How do NGOs differ from corporates? How is corporate accounting different from NPO accounting?

Speaker: How are NGOs different from corporates or for profit organizations? What are the basic differences?

Audience: The board members cannot be remunerated or share the profit.

Speaker: These are two different things – remuneration and profit sharing.

Audience: The income cannot be distributed in a non-profit organization.

Speaker: Income or surplus?

Audience: Surplus.

Speaker: Surplus cannot be distributed. What else?

Audience: It is not profit-driven.

Speaker: Does that mean NGOs cannot make profit or can they make profit?

Audience: They can make profit but it has to be pumped back into the system.

Speaker: It will be used for the purposes of the organization. They (NGO) do not exist to make profits while corporates exist to make profits. Coming back to this difference between a corporate and an NGO, it is correct that the surplus cannot be distributed to the board members. This does not mean that since the board members are not entitled to surplus, they will not be interested in the organization. They have a very high stake in the organization. They have to play the role of an independent body with no conflict of interest. They are the not-interested parties of the organization.

Speaker: How does a transaction take place in a corporate or a for profit organization?

Speaker: Suppose you are a trading organization, not a manufacturing organization dealing with toothpaste. You buy toothpaste at wholesale rate, each tube for forty rupees. Then you find a customer and sell the toothpaste tube to him for sixty rupees.

Speaker: So when we give forty rupees, money leaves the trader and in exchange he gets the the product.

Speaker: So there is a circular transaction here.

Speaker: Similarly what goes out when the trader sells?

Speaker: Product goes out and cash comes in - again a circular transaction. In this process there is an accrual of twenty rupees or surplus. That money can be ploughed back or twenty rupees could be taken out of the company and forty rupees can be ploughed back. The same transaction will continue in this circle leading to some accruals or surpluses. So at every level there is a consideration attached – you give something, you get something. This is how a corporate or for profit world operates.

Speaker: How does a not for profit world operate?

Audience: He may not get back anything tangible.

Speaker: Who is a donor? The so-called donors that we look at, who are floating around in India today, they are not donors. The DFID or the European commission, are they donors? So, who is a donor?

Audience: A person who gives something.

Speaker: The person who has actually given something out of his income, all others are intermediaries. There are many donors who contribute to a donor created fund which is actually the intermediate. This donor may give this fund to an NGO and the NGO may give it to another one and finally it will reach the beneficiaries.

Speaker: So what goes back? In the corporate we saw that it was flowing backwards but here it is a linear model. In for profit organization it is always a circular model, you give something and you get something. Here, it is you give and forget. So this is a linear model and what goes back is in terms of reports, compliances, etc. Therefore we do not call this profit, we call it surplus and when we say loss we call it deficit.