Chapter-I

Introduction
1.1. Introduction

“If social accounting is anything, it is the opening up of new spaces, of new accountings, not simply reacting to old ones.”………………………….. (Gray, 2002)

Social accounting may be defined as identification and recording of business activities regarding social responsibility. Social responsibility concept is one of the important concepts of management. It is the duty of enterprise to do some social activities for completing their social responsibility.

Social accounting is an important tool to measure the performance of any company in view of social responsibility. Social accounting is a type of accounting performed by a company or business to place a value of its operations on any society. It requires the enterprises should look closely at all that it does and what kind of impact its activities have on people, places, and the environment. Social accounting doesn't deal with the type of assets that financial accounting does; rather, it focuses on business behaviors and the kind of impact that behavior has on nearby society. Any business can undergo this type of evaluation, regardless of its size.

Over the years, there has been growth in charitable activities

The main emphasis for evaluation of a business unit was on commercial aspects (i.e. profitability): the social aspect has so far been ignored. Business today cannot strictly adhere to only one objective of maximizing profit. No doubt earning profit is necessary for the survival and growth of business. But the business community today is confronted with the vital question. Is maximization of profits the sole objective of a business unit? Should business units have not considerations for the people from home the profits emerged? Business units nowadays function under a particular political, economic and social environment. Many rules, regulations and laws relating to social responsibilities of the business have been framed by the government and as a result people have become conscious of their rights and cannot tolerate the socially...
irresponsible behaviors of business units. The following observations made by the **Sachar Committee** in this regard is worth noting:

“The company must behave and function as a responsible member of the society just like any other individual. It cannot shun moral values nor it can ignore actual compulsions. The real need is for some focus of accountability on the part of management not being limited to shareholders alone..... the objective of business....proper utilization of resources for the benefit of others. surplus is necessary, but is not the primary objective.....the company must accept its obligation to be socially responsible and to work for the larger benefit of the community.

**Definitions**

Ralph Eates defines the term as “The measurement and reporting internal and external, of information concerning the impact of an entity and its activities on society”

According to K.V. Ramanathan , Social Accounting “ The process of selecting firm level, social performance and measurement procedures, systematically developed for evaluating the firms social performance and information to concerned social groups, both with the order to distinguish social and financial accounting and the objectives of social accounting.”

The social accounting was an accounting phenomenon of the 20th century and it grew as an accounting discipline because of peer pressures of the environmental movement positioned on large corporations. Also, it stemmed from the demand of governments and public who said that any businesses should be more transparent with more people and environment concerning activities. India has also witnessed a spurt in such activities and with CSR provisions in Companies Act,2013, the activities shall be rise in near future. The act of social accounting attempts to put a figure on the costs and benefits of an enterprise's operations in relation to society and the environment. An enterprise may measure the impact of its smokestack emissions on a surrounding region. A business may measure the impact of its community involvement and charitable contributions in the city or town in which it operates. It could measure the effectiveness of its hiring program and whether the program influences a region's unemployment rate.
Social accounting, unlike financial accounting, looks to understand the contributions, or lack thereof, that businesses make to society. It concerns itself with business behavior that contributes to the well-being of people and the planet. Consequently, social accounting also named as social and environmental accounting, corporate social reporting, or corporate social responsibility reporting focuses away from the financial reporting aspects of a business and only considers the sustainability accounting. The term sustainability applies to the entire operations of a business. A business can analyze whether it is sustainable as an entity from a social, environmental, cultural, and financial perspective. A business can also analyze its ability to embark on and then sustain its commitment to conducting its activities in a way that benefits society.

Social accounting can be used when reporting to fund givers on the outcomes of projects and initiatives. But it is important not to lose sight of the primary purpose of social accounting as a means for community Organizations and enterprises to track for them how they are going.

1.2. History of Social Accounting

In the 1970s the concept of social accounting conventional by a most cited paper social accounting refers to the ordering measuring and study of the social and economic cost of governmental and entrepreneurial performance. So defined, social accounting is seen as surrounding and extending in attendance accounting. Traditional accounting has incomplete its anxiety to selected economic consequences whether in the financial, managerial, or national income areas. Socio-economic accounting expands each of these areas to comprise social cost as well as economic effects which are not presently measured.
During the 17th century, sovereigns chartered the early corporations for a exact public reason, such as opening trade routes to the East Indies or as long as certain services like postal, banking, stage or ferry. The sovereign’s agents could simply observe how well these small corporations were gathering their chartered reason and did not need a formal performance report. The investors however borrowed independent agents to go and watch the operations and give them with an accounting.

As corporations grew in dimension, complexity and arrive at, some kind of performance gauge was necessary to please external as well as internal users. The account to the stockholders was adopted by default as it was the only formal treatment being done. Internal management was not content with this inadequate calculate of presentation and, thus, developed management accounting. Management got tradition information while the corporation’s external users had to resolve for the chiefly irrelevant stockholder’s report. In the early 1900’s these management reports were engrossed into financial accounting.

Throughout mainly of the twentieth century, financial accounting reports contain monopolized the meadow. Corporate performance is no longer based on how well the corporation achieves its chartered reason but exclusively in terms of the stockholder’s bottom line. Large corporations influence much more than their stockholders. They crash, often unconstructively their environment, health and security of employees and customers, and nearby neighborhoods and communities. Social accounting is worried with these stakeholders. Thus, the 1970s saw a flurry of action in this new accounting area.

Corporations and accounting firms experimented with treatment formats and incorporated sections in their annual reports on social performance. Professional and
academic organizations commissioned research studies. However, social accounting eventually served the happiness of the business, not the interest of the information users. It became one more tool for the corporation to reduce and incomprehensible injure it might be doing. Because of this mistreatment and use by big business, as well as the economic recession during the early-80’s, social accounting became limited and comparatively non-existent. Big corporations lost attention as well as the AICPA and other professional accounting organizations.

The social accounting group appeared to die, but the requirement did not go away. During the 1980s, the public build of environmentalism had greater than before considerably and this was reflected in some author’s expansion of the term social accounting to social and environmental accounting. The social accounting is a procedure of communicating the social and environmental effects of organizations ’economic performance to exacting interest groups within society and to society at large. As such it involves extending the accountability of organizations further than the traditional role of as long as a financial account to the owners of capital, in particular shareholders. Such an extension is predicated upon the supposition that companies do have wider responsibilities than just to make money for their shareholders.

1.2.1. Approaches of Social Accounting

In 1971, The public affairs council (Washington) prepared a check list of objectives, task and activities to identify the focus on social accounting . Later close to the objectives set forth in the Public Affairs Council Report, David F. Fetyko suggested a workable format for social accounting based on the following approaches:

1. Inventory Approach, whereby company’s social objectives are prepared:
2. Cost or outlay approach, whereby the expenditure on each activity is disclosed:

3. The programme management approach whereby in addition to the above to disclosure, a statement regarding compliance with the objectives, activity wise or otherwise, is recorded: and

4. The benefit cost approach, whereby the real worth i.e the benefit of the expenditure is indicated.

Social Accounting is commonly used in the business context or corporate social responsibility (CSR), but NPO’s, Charities and Government agencies are engaged in Social Accounting. Social accounting is often used in broad field of research and practice. Social accounting is first and foremost accounting. Similar to traditional accounting, it is a method of quantifying a company’s performance. Only with social accounting, performance is used broadly to include social and environment effects.

1.3. Benefits of Social Accounting

Over the last decade there has been an increasing interest by the community at large in social and environmental questions. This debate has resulted in wake-up calls for companies to be more socially responsible and manage their environmental impact in a better way and to make them realize that this may add value to their companies. In response, many companies have developed environmental management and accounting systems and have increased their social and environmental disclosure practices.

Thus the benefits of the social accounting are as follows:

- Social accounting will provide you with an ongoing record of how an organisation or enterprise has developed and changed over time.

- We can get feedback on how things are going from the range of people involved in any organisation or enterprise.
• We will be able to identify the areas where things are working well or unwell. This information will further help us to continue doing well and formulate some improvements to change what’s not working so well.

• We will know how well you are achieving your aims and values.

• We will have a record of what any organisation or enterprise is doing and the impacts it is having on society. This information can be used when applying for grants and funding, for reporting on grants, and for promotion.

1.4. Aspects of Social Accounting

Social accounting is a process that any kind of entity can perform, not just businesses that are focused on growth and profitability.

This includes governmental agencies, not-for-profit businesses, and charitable organizations. In essence social accounting deals with accountability it demands that organizations put in place practices that contribute to the planet’s sustainability and to the overall well being of humanity.

1. Social book-keeping the income by which information is regularly collected during the year of record presentation in relative to the fixed social objectives.

2. Social audit - the procedure of reviewing and verifying the social accounts at the end of each social audit cycle. The term social audit is also used generally for the idea and for the entire process.

3. Stake holders - those people or groups who are either pretentious by or who can influence the activities of an organization. Accountability is based on the principal of human rights to information – rights that get from a number of sources legal, quasi legal, moral and so on. The principal thought is that power and blame need to be matched in a pale society.
1.5. Social Accounting Practices

Social accounting Practices means a Method, Procedure, Process, Application, principles or rule used in social Accounting.

It means the accounting methods, principles, Practices , Process, Accounting Standard, Applications or rules followed by Non-Profit Organizations whereby it can account for its social performance.

Definitions of Accounting and Reporting Practices Edwards and Hulme (1996b, p. 967) define accounting and reporting practice as “The means by which individuals and organizations report to a recognized authority (or authorities) and are held responsible for their actions.” Similarly Fox and Brown (1998, p.12) describe accounting and reporting practice as “The process of holding actors responsible for actions.” Accounting and reporting practice is a complex and dynamic concept. It may be defined not only as a means through which individuals and organizations are held responsible for their actions (e.g., through legal obligations and explicit reporting and disclosure requirements), but also as a means by which organizations and individuals take internal responsibility for shaping their organizational mission and values, for opening themselves to public or external scrutiny, and for assessing performance in relation to goals. Accounting and reporting practice operates along multiple dimensions—involving numerous actors (patrons, clients, selves), using various mechanisms and standards of performance (external and internal, explicit and implicit, legal and voluntary), and requiring varying levels of organizational response (functional and strategic) (Ebrahim, 2003).

Social accounting and audit is a structure which allows an organization to construct on existing papers and reporting and develop a procedure whereby it can account for its
social performance, account on that performance and through which it can appreciate its impact on the society and be accountable to its key stakeholders.

1.6. Non Profit Organizations

A Not-for-Profit Organizations (Non-Profit Organizations, NPO) is a legal and accounting entity that is operated for the benefit of the society as a whole, rather than for the benefit of a sole person or a group of partners or shareholders. It include large international charities; small community-based self-help groups; a corporation; a trust; a co-operative and schools, colleges hospitals, project based NPO’s and Donor Agencies. These NPO are important for the development of any country. In India, the NPOs operate in varied fields such as health, poverty reduction, education, etc., and act as effective movers in socio-economic change of the country. These NPOs has always been an integral part of Indian culture and social tradition.

In a societal context, voluntary Organizations constitute the “third sector”, the first sector being the “government” and the second sector being the “market” or private business. The “third sector” is also known as the “independent sector”, emphasizing the important role voluntary organizations play as an independent force outside the realm of government and private business though, in financial terms, this sector depends heavily on both the government and private business. These voluntary Organizations are also called as Non-Government Organizations (NGOs) as they are not controlled by the government or any other outside agency. Other synonyms used to describe these Organizations are Private Voluntary Organizations, NPOs and Civil Service Organizations.

1.7. Definition of NPO
The term NPOs is thus very broad and encompasses many different types of organizations. Further, NPOs range from large international charities, to community-based self-help groups.

Certain research institutes and professional associations also operate as NPOs. The World Bank defines NPOs as “private organizations that pursue activities to relieve suffering, promote the interests of the poor, protect the environment, provide basic social services, or undertake community development”. The World Bank further classifies operational NPOs into three main groups:

1. **Community Based Organizations (CBOs):** these serve a specific population in a narrow geographical area in individual developing countries.

2. **National Organizations:** these operate in developing countries.

3. **International Organizations:** these are typically headquartered in developed countries and carry out operations in more than one developing country.

**1.7. Characteristics of NPOs**

1. **Formal,** i.e., institutionalized to some extent—if not registered, at least having a definite programme or aims and objects, as also rules and regulations of governance

2. **Private,** i.e., not part of the apparatus of the State, even though they may receive support from government sources
3. **Self-governing**, i.e., having their own mechanisms for internal governance, ability to cease operations on their own authority, and fundamentally in control of their own affairs

4. **Not-for-profit**, i.e., not primarily commercial in purpose and not distributing profits to a set of directors, stockholders, or managers

5. **Voluntary**, i.e., involving some meaningful degree of voluntary participation, either in the actual conduct of the organization’s activities or in the management of its affairs

6. **Non-religious**, i.e., not primarily involved in the promotion of religious worship or religious education – this automatically excludes temples, churches, synagogues, mosques, religious congregations, where religious worship takes place, but includes all not-for-profit service organizations affiliated to religious institutions, e.g., schools run by the Arya Samaj or Christian missionaries, etc.

7. **Non-political**, i.e., not primarily involved in promoting candidates for elected office, etc.

### 1.8. How NPOs are Different than ‘For Profit’ Organizations

Non-governmental Organizations (NGOs) perform an important role in the economic development of developing countries. They provide services to society through welfare works for community development, assistance in national disasters, sustainable system development, and popular movements.

NGOs working in development have achieved a significant profile during...
the past fifteen years or so. As a consequence, NGOs are attracting increased attention and recognition among academics and practitioners of development and development assistance.

1. **Organizational objectives:** The basic difference between for-profit Organizations and NPOs are that the latter do not operate primarily for profit but to serve the specific needs of a community, group, organisation or its membership. On the contrary, the dominant purpose or at least one of the major purposes of commercial or ‘for-profit’ Organizations is earning profits. Profits define their very purpose of existence.

2. **Difficulty in performance measurement:** The central problem in measuring performance in NPOs is that ‘service’ is a less measurable component than ‘profit’. It, thus, follows that it is more difficult to measure performance in an NPOs than in a ‘for-profit’ organisation. Thus, other indicators for performance measurement are needed for this sector.

3. **Non-transferable ownership:** In NPOs, whether registered as societies, trusts or under any other statute, the members or contributors do not possess ownership interests that can be sold, transferred or redeemed or that convey entitlement of a share of a residual distribution of resources in the event of liquidation of the organisation.

4. **Funding:** A unique characteristic of the NPOs sector is that significant amounts of resources are received from resource providers who do not expect to receive either repayment or economic benefit proportionate to the resources provided.

5. **Volunteerism:** A typical and most outstanding feature of the NPOs sector is the extent of voluntary services that are contributed to such Organizations. The term ‘volunteer’ not only includes the innumerable unpaid trustees, patrons and
members of NPOs, but also millions more who help in some form or the other and perhaps less noticeably. The value of their contribution may not be financially quantifiable, but the extent of their influence at the grassroots level is undeniable. Harnessing the power of the volunteer to deliver otherwise uneconomic services and maintaining enthusiastic volunteer support is a challenge to the NPOs sector.

6. Diversity in activities and size: NPOs are of all sizes, ideologies, nationalities, organisational structures and styles. NPOs encompass everything from charities and relief agencies to social movements for human rights; think tanks and academic centres to community organizations; cultural associations to continent wide farmers’ networks and women’s groups to environmental federations.

1.9. NPO and importance of District/ State Relations

There is no doubt that with increasing demands on the state by the citizens, the state can no longer be the sole provider of goods and services. It is also true that the support and interest in NGOs grew as a result of failure by state agencies to deliver services. Thus, the state and NGOs need each other. In their relation with the state, Clark (1991) provides a liberalist view in terms of three options; they can complement reform and/or oppose the state.

In their role of complementing the state, they act as the implementers of development activities. In this case as argued by Thomas, (1992) NGOs fill the gaps left by the public service. The role of the state becomes more of an enabler rather than the provider of services. In their reforming role NGOs are seen as agents of advocacy and contribute immensely to policy dialogue. NGOs are able to represent the interest of the people they work with and in this case can ensure that policies are adapted to real life situations. Finally, NGOs can oppose the state. They can do this by acting as
watchdogs and holding the state accountable. This can be achieved through severable methods including lobbying or even overtly supporting groups which are adversely affected by the policies of the government (Thomas, 1992). From the foregoing, it is clear that NGO-government relationships are complex and diverse and are likely to affect the management of NGO activities. The relationship is affected by the specific contextual factors which may include the nature of NGOs objectives and strategies, the area of operation of an NGO, the behavior of the donor and the nature and character of the regime (Turner & Hulme, 1997). These relations also differ from country to country. In some countries some regimes are favorable to NGOs while in others the relations are antagonistic.

In order for NGOs to realize their potential contribution and to efficiently manage their activities, a healthy relationship between them and government is essential. This healthy relationship can be conceivable only if both parties share the same objectives. If the government’s commitment to poverty reduction is weak, then NGOs are likely to see collaborating with government counter-productive. In the same vein, dictatorial governments will be wary of NGOs which tend to be sympathetic to the poor. In this case NGOs will not value a positive relationship with government and may choose to go their own way and make all attempts to make life difficult for government agencies.

However, in cases where the government has a positive social agenda which resonates with the NGOs, there is potential for a strong, collaborative relationship. But even where there is room for cooperation, jealousies and mistrust between NGOs and government is deep rooted. Governments always have fear that NGOs will erode their political power and NGOs also mistrust the motivation of government officials (Fowler, 1992).
1.9. Concept of Social Accounting and Reporting Practices in NGOs

An NGO is a non-profit, voluntary, service-oriented, developmental organization for the members (a grass root Organisation) or of other members of the population (agency). These organizations are formalized, independent, democratic, non-secretarial peoples’ organizations working for the empowerment economically and or socially marginalized groups. NGOs played a major role in bringing a change in the lives of average poor rural as well as urban citizens. However, one area where NGOs are sufficiently lacking is adoption of standard accounting practices, transparency and communication of their financial and social performance through appropriate standardized reporting practices. Their failure on this front has bred a feeling of suspicion amongst the general public regarding utilization of funds and grants by NPOs. While NPO’s should really accept their responsibility of proper reporting and follow practices, which are generally adopted elsewhere, there is a need to appreciate the peculiar circumstances in which NPO’s work and the constraints arising out of it. NGOs neither have the resources nor the expertise or the need to bring their accounting and reporting practices on par with corporate. They work in an environment totally different from commercial organizations and this fact needs to be recognized (Verma, 2007)

Concerns about social accounting and reporting practices in Non Profit (NPO’s) have increased over the past three decades, due in part to a series of highly publicized scandals that have eroded public confidence in Non Profit organizations, coupled with a rapid growth in NGOs around the world (Gibelman & Gelman, 2001). To have proper accountability, it is important to maintain proper records of all the funds received and the expenditure of the NPOs (Young, Bania, & Bailey, 1996). These
views, however, are being increasingly challenged by long-time practitioners and scholars in the field who thinking more concretely about issues of accountability (Edwards & Hulme, 1996a; p. 340). However, this Research observes how accountability is practiced by Non-Profit Organizations (NPOs) Ulhasnagar, Kalyan and Dombivali Area of Thane District.

1.10. Governance, Management and audit Issues of NPOs

The issue of good governance is the key to the functioning of NGOs. It implies the effective management NGO’s resources in a manner which is transparent, accountable, equitable and responsive to the needs of the people. Since NGOs are aimed at becoming sustainable, then good governance is critical to their existence. In many developing countries NGOs often lack institutional capacity and resources to operate. Funds from donors are sometimes poorly managed. To ensure effective and proper management of resources, good governance forms an important aspect of every NGO. One of the key requirements for good governance is accountability. The issue is to whom are NGOs accountable? At first this question may appear to have an easy answer. Obviously they are expected to account for the use of resources to the funders. But who is ensuring that accountability does take place to all concerned remains debatable. Staff is not elected and ordinary people have no mechanisms for bringing them to account. Unlike government who have to get elected and can only avoid accountability through violence or coercion and in business where consumers can decide where to spend their money, NGOs have no obvious accountability structures. NGOs themselves see the need to take this issue seriously as there is a growing emphasis on the need for proper monitoring. The issues related to Audit of NPO’s are
Environment related i.e. size, system, locations, staff and donor directives

Accounting related: corpus, earmarked funds, grants and depreciation

Book- Keeping related: multiple books, allocation of expenses and incomes

Compliance related : Income tax, TDS, service Tax etc.

There are a number of ways in which NGOs can improve on their governance and management operations. These include the following;

- Stating their mission, values and objectives clearly and ensuring that these strategies are followed
- Better human resource development and training for their managers and staff including board members and volunteers
- Better management processes as well as financial management, accounting and budget systems.
- All the payment may be collected by cheque not in cash.
- Records should not be distributed.

But for these systems to be put in place requires committed staff and leadership within NGOs themselves. The expanded role of NGOs in the delivery of public services is likely to affect the potential of these organizations. The work of NGOs is much more difficult and demanding as they are expected to deliver with limited resources. Problems arise where government shift major responsibilities to the NGO sector. According to Schiavo-Campo (2001) some NGOs do not have the time and expertise to manage all the funded programmers, even to ensure full involvement by all the communities as it is normally claimed. In some cases the problem may be created by government where there are many departments trying to deal with the
NGOs. Staff at the local level may also not be conversant with government policies and this affect efficiency of NGOs because of tensions which may arise.

1.11. Social Accounting Framework for NPOs:

Accounting aspect of every organisation is largely common but charitable organisations however, are governed by different laws as well as different forms of organisations also necessitate different accounting aspects to be complied. Project undertaken by charitable organisation may also necessitate consideration.

Accounting Aspects in NPO’s depending upon the forms of organisations:

- Public Trust
- Society
- S.8 Company (Companies Act, 2013)
- Autonomous Body functioning with Government Aid.

Accounting Aspects In NPO’s depending upon regulating Laws:

- Maharashtra Public Trusts Act, 1950
- Societies Registration Act, 1860
- Income Tax Act, 1961
- Foreign Contribution (Regulation ) Act, 2010
- Format of Account Prescribed by MoF, GoI (Ministry of Finance, Government of India)

Accounting principles and practices:

- Accounting Standards applicable prescribed by ICAI
• Indian Government Accounting Standards (IGAS)
• Indian Government Financial Reporting Standards (IPSAS)
• International Public Sector Accounting Standard (IPSAS)
• Accounting for local bodies

**Accounting under Maharashtra Public Trust Act:**

Applicable provisions

- S.31 – Submission of Budget to charity commissioner
- S.32 – Maintenance of Accounts
- S.33 – Balancing and auditing of accounts
- S.34 – Audito’s duty to prepare Balance Sheet
- S.54 – Dharmada Accounts to be kept

**Bombay Public Trust Rules, 1951**

- Rule 17 – maintenance of Accounts
- Rule 18 – certain powers facilitating audit
- Rule 19 – Contents of Audit report
- Rule 20 – Fee for special audit
- Rule 21 – Time of audit and submission of audit report
- Rule 30 – submission of Dharmada accounts.

**Accounting under Societies Registration Act:**

Applicable Provisions

- Societies Registration Act, 1860
• S.12D- maintenance of accounts and balancing and auditing
• S.12E- Auditor’s duty to prepare Balance Sheet and report irregularities
• Societies Registration (Maharashtra) Rules, 1971:
  • Rule 9 – Maintenance of Accounts
  • Rule 10- Audit
  • Rule 11- Manner of Audit
  • Rule 12- Time limit

Accounting under Companies Act, 2013

Applicable Provisions -Companies Act,2013

• S.8- Formation of companies with charitable objects
• S.128 – Books of Accounts etc. to be kept by company
• S.129- Financial Statements
• S.133- Central Government to prescribe Accounting Standards
• S.134- Financial Statement, Board Reports
• S.137- Copy of financial statement to be filed with Registrar
• The companies (Accounts) Rules, 2014.

Accounting depending on Activities

Applicable Provisions

• Depends on Activities undertaken E.g:
  • Educational Institutions,
  • Schools, colleges
  • Medical Aid Society
With a view to recommend suitable accounting system for NPOs, it would be imperative to understand the major ingredients of an accounting framework. An accounting framework primarily comprises the following:

**Elements of financial statements basically comprising income, expenses, assets and liabilities**

The framework aims to identify the items that should be considered as income, expenses, assets and liabilities by NPOs, for the purpose of including the same in the financial statements by defining the aforesaid terms. Assets are resources controlled by an entity from which future economic benefits or service potential is expected to flow to the entity. It may thus be noted that the definition of ‘asset’ would remain the same whether an entity is a business enterprise or an NGO, insofar as expectation of the future economic benefits is concerned. In other words, what is considered as an asset by a business entity e.g., Land, Building, Furniture and Equipment etc., would be considered as an asset by a NGO also. However, in case of an NGO, certain items which may not have future economic benefits but have service potential would also be considered as assets. The other elements of financial statements, viz., income, expenses and liabilities, will also remain the same for NPOs as in business entities.

A trustee of a public trust which has an annual income exceeding the prescribed amount shall, at least one month before the commencement of each accounting year prepare and submit in such form or forms as prescribed by the Maharashtra Public Trust Act 1950, a budget showing the probable receipts and disbursement of the trust during the following year to the charity commissioner. Every such budget shall
make adequate provision for carrying out the objects of the trust, and for the maintenance and preservation of the trust property.

Every trustee of a public trust shall keep regular accounts and such amount shall be kept in such form as may be approved by the charity commissioner and shall contain such particulars as may be prescribed.

**Principles for recognition of items of income, expenses, assets and liabilities**

These principles lay down the *timing* of recognition of the aforesaid items in the financial statements of NPOs. In other words, these principles lay down when *an* item of income, expense, asset or liability should be recognized in the financial statements. There is no difference in the application of the recognition principles to business entities and NPOs. For example, the timing of the recognition of a grant as an income in the financial statements of an organization does not depend upon the purpose for which the organization is run. A grant is recognized as income in the financial statements, under accrual basis of accounting, when it becomes reasonably certain that the grant will be received and that the organization will fulfill the conditions attached to it. Thus, a business entity and an NGO would both follow the aforesaid criteria for recognition of grant as income. Similarly, principles for recognition of other incomes, expenses, assets and liabilities would be the same for business entities and NPOs.

**Principles of measurement of items of income, expenses, assets and liabilities**

These principles lay down at *what* amount the aforesaid items should be recognized in the financial statements. Ordinarily, the same principles of measurement would be applicable in case of NPOs as those for business entities.
Presentation and disclosure principles

These principles lay down the manner in which the financial statements are to be presented by NPOs and the disclosures to be made therein.

In so far as presentation of financial statements is concerned, NPOs generally follow what is known as ‘fund based accounting’ whereas the business entities do not follow this system. This is because NPOs may be funded by numerous grants, donations or similar contributions, which may or may not impose conditions on their usage. In other words, the use of some funds may be restricted by an outside agency such as a donor or self-imposed by the organization. It, therefore, follows that the financial statements of NPOs should reflect income, expenses, assets and liabilities in respect of such funds separately so as to enable the users of financial statements such as the contributors, to assess the usage of the funds contributed by them. However, it may be noted that fund based accounting is relevant primarily for the purpose of presentation of financial statements and not for the purpose of identification, recognition and measurement of various items of income, expenses, assets and liabilities.

It may be concluded from the above paragraphs that while the identification, recognition and measurement of elements of financial statements are sector-neutral, the presentation of financial statements may differ among the two sectors, viz., for-profit sector and not-for-profit sector. Similarly, disclosure principles may also differ. The accounting framework discussed above would apply to all categories and types of NPOs. However, the books of account to be maintained by various NPOs may depend upon the nature of activities and/or programmes carried on by them.
1.11. Following books of Account under Social Accounting Practices are to be maintained by NPO’s to follow Accrual Basis of accounting as per ICAI Guidelines.

The NGOs generally maintain the following books of account –

1. Receipt Book

2. Voucher Files

3. Cash Book / Bank Book

4. Ledger Books of account should be maintained like any other commercial organization following the rules of Double Entry Book Keeping System and generally accepted accounting practices prevailing in India. On following Accrual System of Accounting, it is necessary to maintain a Journal Book.

It is suggested that the following statements should form part of General Purpose Financial Statements of an NGO:

1. Balance Sheet

2. Income and Expenditure Account

3. Receipts and Payments Account


Non-Profit Organizations such as public hospitals, public educational institutions, club etc., conventionally prepare Receipt and Payment Account and Income and Expenditure Account to show periodic performance for a particular accounting period.

The Receipt and Payment account is an primary form of account consisting of classified summary of cash receipts and payments over a certain period together with
Introduction | Chapter-I

cash balances at the beginning and close of the period. All the receipts and payments, whether of revenue or capital nature, are included in this account.

The income and expenditure account is same to the profit and loss account of business enterprise. It is account which is widely adopted by NPO’s and is prepared and following accrual principle. Only items of revenue nature pertaining to the period of account are included therein.

Educational Institutions:: educational institutions are different from other not-for – profit organizations both in terms of sources of income as well as the freedom to choose their accounting year (Note: NPO’s those are registered under Section 8 if the companies Act,2013 are required to prepare their financial statement as per schedule III to the companies Act,2013.

The Accounts kept under section 32 of Maharashtra Public Trust Act, 1950 shall be balanced each year on the 31st March or such other day, as may be fixed by the Charity Commissioner. The Accounts shall be audited annually by a person who is a chartered Accountant within the meaning of the Chartered Accounts Act,1949, or by such person as the state Government may, subject to any conditions, authorize in this behalf, provided that, no such person is in any way interested in, or connected with, the public trust.

It is a duty of every auditor auditing the accounts of a NPO’s under section 33 to prepare a balance sheet ad income and expenditure and to forward a copy of the same along with a copy of his report to the trustee, and to the Deputy or Assistant Charity Commissioner of the region or sub-region or to the charity commissioner.

1.12. Accounting Standards and Their Applicability to NPO
In India, the task of formulating accounting standards has been taken up by the Institute of Chartered Accountants of India (ICAI), which are based on the fundamental accounting assumption of accrual. The accounting standards issued by the Institute of Chartered Accountants of India are applicable to Commercial, Industrial and Business enterprises.

NGOs usually fall under non-commercial, non-industrial or non-business enterprises, hence Accounting Standards are usually not applicable to these enterprises. ‘Preface to the Statements of Accounting Standards’ issued by the ICAI has, however, clarified that even if a small portion of charitable organization is considered to be commercial, industrial or business in nature, then it cannot claim exemption from application of accounting standards.

Accounting standards are the authoritative statements of how transactions and events should be reflected in the financial statements. They are intended at providing a common language for communication of information. The basic objective of accounting standard setting is to maintain uniformity in the presentation of economic data contained in the annual accounts of corporate enterprises. In other words, it aims at harmonizing the diverse accounting policies and practices adopted by different enterprises and ensuring consistency in the reported information from year to year so that users of financial statements are in a position to understand and make proper use of the statements for decision purposes (Banerjee, 2002). In India, accounting standards are prepared by the Accounting standards Board (ASB) of the Institute of Chartered Accountants of India (ICAI). The ASB is now a well equipped accounting standard –setting body capable of delivering high – quality global accounting standard. 

There has been some controversy as to whether the standards issued by ASB are applicable to NGOs or not. The ICAI has clarified that the standards
are mandatory for all NGOs who have any income generating activities, no matter how small they are (Dandapat & Bagchi, 2007).

These Accounting Standards would help NGOs to maintain uniformity in presentation of financial statements, proper disclosure and transparency. However, while applying the Accounting Standards certain terms used in the Accounting Standards may need to be modified in the context of the corresponding appropriate terms for NGOs. For instance, where an Accounting Standard refers to the term ‘Statement of Profit And Loss’, in the context of NGOs, this Report uses the term ‘Income and Expenditure account’.

However, to provide relief to small NGOs, for the purpose of applicability of Accounting Standards.

**Applicability of Accounting Standards issued by the ICAI to NGOs.**


AS- 23 accounting for investment in Associates in Consolidated Financial Statements

It may be noted that so far, the Institute of Chartered Accountants of India has formulated 32 Accounting Standards out of which one Standard [viz., Accounting Standard (AS) 8, Accounting for Research and Development] is no longer in force and three Standards [viz., Accounting Standard (AS) 30, Financial Instruments: Recognition and Measurement; Accounting Standard (AS) 31, Financial Instruments: Presentation; and Accounting Standard (AS) 32, Financial Instruments: Disclosure] are not mandatory even in case of commercial entities.

It may also be noted that below mentioned Accounting Standards may not be relevant to NGOs. However, it is suggested that NGOs should follow such Accounting Standards to the extent applicable to them:


For the purpose of developing uniform accounting framework for NPOs, the applicability of Accounting Standards to NPOs has been reviewed. As at present NPOs not falling within the ambit of commercial, industrial or business segment, accounting standards are not mandatory. Since the wholesome principles contained in the Accounting Standards provide most appropriate guidance even in case of those organizations to which Accounting Standards do not apply.

1.13. Regulatory Body for NPOs

NPOs in India play a significant role in the process of social and economic development. Presently, there is no single regulatory body in India for NPOs in spite of having substantial resources at their command. Different Acts for different organizations such as Maharashtra Public Trust Act, 1950 to regulate and to make
better provision for the administration of public religious and charitable trusts in the state of Bombay. For the purpose of this Act, a charitable purpose includes (1) work for poverty or distress (2) education (3) medical help (3A) provisions or facilitiories for recreation or other leisure time occupation, if the facilities are provided in the interest of social welfare and public benefits and (4) the advancement of any other object of general public utility. The state Government may appoint a Deputy Charity Commissioner or Assistant Charity commissioner to be in charge of one or more public Trust Registration offices or joint Public Trust Registration Offices. For Societies , Society Registration Act, 1860, it’s a governing body, whether or not the property of the society is vested in a trustee. Section 25 Companies under the old Companies Act, 1956 which was one of the most popular forms of NPO’s in India, But, as per the new companies Act 2013, Section 25 (as per the old Act) has now become Section 8, company can be established for “promotion of commerce, art, science, sports, education, research, social welfare, religion, charity, protection of environment or any such other object”. And it specify different accounting and reporting requirements, which do not meet the current information requirement of various stakeholders’ viz. Donors/Contributors/Intending Grantors/Regulators/Lenders/Governments/Employees/Intending/Donors/Intending Grantors/Contributors / Public at large etc.

Skelton of NPO’s studied in the area of Ulhasnagar, Kalyan and Dombivali area of Thane District.
1.15. Need and importance of the Study

There is a rising interest in the dimension of social impact crossways the business, government and non-profit sectors. Charity is an age old activity and over the years there has been growth in societal activities. India has witnessed a spurt in societal activities and with CSR provisions in Companies Act, 2013, the activities shall be rise in near future. Even although the term social impact is not well distinct, in some countries such as UK, there are moves in the direction of making the use of some form of communal impact dimension framework or model compulsory for Third sector organizations that take delivery of government funding. This has possible dangers, especially when as some
have argued social impact and performance dimension is socially constructed. As a recent text on presentation management and measurement stated: For social enterprises performance is not some underlying quality that exists and can be known independently of the people centrally concerned in and worried about that organization. Performance is what those people more or less agree, unreservedly or openly, to be presentation what they have in mind when they use the term. In adding approaches to measuring social impact also borrow from many other tools for measuring, or in other ways ensuring maximum, organizational performance.

- Social accounting is a way of identifying how well your neighbourhood organisation or venture is achieving its aims and values, and keeping track of the crash you are having.

- Importantly, social accounting will permit you to see where improvements can be made so you can better attain your aims and values.

- Social accounting gains more meaning the longer you do it. Over time you will have an evidence of how your community organisation or venture has progressed and changed, and the sorts of impacts you have had. Social accounting is therefore a useful means of documenting your achievements and building a chronological record of the system of government or venture for members.

- Social accounting can be used when treatment to funders on the outcomes of projects and initiatives. But it is important not to lose view of the primary reason of social accounting as a income for community organisations and enterprises to path for themselves how they are going.

- The Research has attempted to study the Existing Accounting Practices and know that besides the challenges and issues faced by NPO’s today how much their
contribution is towards the society and development in the form of Social Accounting.

1.16. Statement of the Problem:

“Analytical Study of Social Accounting Practices in Non-Profit Organizations with reference to Ulhasnagar, Kalyan and Dombivali Areas of Thane District”. The central problem in measuring performance i.e. contribution towards the society in the form of social accounting in NON-PROFIT ORGANIZATIONs is that ‘service’ is a less measurable component than ‘surplus’. It, thus, follows that it is more difficult to measure performance in a NON-PROFIT ORGANIZATION than in a ‘for-profit’ organization.

1.17. Relevance of the Study

1.17.1 Academic Relevance

1. This study focuses on social accounting in Non-Profit Organizations presenting a standardized framework for preparation and presentation of financial statement in NON-PROFIT ORGANIZATIONs, using sound accounting principles pertaining to recognition, measurement and disclosures.

1.17.2 Social Relevance

2. This Research may be applicable to all NON-PROFIT ORGANIZATIONs whether community based, national or international, having their operations in India.

3. This Research is applicable not only to the programme implementation activities but also include income generating activities and so on carried out by NON-PROFIT ORGANIZATIONs.
This study emphasis on the contribution of Non-Profit Organizations towards the society

1.18. Research Objectives

The researcher has drawn specific objectives as under:

1. To study the Existing Social Accounting Practices in Non-Profit Organizations in Ulhasnagar, Dombivali, Kalyan area of Thane district.

2. To study the role of Non-Profit Organizations in the development of society through social accounting.

3. To suggest the measures to be taken in efficient utilization of funds by NPOs for the development of society.

4. To make aware to Non-Profit Organizations an applicability of Accounting Standards (AS).

1.19. Justification of Objectives

1. The above objectives have helped to understand Social accounting practice in Non Profit Organization.

2. It has helped to understand that besides the challenges and issues faced by NPO’s today how much their contribution is towards the society and development in the form of Social Accounting and also to understand the significance of NPO’s.

3. It has also helped to understand that how the NPO’s can improve in efficient utilization of funds for the society.
4. It has helped in making the awareness to Non-profit Organizations an applicability of social Accounting standards while taking the interview from the respondents.

1.21. Statement of Hypothesis (H)

The researcher has framed the following hypothesis for the study:

Hypothesis-I:
H0-NPOs in Ulhasnagar, Dombivali, and Kalyan area are well aware about Accounting Standards (AS) and Social Accounting Practices.
H1-NPOs in Ulhasnagar, Dombivali, and Kalyan area are not well aware about Accounting Standards (AS) and Social Accounting Practices.

Hypothesis-II
H0: All the registered Non-Profit Organizations do not follow different Accounting and Social accounting methods for fulfilling their Societal Development Objectives .
H2: All the registered Non-Profit Organizations follow different Accounting and Social accounting methods for fulfilling their Societal Development Objectives.

Hypothesis-III
H0- There is a significant impact of dissimilar Accounting Practices adopted by Non-Profit Organizations on the people in our study area.
H3- There is no significant impact of Social Accounting Practices adopted by Non-Profit Organizations on the people in our study area.
1.21. DEFINITIONS

The following working definitions of terms are used with the meanings specified:

**Accounting policies** are the specific accounting principles, bases, conventions, rules and practices adopted by NON-PROFIT ORGANIZATIONs in preparation and presentation of financial statements.

**Accrual basis** means a basis of accounting under which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate. The elements recognized under accrual accounting are assets, liabilities, revenue and expenses.

**Assets** are resources controlled by an NON-PROFIT ORGANIZATION as a result of past events and from which future economic benefits or service potential are expected to flow to the NON-PROFIT ORGANIZATION.

**Corpus** comprises non-reducible funds of capital nature, contributed by founders/promoters of the NON-PROFIT ORGANIZATION, not available for distribution during the existence of an NON-PROFIT ORGANIZATION.

**Designated funds** are unrestricted funds which have been set aside by the management of the NON-PROFIT ORGANIZATIONs for specific purposes or to meet specific future commitments.

**Expenses** are decreases in economic benefits or service potential during the accounting period in the form of outflows or depletion of assets or incurrence of liabilities that result in decreases in the net assets of an NON-PROFIT ORGANIZATION.
Financial statements include income and expenditure account, balance sheet, cash flow statement (where applicable) and other statements and explanatory notes which form part thereof.

Government grants are assistance by government in cash or kind to an NON-PROFIT ORGANIZATION for past or future compliance with certain conditions. They exclude those forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from normal trading transactions of an NON-PROFIT ORGANIZATION.

Government refers to government, government agencies and similar bodies whether local, national or international.

Income is the increase in economic benefits or service potential during the accounting period when that results in an increase in the net assets of the NON-PROFIT ORGANIZATION.

Liabilities are present obligations of the NON-PROFIT ORGANIZATION arising from past events, the settlement of which is expected to result in an outflow from the NON-PROFIT ORGANIZATION of resources embodying economic benefits or service potential.

Restricted funds are contributions received by an NON-PROFIT ORGANIZATION, the use of which is restricted by the contributor(s).

Unrestricted funds are contributions received or funds generated by an NON-PROFIT ORGANIZATION, the use of which is not restricted by the contributor(s).

1.22. Universe & Sample Size

- **Study period:** 2008-09 to 2017-18
- **Sampling:** stratified Random Sampling
• **Sample Size:** 1/10\(^{th}\) of total Registered (7000) Non-Profit Organizations located in Ulhasnagar, Kalyan and Dombivali areas of Thane District are selected. Around 700 registered Non-Profit Organizations are selected.

• **Classes of Respondents contacted:** Superintendent (Judicial) Information Officer, Charity Commissioner of Public Trusts Registration office of Thane District.

• Executives, senior managers, secretaries or accountants, of selected Non-Profit Organizations.

• Academician, consultants, and members of various Non-Profit Organizations.

• **Location:** Registered Non-Profit Organizations in Ulhasnagar, Kalyan and Dombivali Areas of Thane District.

• **Methods and source of Data collection:**
  
  Primary data was collected by the use of structured questionnaire, personal interaction, observation and personal visits to NPO’s.

  Secondary data: collected from various books Research Papers, Journals, Government websites and NPO’s Websites.

• **Data Representation:** Pie chart, Bar Graphs

• **Analysis of Statistical Data Tools:** Chi square, F- test, ANOVA-one way.

### 1.24. Research Gaps

The overall discussion of this chapter leads to a consideration of the following research deficiencies in the social and environmental accounting literature:

1. As discussed previously, there is relatively limited research on the social and environmental reporting practices of organisations operating within developing
countries, or the external pressures exerted on such organisations in relation to their social and environmental performance and related accountabilities.

2. There is a lack of research that involves stakeholder groups such as the media and NGOs to investigate their expectations or the pressures they can exert, and how these both directly drive the accountabilities and related disclosure practices of organisations operating in or sourcing products from developing countries.

3. The study emphasis on the Accounting Practices of different categorize NPO’s i.e. Educational, Health (Service Provider NPO’s) and Child welfare, Women welfare and others (Purely charity Based NPOs’ i.e. Temples, Gurudwaras, Church, Masjids, Gaushalas, Rotary Clubs etc…) which may not being studied yet.

4. As far as concern awareness about applicability of Accounting Standard on NPO’s is studied which may not being noted studied before.

5. The study is mainly focused on role of NPO’s in the development of society through their social Accounting Practices which is not being studied.

6. Primary and secondary objectives are taken in the consideration to measure the role of NPO’s in the development of society.

The above deficiencies have led to the conduct of this research which attempts to fill the gaps by adding to the existing body of knowledge concerning the motivations for the social and environmental reporting practices of organizations operating in or sourcing products from a developing country.

1.25. Scheme of the Thesis

Chapter I: Introduction: This chapter has a Background of the study, Need and Importance of Study; Research Problem, Relevance of Study, Objectives of Study,
Introduction | Chapter-I

Justification of objectives, statement of Hypothesis, working definition, universe and sample size. This also emphasizes on the Research Gap.

Chapter II: Review of Literature: To make the research qualitative and more effective and to achieve the objectives of the Research the important and relevant literature from the Journals, Magazines, and Books on the above study is referred.

Chapter-III: The third chapter “Profiles of the study” has scanned the nature and characteristics of profiles of companies studied for the proposed analysis.

Chapter-IV: The fourth chapter “Research Methodology” have detailed analysis of the methodology chosen for Data collection and Interpretations

Chapter-V: The fifth chapter “Data analysis” has a detailed analysis of the data collected by using appropriate statistical methods.

Chapter-VI: The sixth chapter has a detailed discussion of Observations, Findings and suggestion of the study. It also emphasis on achievement of objects, scope of future research, Utility of research outcome and limitations of study.

Chapter-VII: The seventh chapter has Conclusion from the research study.

Bibliography

Annexure I- Questionnaire

Annexure II- Questionnaire

Annexure III- List of NPO’s

Annexure IV- Resume