

JHARKHAND VIKAS PARISHAD

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FINANCE MANUAL



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JHARKHAND VIKAS PARISHAD
FINANCE MANUAL

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PREFACE

Finance Manual is a handbook of the organization for maintenance of its all financial transactions as a development non-government organization as per finance maintenance rule prescribed the Government and 'Institute of Chartered Accountants of India' to comply the organization requirements as per the Memorandum of Association, submission of finance report to the Donor/Supporting agencies and Government Departments e.g. FCRA, Ministry of Home Affairs, and Ministry of Income Tax, Govt. of India.

This is also a guidebook for the organizational board members and staff to follow the basic principles of maintenance of books of accounts etc. for smooth implementation of organizational activities.

JHARKHAND VIKAS PARISHAD (JVP) is a non-profit making organization working in Pakur and Ramgarh district of Jharkhand, India for more than 10 years above for the benefit of the scheduled tribes, primitive tribal groups, scheduled castes; other socially, excluded and economically backward marginalized communities. **Jharkhand Vikas Parishad** is committed to make a change in the rural society through promotion of health, creation and optimum utilization of natural resources, empowerment and self-reliance of rural communities based on equity, justice and integrity.

So to achieve the objectives of the organization maintenance of accounts in a right manner in very much important as all we know that, accounts is one of the main pillar of any family, organization and business establishment for its proper growth and development.

Jharkhand Vikas Parishad was registered under Indian Trust Act, 1882 (Registration No. 9277/TT/-35) in the year 2000 (Date of Registration: 3 June 2000). It started its activities in Ramgarh block of Hazaribag district, Dumka district of Gopikander block and Amrapara block of Pakur district of Jharkhand. As per registration as a social development organization based on Memorandum of Association we have clear written instruction of maintenance of accounts too.

This manual has been written to serve as a guidebook for maintenance of accounts and related matters timely, in a proper way and transparent to all concerned with **Jharkhand Vikas Parishad**

This handbook contains several things of which; Financial year; Accounting practices; Sources of income and expenditure; Planning and budgeting; Maintain legal and statutory compliances; Accounting system; Payment procedure; Corpus Fund/Investments; Cash and bank management; Purchasing Process; Records/Documents; Audit System; Grant Management; Financial Statements; Assets Register; Bank Accounts; FCRA related; Income Tax related, PAN, TAN, 12A & 80G; Insurance and Internal Control System

Secretary

President

1. Introduction

Sound financial management in any organization is critical to the effective, efficient use of its resources. The ability to provide accurate, complete and timely financial information enables the organization to comply with the rules and regulations of its donors, government and regulatory agencies, their grant reporting requirements, as well as adhere to generally accepted accounting principles. Accurate and timely financial information also assists in decision-making and enhances our ability to attract funds from our donors. The policies and procedures contained in this manual are designed to provide **Jharkhand Vikas Parishad** with the tools needed to effectively manage the financial resources. The staff guidance in this manual is to be used in connection with other policies and procedures as promulgated by **Jharkhand Vikas Parishad**.

Now a-days, Leaders and managers of NGOs have to develop, at the very least, basic skills in financial management. Expecting others in the organization to manage finances is clearly asking for trouble. Basic skills in financial management start in the critical areas of cash management and bookkeeping, which should be carried out following certain financial controls to ensure integrity in the bookkeeping process. New leaders and managers should swiftly learn how to generate financial statements (from book keeping journals) and analyze those statements so as to develop a real understanding of the financial condition of the organization. Financial analysis shows the 'reality' of the situation of an organization – and as such, is one of the most important practices in management. This manual will help **Jharkhand Vikas Parishad** staff and members with an understanding of common practice in financial management, and help us to build the basic systems and practices to be developed to make it a healthy organization.

This Finance Manual contains the key financial procedures followed by **Jharkhand Vikas Parishad** for maintenance of its all financial transactions as a development non-government organization as per the objectives of the organization and finance policy stated below.

2. Objective of this Finance manual

- To ensure effective financial management
- To evolve system and putting it into place
- To ensure credibility, high effectiveness and sound management systems
- To foster good practices with transparency, and to minimize errors
- To support good governance within the organization
- To ensure organizational sustained growth

3. The Finance Policy

Jharkhand Vikas Parishad prepared the finance policy through which all financial matters will be maintained and resolved. The policy points stated below.

- Financial year
- Accounting practices
- Sources of income and expenditure

- Planning and budgeting
- Maintain legal and statutory compliances
- Accounting system
- Payment procedure
- Corpus Fund/Investments
- Cash and bank management
- Purchasing Process
- Records/Documents
- Audit System
- Grant Management
- Financial Statements
- Assets Register
- Bank Accounts
- FCRA related
- Income Tax related
- PAN and TAN
- Insurance
- Internal Control System

4. Financial Year/Accounting period

The financial year/accounting period will be as per Indian standard starts from 1st April to 31st March (previous year to next year)

5. Accounting Practices

The organization shall follow national standard accounting practices – double entry, cash/accrual basis.

6. Sources of income and expenditure

The Sources of income and expenditure will be the income from Members contribution, Well wishers donation, Grant from Donor Agencies within the Country and Abroad, CSRs and Govt. Departments. The expenditure will be for rural/social/human development in Jharkhand.

7. Planning and Budgeting

The Planning and Budgeting for a financial year is one of the most important areas of any organization. So, Jharkhand Vikas Parishad will prepare a plan and budget in the month of February-March for the next financial year (April-March) taking into consideration of all anticipated income and proposed expenditures. Other details stated below.

- The budgeting process shall start with Organizational budgeting for next year financial year
- The organizational budgeting process of a calendar year shall be finalized in a Governing Body meeting

- The chief functionary of the organization shall be responsibility for preparation of annual budget and plan of with help of a core group of members. (both form program and finance)
- The budgetary revision shall be done by the core group of the organization on half yearly basis as/if required due various reasons

8. Legal and Statutory Compliances

All organization has to maintain various legal and statutory compliances. Normally Jharkhand Vikas Parishad also will maintain all the legal and other statutory requirements as per the MoA and Law of the Land. The detail stated below.

- Trust/Society Returns
- FCRA Return
- IT Return
- TDS
- TDS Return
- Annual Audit Report
- Annual Progress Report

9. Accounting System

- Accounting system shall be maintained in Tally software. Also the manual practices as/if required
- Back up of the tally data shall be taken in external CD/DVD/Pen drive at frequent intervals Hard copy/print out of the financial reports shall be taken daily basis (at the end of the day)
- Petty cash system
- Verification of cash on daily basis (random check)
- Vouching
 - Tally vouchers / Manual
 - Preparation of vouchers (process flow)
 - Approval of vouchers - up to Rs.2000 by PC
above Rs.2000 by CF
- All vouchers will contain required supporting bills
- All vouchers shall be numbered with date of transaction
- Bank Accounts
- Following reconciliations shall be made on monthly basis –
- Bank reconciliation
- Cash reconciliation
- Grant reconciliation (on quarterly basis)
- Fixed asset reconciliation (on annual basis)
- Final books of accounts and financial records shall be maintained for 10 years period in soft and hard copy.

10. Payment Procedure

For any expenditure any staff/member of the organization has to be given a requisition to his/her concerned Departmental head/Secretary as part of initiation about the expenses. The Departmental head/Secretary will check with plan and approved budget and recommend for advance for the expenses. The advance payment will be given based on a 'Advance slip' signed by concerned persons, recommended by the Dept. Head and approved by the Secretary. The voucher of the advance amount has to be deposited by concerned staff/member within 3 working days of the expenses incurred. Based on the voucher the advance amount will be make adjustment/recovery in the accounts section.

11. Corpus Fund/Investments

If any Individual or Donor agency will donate any amount to meet organizational recurring expenses as Corpus Fund, in that case the amount will be deposited as investment with any financial institution/bank as per law.

- The investment decisions shall be taken by the approval of AGM in line with Investment policy
- Short term investments can be made in high security deposits or FD

12. Cash & Bank Management

-Cash handling

- The organizational payment system shall encourage payments through Bank cheque/transfer
- The upper limit of cash payments shall be Rs. 5000/- however due care be taken to minimize single individual payments well within Rs. 2000/-
- The cash reserve shall be a maximum Rs. 20000/- for individual project
- Minimum Cash shall be reserved at Central Office as impressed amount for smooth functioning of day to day activities

-Cash/Fund Flow:

One cash/fund flow chart will be prepared at the organization level for each program of the overall project. Here the cash flow forecasting will be done in Grant Management Whether the donor release the payments on Quarterly Basis **or** Six monthly basis or Yearly Basis Accordingly an expenses/implementation plan will be prepared on Monthly Basis. If the fund is not available timely, **JVP** will send a request for funds in advance.

-Cash Book

This is an important document of financial management. All the vouchers that are prepared are entered here. Though **JVP** maintain computerized cash books in Tally. Regular print out to be taken and filed and also back up of the data should be taken as and when used or at the end of the day.

-Book Keeping

All the information related to any transaction will be kept at one place and to give some information on a piece of paper where we need to mention the details of transaction. This 'voucher' will be maintained and kept properly. As soon as the voucher is prepared and approved by Dept. Head/Secretary this is made entry in the Tally software. Here, once one enters the voucher, we can get the rest of the information automatically.

13. Purchasing Process

The organization formed a Purchase Committee having 3 members e.g. (i) President/Secretary, (ii) Treasurer/Cashier, (iii) Concerned Department Head. All decisions of major purchases, basically assets or big purchases the committee will be decided purchase based available at least 3 quotations from 3 vendors. For Govt. approved vendor 1 quotation could be sufficient if the committee decides.

For petty purchases, one requisition is placed by the concerned department head with available quotations, then approval by the Secretary, then purchase order, procurement of materials, payment/vouchers, and then entry into asset/stock register/stock will be the normal process of all purchases.

14. Records/Documents

Jharkhand Vikas Parishad will maintain the following hard copy documents at the organization level—

- Cash Book
- Ledger
- Vouchers
- Fixed Asset Register
- Stock Register
- Attendance register
- Salary register
- Leave ledger
- Log book tour – travel register
- Other necessary

15. Audit System

- The organization follows internal audit system through a core team on quarterly intervals
- There shall be an external auditor appointed for statutory audit
- Appointment of auditor and honorarium fixation shall be done in AGM
- The final report shall include final Statements, Receipts-Payments, Income-Expenses and Balance Sheet, Auditor report to be prepared and handed over to the JVP at the end of each financial year

16. Grant Management

- There shall be separate bank accounts opened if the specific requirement arises from donors
- FC and General fund accounts shall be maintained separately
- Separate books of accounts shall be maintained for individual projects
- All expenditure charged shall be in accordance with budget lines in case of deviation there shall be specific request with reason and with due approval from the donor
- Timeline of financial reporting and reporting formats of donors shall be followed
- Funds of individual project shall not be used for other projects or expenses at any way
- For closure of any project if any residual fund is with the organization to be returned to agency or the spent for same cause with approval from the agency

17. Financial Statements

One monthly comparative financial statement will be prepared on a regular basis irrespective of the requirement of donor agencies. These statements will be prepared separately for each project as per the approved budget and also a cumulative statement from which the information of overall funding each project-wise and also the expenditure made till that period will be available. This will help monitor the program implementation-expenses trend and also help to keep track of the activities /programs are taking place as planned.

18. Assets Register

JVP will maintain one manual/computerized asset register in which all the assets purchased will be documented. This Register will meet the needs of Auditors and Donor Agencies as well as the assets of the organization and individual project is concerned. This will be maintained as and when basis and each time it is updated, take a print out in case of computerized and get the concerned authorized persons signature and keep it on a file.

-Fixed Assets

- Fixed asset means items with value above Rs.2000 and / or lifetime of more than 1 year
- Procurement of fixed assets shall be after due approval of board as per purchase rule
- A fixed asset register shall be maintained showing make, value, location of asset and its condition.

19. Bank Accounts

JVP will maintain and open a General Account and an F.C.Account (Foreign Contributions Regulation) Act. The project specific account will be maintained as per the advice/request by the Donor if required.

-F.C. Account

Under FCR (Foreign Contributions Regulations) Act it is required to maintain a separate bank account which is meant for receiving & utilization of foreign donations only.

- Funds received from foreign sources should be deposited in the FC Account of the organization. In case overseas funds are transferred electronically the funds should be transferred to FC Account only.
- Any unutilized balances related to grants/donations from foreign sources should be deposited back into the FC Account.

-General Account

This account will be used for in-country funds. For in-country sue JVP has one general account. If required in the future more account to be open for their in-country projects for convenience sake as required. For closure of any project, the project account will be closed as and when the project is over and there is little likelihood of getting further funds in the near future from that donor/ organization for that project.

-Updating Pass Book

The Pass Books of all the accounts will be updated as and when the transactions are made. Even if there are no transactions also, the Pass Book will be updated at least twice in a month. The Bank Statement will be collected from the bank at the end of the month and Reconciliation will be done. The update of Pass Books should be done for all the accounts both FC and General accounts.

20. Administrative Expenses

Administrative financial planning is one important area of administrative expenses e.g. Rent, Travel, Electricity, Water, Office Upkeep, Vehicle fuel and Vehicle maintenance. **JVP** has made a suitable financial planning for maintenance and manage of all administrative expenses during planning and budgeting at the Organization level as well at the Donor/Project level.

21. FCRA

JVP has the registration under the Foreign Contribution (Regulation) Act, 1976, under the Foreign Contribution (Regulation) Act, 2010 (FCRA, 2010) and such registration shall be valid for a period of 5 years from the 1st May, 2011, i.e., up to the 30th April, 2016.

-Changes in FCRA

With effect from 1st May 2011 there are some changes in FCRA. These include definition of admin expenses, renewal of registration, prior permission, Bank Account and other related. **JVP** will follow all the undated rules as per the Govt. of India.

-Form FC6 return

JVP will fill the FC-6 along with all required documents at the end of each financial year will submit to the FCRA, Govt. of India.

22. Income Tax

The total tax to be deducted, on the estimated income of the employee for the relevant financial year, is divided by the number of months of his employment during that financial year. The amount so arrived at is the monthly deduction of tax at source.

As no employee of **JVP** is reach to an amount of total income exceeds the maximum amount which is chargeable to income-tax at this point of time. If any employee exceed his/her salary which is applicable under TDS will deducted as per law to be deposited to IT department in the future.

-Amendment in TDS Rules

Amendment made vide Notification No. 41/2010 dated 31 May 2010 and the notable features of the amended TDS Rules which are applicable to the month of March and to the Quarter ended 31st March 2011 are as follows:

(i) Time limit for deposit of TDS for the entire month of March will be 30th April 2011 instead of two separate time limits i.e. 7th April for TDS up to 30th March and 31st May for TDS as of 31st March.

(ii) Non-salary TDS certificates will need to be issued on quarterly basis (instead of monthly or annual basis)

(iii) Time limit for filing quarterly TDS statement for last quarter of FY is advanced to 15th May instead of 15th June.

As can be seen from the above that the time limit for deposit of TDS deducted during the month March 2011 (i.e. on payment basis OR on provision entries made at the year end) shall be April 30th 2011 as against the due date of 7th April and 31st May.

JVP will follow all the TDS rule as per income Tax act as applicable in the future.

23. PAN, TAN and 12A/80G

-Permanent Account Number (PAN)

PAN Card is very much important as on today for every individual who at least engaged in any job or business as per the law of the land. It is required as per the latest requirement of Income Tax Act. PAN is a number that is used by Income Tax Department for identifying a person as well as through this number get complete information about the assessed person. As a 10 digit alphanumeric number, it comes printed on laminated card and features information like PAN number, name of applicant, father's name, date of birth and also carries passport size photo for identification purposes. This will help for various purposes along with Tax Return Submission stated below.

- For filing income tax returns
- For undertaking any correspondence with income tax department
- For submitting challans for payment of tax levied to the department
- For conducting verification of identity of assessed in income tax department
- Today PAN card even used for Railway e-ticket reservation

JVP advised all its staff members to prepare their own PAN Card for future utility.

-Tax Deduction and Collection Account Number (TAN)

TAN number is used for deduction of taxes and is required if you are – Paying salary Making payments in form of consultancy fees, rent, contractual payments With the tax deducted at source and paid to Income Tax Department, it is mandatory to deducting taxes and is quoted in TDS/TCS return including in –

- e-TDS/TCS return
- TDS/TCS payment challan
- TDS/TCS certificates

TAN (Tax Deduction and Collection Account Number) is 10 digit alpha numeric number that is needed by all persons responsible for deducting/collecting tax and as per Income Tax Act, 1961 is required by persons making payment/crediting income of specified type to another person. Here the payee deducts a specified amount payable/creditable at time of making payment/giving credit (whichever is earlier) and deposit sum deducted (TDS). Prior to making deductions, persons need to apply to assessing Officer for allotment of tax deduction account number (TAN) under section 203A of the Income Tax Act. TAN is quoted in following documents:

- Challans while depositing deducted tax
- Certificates issued against tax deducted
- Returns furnished in respect of tax deducted at source
- Other documents that pertain to transactions as may be prescribed

Though JVP Don't have any TAN Number right now, but the organization is in a process to registered under TAN under Income Tax Act at the earliest possible and follow the rules under the act.

-12A/80G:

12-A of Income Tax Act

Income of an organization is exempted if NGO has 12-A registration. All income shall not be taxable after 12-A registration. This is one time registration.

80-G of Income Tax Act

If an organization has obtained certification under section 80-G of Income Tax Act then donors of that NGO can claim exemption from Income Tax. This is now also one time registration.

Though JVP Don't have any 12A or 80G at this point of time under Income Tax Exemption Act, this registration now under process to be done at the earliest possible and follow the rules under the act.

24. Insurance:

JVP propose for several insurances for the assets, money as well as the staff. The detail stated below.

- All fixed assets will be insured under Fire and Threat Coverage
- Cash in transit, fidelity and cash in hand to be insured
- All staff will request hereby to made an accident insurance with minimum cost from own income for future safety
- The staff may made an group life insurance which is chief one form their own income for future benefit

25. Payment of Salary

Salary payment is made on a monthly basis for base salary due up to the pay date. Paydays usually are 2nd or 3rd day of every other month.

It is the Organization's policy that employee paychecks will only be given personally to that employee or **through bank transfer in individual account**. All other arrangements for mailing or pick-up must be made in advance and in writing with the Accounts Department.

If the normal payday falls on an Organization-recognized holiday, paychecks will be distributed one workday prior or after to the aforementioned schedule. Under no

circumstances will the Organization release any paychecks prior to the announced schedule.

Employees may be paid by check or through direct deposit of funds to either a savings or checking account at their bank of choice OR by cash from the Accounts Department. Payment through Bank will be encouraged as far as possible.

A statement of earnings is given each pay period to employees indicating:

Gross Pay

Statutory Deductions if any/applicable

Except for extreme emergencies and vacation pay, no salary advances will be made

26. Employee Benefits

-Provident Fund:

The employees of **Jharkhand Vikas Parishad** will get the benefit of Provident Fund (Contributory) as per the Labor Law Act, Govt. of India if Donor/Supporting agency will agree to and pay the Employers Contribution to be laid down in the budget proposal before beginning of the year and subject to the approval and fund release by the Donor/Supporting agency in the future. The All employees know that **JVP** don't have any income to pay the Employers Contribution forms its own.

Further **Jharkhand Vikas Parishad** will always try its best to convince its Donor/Supporting agencies to pay the Provident Fund (Contributory) as per the law of the land to protect the employee's future benefits. The Provident Fund (Contributory) will be deposited with the Provident Fund Office as per the rule.

-Gratuity:

Gratuity will be paid to the staff of **Jharkhand Vikas Parishad** after completion of 5 years of service (to be calculated from first year onwards/15 days per year) OR at the time of retirement at the age of 60 years subject to the approval and fund release by the Donor/Supporting agency in the future. The Project Supervisor/In charge and accounts department if **JVP** will make necessary Gratuity budget provisions with the concerned Donor/Supporting agencies well in advance as per rule.

27. Internal Control Methods

To run any organizations' financial systems in a proper and systematic way, internal control mechanism need to be set up. This will also help the organization develop systems and minimize the possibility of mismanagement of funds. Some of the internal control methods followed by **JVP** stated below.

- Allocate functional responsibilities within the organization
- Assets are safeguarded
- Staffs are competent enough to take up the job responsibility
- Review the work done by one individual in monthly meeting

- Prepared for Finance guideline
- Budgets prepared in a planned manner
- Budgets are utilized as planned and periodic reviews done
- Stock/asset registers are maintained and physical verification done time to time
- Assets are insured
- Cash in transit, fidelity and cash in hand insured
- Handling of cash is Cashier's/Accountant's responsibility
- Cash in hand kept the minimum
- Major payments made by cheque
- Bank accounts operated jointly
- All payments done based on proper supporting
- Internal audit carried out with physical verification
- Monthly bank reconciliation done
- Staff issued appointment letters
- Attendance register maintained day to day basis
- Fixed assets/capital expenditure purchased approved by Purchase Committee/GB
- Purchasing committees order for purchases after proper minimum three quotations

28. Responsibility of the Chief Functionary

Secretary here is the Chief Functionary will have overall responsibility for the efficient and effective use of the Jharkhand Vikas Fund to achieving the program's objectives. This will be done in such a way as to safeguard the program's funds as well as maintaining compliance with each donor's rules and regulations. The specific responsibilities stated below.

- Ensures that records are maintained for all acquired and owned assets and oversees the annual physical inventory of assets and the reconciliation with the accounting records
- Conducts such studies as necessary to maintain the efficient and effective use of all assets
- Prepares plan budgets for grant application, modification or extension in consultation with key members.
- Acts as liaison with program staff in the Office to assist in the understanding and compliance with financial policies
- Acts as the primary liaison with Finance staff and program staff

29. Responsibility of Program Managers

- Detailed knowledge of each assigned task and its compliance requirements in terms of finance
- Approve each direct cost incurred on the assigned task
- Reviews the total level and line-item expenditures as per approved budget
- Review the progress of the implemented program in tune with expenses in the field

30. Finance Manager's/Accountant's Responsibilities

- Trains the program staff and other accountants on financial management and accounting function
- Complete accounting activities and reporting to meet donor requirements in time
- Preparation and review of all periodic financial reporting
- Preparing vouchers, issuing checks, entering cash receipt and disbursement data into Tally and reconciling the cash and bank at the end of the day
- Records all financial transactions and prepares monthly finance reports for the organization and for the donors
- Ensures that all financial transactions are classified, recorded and summarized properly

31. Other Issues

At the end, this policy explicitly declared other issues such as-

- No funds or assets will be used for any unlawful or improper purpose
- No contributions will be made for political purposes from the organization or as bribe
- Financial data required to be submitted to donors, including governments, must be accurate, complete and current and prepared in accordance received grants
- No payments will be solicited or received by an employee or relative of an employee from a vendor or donor
- All financial transactions will be accounted for accurately and properly
- No borrowings can be made from local lending institutions or individuals without prior written approval of Governing body
- Personal loans or advances cannot be made to staff under any circumstances

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