such company shall not be a foreign source.”

25. Hence, in case of an Indian subsidiary of a foreign company, or an Indian company which have foreign ownership of more than 50% need to ensure that in case they utilise the services of a non-profit organization (NPO) to carry out their CSR activities, such entity must have obtained prior permission from the Central Government under FCRA. The permission, when granted, would apply to only a specific project and specific amount, which means that the NPO cannot use contribution for a different project or for any additional funding for the same project.

Accounting for CSR Funds by Third Parties

26. The third parties i.e. section 8 company, or a registered trust or registered society may receive Corpus donation, which could be a CSR expenditure in the hands of the donor company if the required conditions are complied with. Corpus donations are with a specific direction regarding the use of the funds and characteristically capital in nature. MCA in General Circular No.21/2014 dated 18th June 2014 has clarified that contribution to Corpus of a Trust/ society/ section 8 companies etc. will qualify as CSR expenditure as long as:
- the Trust/ society/ section 8 companies etc. is created exclusively for undertaking CSR activities, or
 - where the corpus is created exclusively for a purpose directly relatable to a subject covered in Schedule VII of the Act.
27. The accounting entry for such corpus donations received may be as under: -

Particulars	Amount (in Rs.)
Corpus Donation	
Bank A/c Dr.
To Corpus Donation



The Role of
NGOs in CSR

Such corpus donation received by the third party should be taken to the Balance Sheet of the third party and not charged to the Income and Expenditure A/c.

28. Other than making corpus donations as stated in previous paragraph, a company may make CSR contribution to third parties specifying the projects or programs to be undertaken and the modalities of utilization of funds of such projects as required by CSR Rules. The amounts received by such third parties have to be recognized accordingly in the books of accounts.

The accounting entry for such CSR contribution received and expenditure on the specified project may be as under: -

Particulars	Amount (in Rs.)
CSR Contribution	
Bank A/c Dr.
To CSR Contribution ABC (Fund Type as per donor projects)
Expenses out of CSR Donation	
CSR Project Expenditure (or any relevant Expenditure Account) Dr.
To Bank
Fixed Assets acquired out of CSR Donation	
Fixed Asset A/c Dr.
To Bank

Both, the contribution received and expenditure made should be charged to the Income and expenditure A/c of the third party. Fixed assets acquired should be taken to the Balance Sheet of the third party.



To CSR Contribution ABC (Valuation to be the cost to donor)	.....
Receipt of CSR Contribution in kind being items to be distributed in a project	
Item A/c Dr.	.....
To CSR Donation in kind A/c (Valuation to be the cost to donor)	.....
Distribution of CSR Contribution in kind	
CSR Expenditure (or any relevant Expenditure Account) Dr.	.....
To Item A/c	.....

29. There may be instances wherein the CSR contribution is received in kind. The accounting entry for such CSR contribution received in kind and its utilization may be as under: -

Particulars	Amount (in Rs.)
CSR Contribution in kind being Fixed Asset or forming part thereof	
Fixed Asset / Capital WIP Dr.



30. If the third party is receiving contribution from different companies for different projects, then the amounts should be identified project-wise and the receipts as well as amounts spent corresponding to that projects should be marked and reflected separately.

The accounting entry for such CSR contributions received for various projects and corresponding expenditure may be as under: -

S. No.	Particulars	Dr. Amount (in Rs.)	Cr. Amount (in Rs.)
1	CSR Contribution for different projects		
	Bank A/c Dr.		.....
	To CSR Contribution A / Project A (Fund / project name as per donor projects)		.....
22	Bank A/c Dr.		.....
	To CSR Contribution B / Project B (Project name as per donor projects)		.....
3	Expenses out of CSR Donation		
	CSR Expenditure Project A A/c Dr.		.....
	CSR Expenditure Project B A/c Dr.		.....
	To Bank A/c		.....
	(Expenditure can be booked with its name of its nature and identified to related project. In case of amounts utilized for acquisition of capital asset, the capital asset head should be debited)		





Both, the contribution received and expenditure made should be charged to the Income and expenditure A/c of the third party. Fixed assets acquired should be taken to the Balance Sheet of the third party.

31. The CSR donations received by the third parties must be applied for agreed project(s) within the specified period as per the projects / programs in CSR policy of the donor. In case the CSR donations are not utilized within the specified period during the year, the same may either to be returned to the donor or the same should be utilized as specified in the agreement /MOU with the donor company.

In case the unspent amount is to be returned then the accounting entry may be as under: -

S. No.	Particulars	Dr. Amount (in Rs.)	Cr. Amount (in Rs.)
1	Return of unspent amount		
	CSR Contribution A / project A	Dr.	.....
	To Bank A/c		.....

32. In case the amount required to be spent on the project remains unspent at the end of the year, then the entity needs to accumulate the balance amount to be utilized in future period. Such unspent amount at the end of the year would be carried forward to the next year and the required formalities / Compliances (if the third party is registered under Income Tax Act) should be done. If the entity is registered u/s 12A, then the charitable entity needs to e-file Form 10 specifying the purpose of accumulation before filing of return of income.

The accounting entry for the accumulation may be as under: -

S. No.	Particulars	Dr. Amount (in Rs.)	Cr. Amount (in Rs.)
1	Accumulation of unspent amount		
	CSR Contribution project A	Dr.	.....
	To CSR Fund – Project A A/c		.....

The CSR Fund – Project A A/c should be taken to the Balance Sheet.

33. When the required compliances are made under the Income Tax Act, the accumulation for five years is treated as application of income in the year of accumulation under the Income Tax Act. In subsequent years,





when the expenditure is made out of such accumulated fund, the accounting entry may be as under:

S. No.	Particulars	Dr. Amount (in Rs.)	Cr. Amount (in Rs.)
1	<i>Expenditure out of Accumulated unspent amount</i>		
	CSR Fund – Project A A/c Dr.		.....
	To Bank		.....

The amount spent out of this accumulated fund would not be charged to the Income and expenditure A/c, but would be reduced from the Fund created.



Utilization Report of CSR Contribution received by Third Parties

34. Rule 4(5) states that “The Board of a company shall satisfy itself that the funds so disbursed have been utilised for the purposes and in the manner as approved by it and the Chief Financial Officer or the person responsible for financial management shall certify to the effect”.
35. Apart from registering w,e,f, 1st April 2021, the third parties are required to maintain appropriate documentation with regard to the CSR contribution and details of expenditure on CSR activities.
36. The utilization of the CSR contribution should be as per the project specified by the company making CSR contribution. It should be for a definite project and the CSR policy must specify monitoring and reporting mechanism for effective utilization of CSR funds.
37. The CSR Committee of The Institute of Chartered Accountants of India (ICAI) has recommended that the Companies should obtain Chartered Accountants / Auditor’s Report on the utilization of CSR Funds If CSR Activity is done through a third party.

The auditor / CA in practice of the third party before issuing the Independent Practitioner's Report on Utilization of CSR Funds should ensure that:

- The third party has spent the funds on CSR activities as per Section 135 of the Companies Act, 2013, read with Schedule VII to the Act and related regulations.
- Verification of the CSR spend has been done as per Guidance Note on Audit of Expenses issued by ICAI.
- The utilization of CSR Funds report is issued in accordance with the Guidance Note on Reports or Certificates for Special Purposes issued by the Institute of Chartered Accountants of India.

***Form 10BB/10B to
be Submit by
Charitable Trust /
Institution Now
Changes***

- The Central Board of Direct Taxes has notified the Income-tax (3rd Amendment) Rules, 2023, to amend IT Rules 16CC/17B & Forms 10B/10BB amended which shall be effective as of 01/04/2023, vide Income Tax Notification 7/2023 Amended in 2023, so there is Amendment in Income-tax (3rd Amendment) Rules, 2023, Rule 17B & Rules 16CC in relation to Charitable and Religious trusts and Institutions Audit report formats which is registered U/s 10(23C), this is increase scope of details that is needed to be reported By NGO in Form 10B & Form 10BB.

- As a result, sections 10(23C) and 12A of the Income Tax Act, 1961 require charitable or religious trusts, institutions, universities, and other educational institutions to submit the audit report using the revised Forms 10B and 10BB.
- Income tax Form 10B is a report of the audit of the accounts of a NGO i.e fund or any university institution or trust or any hospital or other educational institution or other medical institution which is needed to be Filed of 10th proviso U/s 10(23C) (b).
- Income tax Form 10BB is a report of the audit of the accounts of a NGO i.e institution or trust which is needed to be filed under section 12A(1)(b)(ii).



Ways through which NGOs could receive CSR Funding

Online Platforms

“3Cs” Approach

“5Cs” Approach

“7Cs” Approach

Comprehend and trace the corporate sponsors in your area

Networking

Legal mandates for non-governmental organisations



FAQ ON TECHNICAL GUIDE ON ACCOUNTING OF CSR FUNDS BY THIRD PARTIES

“Q. “We are a charitable trust, we provide CSR activity on behalf of Entities. Is it necessary to keep the trail of mails / documents right from the beginning like pitching a donor party, deals/ quotations up to final activity closure?

Ans. Yes. Maintenance of appropriate documentation of the expenditure on CSR activities is required.

Q. Whether land transfer to Section 8 Company for construction of Skill training centre will be treated as CSR Expenditure?

Ans. Yes, it may be covered in clause (ii) of Schedule VII of Companies Act, 2013.



Q. Whether CSR funds can be given to an educational institution having 80 G, and 12 A, FCRA registration etc.?

Ans. Yes. Rule 4 of CSR Rules 2014 provides that registered society/trust is eligible for CSR funding.

Q. From a reporting perspective, can mere disbursement of funds to a CSR partner (NGO) considered as application of CSR funds or is it mandatory for the associated NGO partners to actually spend the allocated funds for reporting it as application of CSR funds?

Ans. Mere disbursement/donation of funds to eligible CSR partner is not

considered as application of funds. It should be for a definite project and

the CSR Policy must specify monitoring and reporting mechanism for

effective utilization of the CSR Funds.

Q. Whether an educational trust having 80G, 12A, FCRA, registration, can receive donation under CSR?

- Some companies transfer their CSR fund through CSR committees to their separate Foundations where company and its director has no say. Is this allowed ?
- Can CSR amount be donated to a Trust/Society registered with IT – Rotary, Lions, etc.
- A Company donates to 80G trusts under CORPUS. Will the same be considered as eligible CSR spend?
- Can a private limited company contribute towards CSR to a Trust run by and in which some of the directors/shareholders are Trustees. The said Trust is registered u/s 12AA and approved u/s 80G of the Income tax Act, 1961 and runs Schools.



Whether donation or contribution by a company to a trust doing CSR activities is considered as CSR expenditure of the company for compliance of CSR provisions?

Whether donation made to a NGO in a rural area for providing foods to needy people are covered or not under CSR?

Whether expenditure or amount given to Society Registered u/s 12A of IT Act, for the purpose of spending for Corona relief like Annadanam Free Food for Labourers and needy persons etc. qualify for CSR expenditure.

Whether Contribution to Institution like Ramkrishna Mission eligible for CSR expenditure?

A company wants to contribute to a Trust which runs a private educational institution. Such amount will be spent by the Trust solely for free schooling to poor and children with special needs. Can the Company treat the contribution to the Trust, as CSR expense, given that the school is not exclusively engaged in free schooling activity?



- **Does donation given to a Trust registered under Income Tax Act, 1961 which is conducting Covid-19 relief measure, comes under eligible CSR expenditure?**
- **As per the rule, can a registered NGO be engaged to complete CSR spend with a specific project assigned by the company?**
- **Would corpus donation to a Trust be eligible for CSR spend?**

Ans. Mere donation / contribution is not CSR spend.

Where a company decides to undertake its CSR activities through a company established under section 8 of the Act or a registered trust or a registered society, other than those specified Rule 4(2), then:

- such company or trust or society shall have an established track record of 3 years in undertaking similar programs or projects; AND*
- the company has specified:*
 - the projects or programs to be undertaken;*
 - the modalities of utilisation of funds of such projects and programs; and*
 - the monitoring and reporting mechanism*

Further as clarified by MCA through general circular No. 21/2014 dated 18th June 2014 contribution to Corpus of a Trust/ society/ section 8 company, etc. will qualify as CSR expenditure as long as:

- the Trust/ society/ section 8 companies etc.is created exclusively for undertaking CSR activities; or*
- where the corpus is created exclusively for a purpose directly relatable to a subject covered in Schedule VII of the Act.*





Q. a) Can a Sec 8 company engaged in one of the activities prescribed under Schedule VII (as part of its normal operation), treat its normal activity expenditure as CSR expenditure? If No, then does that mean that it needs to



spend money on activities undertaken by other eligible entities?



b) Will it be a different situation if the said company is also regularly generating revenue from these activities?



Ans. What is restricted under the CSR rules is the activities undertaken in



pursuance of its normal course of business. A section 8 company is not



for profit, hence not doing any business.



If the activities it undertakes is covered under Schedule VII, the same would suffice. Generation of revenue is incidental to its main objects of charity.

- Q. Amount is received by NGO registered u/s. 12AA of the Income Tax Act, from a company to implement CSR project.

- Whether the receipts is treated as a donation or grants and 85 %

- utilisation is applicable to that receipts?

- Ans. The requirement of 85% utilization is under Income Tax Laws. Under CSR Laws, 95% is required to be spent as per the agreement of the company and the NGO."



A grayscale photograph of a dining area. In the foreground, a rectangular table is covered with a patterned tablecloth. On the table, there are several white bowls and plates, some with food. A large, covered bowl is also visible. In the background, there is a wooden side table with a potted plant on it. The entire image is overlaid with a semi-transparent light green rectangle in the upper half, which contains the text "THANK YOU" in white, bold, sans-serif capital letters.

THANK YOU