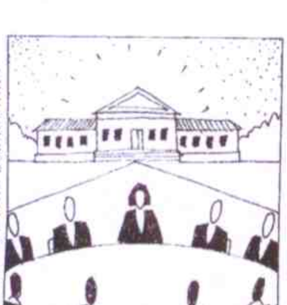
Accounts Ambiguity

SYNOPSIS: Poonam Trivedi was confused. The director-general of the Centre for Language and Literature (CLL), she had spent nearly two years trying to take the organisation to a position of financial security. Surviving, as it did, on grants—augmented by its own income—CLL had been generating a surplus without managing to maintain its corpus at its real value. The only option, felt Trivedi, was to use innovative accounting practices so as to maximise the gains from short-term grants, which could be added to the corpus. But Trivedi wasn't sure how correct that would be. Was Trivedi on the right track in using accounting as a strategic tool? While JCB&K's Nandan Maluste approves of the accounting strategy, Sandoz' J.N. Banerjee prefers a long-term financial gameplan. And Tata Sons' B.G. Deshmukh suggests a greater focus on management for the voluntary organisation.



Illustrations by PAVAN BURAGOHAIN

Poonam Trivedi, director-general of CLL, decided to use innovative accounting practices to strengthen the institution's eroding financial status

SCANNING THE INCOME AND EXPENDIture statement of the international conference which she had organised a few weeks earlier, Poonam Trivedi was experiencing mixed feelings. The conference had been a success in terms of securing visibility for the academic institution she had been heading for the last two years, but she wasn't sure if it had achieved its basic objective of generating revenues and strengthening the institution's corpus. Trivedi had abandoned an impressive career in the corporate sector, which had been topped by a three-year stint as the CEO of the Indian subsidiary of a consumer goods transnational, to join the Centre for Language and Literature (CLL) in July 1994 as its director-general. Although neither the organisational resources at her disposal nor her own emoluments were comparable, she had signed up for two reasons. First, the ambience of a teaching and research institution promised to fill what she thought had been a missing gap in her work-life. And second, CLL had given her an opportunity to use her management expertise to provide a commercial perspective to the administration of a voluntary organisation.

CLL had been set up in 1983 as an autonomous institution under the Societies Registration Act. It ran a one-year post-graduate programme in linguistics and a six-month diploma programme in comparative literature. Also on offer were several short-term programmes in literature appreciation and creative writing. In addition, CLL carried out research projects from time to time, using grants from different sources. For instance, three years ago it had conducted a major research project on the language of law, financed by a private legal foundation, which had generated substantial income.

The original sources of funding for the project, for which the state government had allotted land free of cost, comprised a revenue grant and two capital grants. The revenue grant of Rs 1.8 crore had been donated by a group of publishers of educational books, and carried four riders: the amount would remain as part of a permanent corpus of CLL. No withdrawals would ever be made from the corpus. The entire corpus would be invested in approved securities. And interest from such investments would be used—in addition to the revenue generated from various programmes—to meet day-to-day expenses. During the first four years, CLL had cashed in on its low overheads to add Rs 10 lakh to the corpus from internal accruals, taking it up to Rs 1.9 crore.

Simultaneously, CLL had received an infrastructure development grant of Rs 3 crore from Sunshine Foundation, a philanthropic trust set up by an industrial group while Moonlight Foundation, another well-known Indian trust, had chipped in with a grant of Rs 2 crore. Both were meant to finance not only CLL's capital expenditure, but also two other long-term commitments: faculty development and research activities. The unutilised portions of both the grants had been invested in approved securities and fixed deposits.

One of Trivedi's first tasks on taking charge at CLL was to review its financial position. CLL's expenditure in 1993-94 had been Rs 35 lakh.

The income: Rs 15 lakh from institute programmes. Rs 25 lakh interest from the revenue grant invested in approved securities. And Rs 9 lakh interest from the unutilised portion of the capital grant. CLL had also received grants aggregating Rs 10 lakh from various foundations, aimed at allowing faculty members flexibility in carrying out research and covering the cost of attending conferences and workshops. Much to Trivedi's amusement—and discomfort—this amount had been treated as income for the year. Karsanbhai Dave, secretary of the board who also headed finance, had a ready explanation: "That has been the practice with regard to short-term grants whose tenure and validity are less than a year."

THE TOTAL INCOME OF RS 59 LAKH, GENerating a surplus of Rs 24 lakh, obviously indicated a stable financial situation despite the fact that the corpus still stood at only Rs 1.9 crore. Or did it? Actually, Trivedi had spotted several deep-seated factors at work which could erode that stability. For instance, the capital grant from Moonlight Foundation had to be utilised completely by end-1995. After that, the Rs 9-lakh interest income in the unutilised portion would no longer be CLL's. And since the Rs 1.9-crore corpus had to be invested only in "approved" securities, CLL couldn't expect returns of higher than 13 or 14 per cent per annum. But with the rate of inflation ruling between 9 and 10 per cent, CLL would be left with a real return of only 3 or 4 per cent. At current rates, the interest income would, at best, amount to Rs 25 lakh. But since the corpus would have to be replenished every year if its real value had to be maintained, that would leave barely Rs 8 lakh for regular expenses. So, even if expenses didn't rise, this would leave a gap of Rs 27 lakh in current terms, which would have to be covered through regular activities. At the moment, CLL's income from programmes was Rs 15 lakh, which would still leave a deficit of Rs 12 lakh.

Trivedi identified her twin priorities immediately: generate higher revenues consistently. And stem the erosion in the real value of CLL's investments. While the former would require an increase in the level of faculty programmes, the latter, she realised, would need several different strategies. For instance, the current year's expenses could be booked under programmes for which CLL had secured grants from Moonlight Foundation and other donor agencies. That would allow the interest income to be added entirely to the corpus.

CLL could also make surpluses on these grants if it charged market rates for the faculty time spent on research projects sponsored by those particular grants. So, if a faculty member spent about a month on a research project financed by a particular grant, his time would be paid for, in the books, at the prevalent market rates. But since the faculty member would actually be paid only his regular salary, the difference would accrue as income for CLL. In essence, CLL would treat the funding agency as a client for a research project. When Trivedi mooted this idea to the trustees of Moonlight Foundation, they had no hesitation in conveying their acceptance. "So long as CLL benefits from such an accounting practice, we have no objection," the chairman said, even while being firm on the issue of utilisation of grants

STATEMENT OF PAYMENTS & RECEIPTS

Receipts	Amount (Rs)	Payments	Amount (Rs)
Amount received from Government	10,00,000	Faculty & delegates' travel	2,17,660
Cultural Relations Council	6,00,000	Travel support to foreign delegates	1,23,900
International Donor 1	50,000	Printing & stationery	2,82,100
International Donor 2	1,00,000	Wages to support staff	1,78,330
International Donor 3	4,75,000	Office expenses (including rent for recording equipment and *shamiana*)	1,51,680
		Guest-house charges (lodging)	1,46,620
		Guest-house charges (boarding)	2,20,800
		Transport charges	33,280
		Postage, telephone, and telex/fax	22,740
		Cost of accommodation arrangements	2,60,955
		Reproduction cost of research papers	2,80,580
		Centre faculty time cost	7,50, 000
		Publication of research papers as books	1,20, 000
Income	22,25,000		
Excess of Exp. over Inc.	5,63,645		
Total	27,88,645	Total	27,88,645

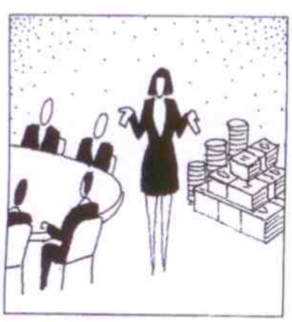
Notes

* The expenses recorded were exclusively incurred for the conference.
1. Straight grant with no attached conditions.
2. Actual expenses for travel related to arranging the conference.
3. See Note 2.
4. Supported by International Donor 1.
5. The donor has committed reimbursement of Rs 5,00,000 towards field research
6. All the stationery bought during the year was charged to the conference account. Printing charges were maintained separately for regular activities and the conference. Printing and stationery expenses for 1994-95 totalled Rs 3,10,000, including Rs 2,82,100 recorded under conference expenses.
7. The donor has committed reimbursement of an additional Rs 8,00,000 towards travel costs.
8. In transit from the donor.
9. All guests checking into the guest-house were charged market rates. For guests hosted by CLL, the guest-house raised a debit note against CLL, and the amount was appropriately charged against the budgeted expense head of CLL. Expenses for lodging and boarding pertain to debit notes raised against the conference budget. For 1994-95, the guest-house raised debit notes totaling Rs 10,89,000. Its operating expenses were estimated at Rs 2,00,000. Salaries, annual maintenance, electricity, cleaning contract charges and other expenses were recorded under the general heads for CLL.
10. See Note 9.
11. Accommodation arrangements were made for 150 delegates in the students' hostels, apart from the VIPs who were put up in the guest-house. Expenses pertain to repairs and refurbishments.
12. Including Rs 1,68,000 for a photocopier.
13. Charges @ Rs 750 per faculty person-day incurred on undertaking research exclusively for the conference.
14. Publication of the books to be undertaken in 1995-96.

before the expiry of the deadline.

Around October 1994, Trivedi persuaded the governing board of CLL to start a new resource mobilisation exercise. The proposal was to embark on a networked research project running through January-November 1995, culminating in December in an international seminar in Mumbai. "The seminar will serve many ends," Trivedi told the governing board. "It will give CLL tremendous international visibility, bringing in more business in the years to come in terms of research and consultancy projects. It will also give us an opportunity to mobilise grants ostensibly to finance the year-long project, but, in actuality, to buy capital equipment like computers, photocopiers, and communication equipment—which can be used for natural language processing work—and books for the library. That way, CLL won't have to use the money generated from the regular programmes. So, that income can be channelled back into the corpus."

BY DECEMBER 1994, TRIVEDI, TOGETHER with the faculty of CLL, had made detailed plans for the project, which was tentatively titled ICL-RMD (International Conference on Literature-cum-Resource Mobilisation Drive). The research work preceding the conference was to be done through a worldwide network of scholars. Scholars from outside CLL were to be paid for their fieldwork. All expenses for invited delegates—both from within the country and abroad—would be paid by CLL. Between 300 and 350 delegates were expected, with nearly 50 papers to be presented in a span of three days. Trivedi decided to invite a distinguished Nobel laureate—the latest winner for literature—to provide the much needed visibility.



Were Trivedi's financial strategies correct? Were her accounting practices justified? Or was she over-focusing on finance at the expense of strategy?

CLL submitted the conference proposal to several agencies and sought financial support. The budget was estimated at Rs 35 lakh. It included research assistance; travel grants; acquisitions for the library; purchase of computers, printers, photocopiers, and new linen; maintenance and whitewash of buildings; and replacement of fittings and facelift of the campus. CLL also persuaded the Union Ministry of Human Resource Development, the Indian Council of Cultural Relations, and one foundation each from Japan, Germany, and the US to offer grants for specific subsystems of the project. The accounting for ICL-RMD was done independent of the accounting for CLL. Separate accounts recording receipts and payments were maintained for the purpose of the conference, which was, ultimately, held in December 1995. Expenses were within the budgeted amount.

Over a month later, in early February 1996, Dave was trying to finalise the accounts of CLL. While the routine expenses and incomes were well-defined, he needed to integrate the accounts pertaining to the conference with the consolidated financial statement of CLL. There were several items on the accounts of the conference about whose nature—revenue or capital—he was in doubt. And Dave needed some policy inputs to solve the problem. He first wanted to work out two separate statements on the expenses side: capital and revenue. He was also wondering whether the grant for the conference should be added to the research grants for the year, or to the general grant-in-aid account on the balance-sheet. There was also an excess of payments over receipts in the conference account, which had to be treated in the final accounts. Again, he wasn't sure about how to treat this deficit. In fact, he wasn't even sure that there was actually a deficit.

Presented with these ambiguous figures, Trivedi was confused. On the one hand, she was certain that CLL had got tremendous mileage out of the conference, both at home and abroad. Several requests for consultancy and research projects had started flowing in soon after the conference. On the other, after examining the statement of accounts, she wasn't sure whether the conference had actually helped strengthen the corpus. Several questions popped up in her mind. What was the impact of the conference grants on the expenditure pattern of CLL for the year? How much of the income accrued on account of the conference could be added back to the corpus? Would CLL be able to consolidate on the conference to generate significantly higher revenues in future? How should the conference accounts in general—and the transfer of payments with regard to guest-house charges and faculty time costs in particular—be treated?

Trivedi was also concerned that nothing illegal should be done, and that no accepted accounting principles should be violated. At the same time, the accounting policies adopted would have to serve the long-term interests of CLL even while maximising the additions to the corpus from each of the grants. Were Trivedi's financial strategies correct? Were her accounting practices justified? Was she focusing too much on finances and too little on management and strategy?

■ Case Study by M.S. SRIRAM, associate professor, Institute of Rural Management, Anand. Refereed By The BUSINESS TODAY Panel Of Referees