C I R C U L A R No. 95

Subject :- Adjustment to Trust Corpus - of annual surplus or deficit, of accumulated surplus- of face value of Bonus Shares.

During the course of inquiries held by the Director of Accounts into surplus cases, it was observed that in many cases of public trusts, schedule VIII (Balance Sheet) did not reflect the true position of trust fund or Corpus as on the sate of the Balance Sheet. The trust fund or Corpus was found adjusted in three different ways ; firstly by adjusting annual surplus or deficit every year to trust corpus, secondly by adjusting or transferring occasionally accumulated surplus as shown by the Income and Expenditure Account on the liabilities side of the Balance Sheet to trust corpus and lastly by adding to the trust corpus the value of Bonus Shares issued to the trust by virtue of its holdings in that script at the time of issue. This practice of adjustments to trust corpus should be discouraged as, barring certain clearly exceptional circumstances, it is always wrong to tamper with the original trust corpus. The scheme of the Bombay Public trusts Act, 1950 and the forms of schedules VIII and IX prescribed under the Bombay Public Trusts Rules, 1951, clearly show that the trust corpus is required to be shown separately as distinct from the unspent income or expenditure in excess of income. Accumulations from year to year of unspent or surplus income and excess of expenditure over income, as the case may be, are invariably required to be shown separately as the credit or debit balances respectively of the Income and Expenditure Account in the balance Sheet (Schedule VIII).

2. The following procedure is laid down for the information and guidance as to the treatment of trust corpus under the three different circumstances stated above.

(a) Adjustment of Annual Surplus or Deficit to Trust Corpus -- This Practice should be discouraged entirely, unless specifically authorised by the instrument creating the trust. Where, however, the instrument of trust provides for the accumulation of surplus with a view to make larger sums available for objects expressly specified, it would be more desirable to see that such accumulations are being credited to an Ear-marked Fund for that specific object and not to the original Trust Fund or Corpus . IN the cases where the annual surplus or deficit has been adjusted to trust corpus year after year and it is not possible to ascertain definitely the original corpus or subsequent lawful adjustments thereto, the procedure that should be followed is to issue directions to the trustees and / or the Auditors to reverse the entries in the accounts of the current year or at best in the accounts next due for submission so as t reflect the true position of accumulated surplus or deficit from the accounting year first balanced on or after 21st January 1952 (the date of the application of the Bombay Public Trusts Act, 1950) to the last or latest year of accounts where the rectification entries are passed.

(b) Adjustment of Accumulated Surplus to Trust Corpus – This practice should be permitted or otherwise acquiesced in only when the accumulated surplus or part thereof is actually utilised on the capital objects of the trust or on some capital construction for investment resulting in the capitalisation of the whole or part of the accumulated surplus with the permission of the Charity Commissioner in express terms for meeting such capital expenditure out of the accumulated surplus. It should also be permitted in accordance with the directions contained in the instrument of trust prior to 29th October 1954, the date of amendment to section 35 of the Bombay Public Trusts Act, 1950. This would bring down the figure of accumulated surplus either available for the utilisation on the original objects of the trust or failing that available for being applied cypres.

(c) Adjustment of the face value of Bonus Shares to Trust Corpus – This should not be permitted under any circumstances and the entries, if passed, should be got reversed in the accounts for the subsequent years. When bonus shares are issued to the trust by virtue of its holdings in that script at the time of issue, the correct procedure that should be suggested is to pass a journal (Havala) entry without any figure in value crediting the trust corpus , and debiting the Investment Account, effecting an addition only in the number of shares held by the trust and supported by full narration about the bonus issue. Where, however, a special fund like Investment Sinking Fund or Investment Fluctuating or Depreciation Fund or Investment Equalisation Fund is being maintained and consequently where investments are shown at their face or nominal value irrespective of their purchase cost , a journal entry can be passed with the amount of face value of the Bonus Shares to the debit of Investment Account; but in this case the off-setting credit should go to the Investment Sinking Fund or to any of the like funds and never to trust fund or corpus.

This circular should particularly be brought to the notice of all Chartered Accountants and Authorised Auditors having dealings with the Charity Organisation and administrations in this State in all its regions.

V.N.Sardesai,
Charity Commissioner, Bombay

Dated : 30th June 1956.