Technical Guide on

Accounting for Not-for-Profit Organisations

Research Committee
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
NEW DELHI

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Foreword

Not-for-Profit Organisations (NPOs) include large international charities as well as small community-based self-help groups. NPOs may be in form of a corporation, a trust, a co-operative, or a foundation. There is an apparent lack of awareness among NPOs on applicability of Accounting Standards to such organisations. Large number of unregistered NPOs exist in India, which follow different basis of accounting. In order to provide clarity of accounting treatment to be followed in case of various types of transactions carried out by NPOs as well as to impart uniformity in the diverse accounting practices, the Research Committee of the Institute had published the *Technical Guide on Accounting and Auditing in Not-for-Profit Organisations* in 2003 which was subsequently revised by the Committee in 2006. The Technical Guide has been acclaimed as an important landmark in improving accounting in the NPO sector.

The Technical Guide has now been again revised by the Research Committee to bring about a greater focus to accounting issues in NPOs, including updation of various accounting treatments in view of developments subsequent to the last edition of the publication. The revised edition is being published as 'Technical Guide on Accounting in Not-for-Profit Organisations'. I congratulate Shri Harinderjit Singh, Chairman, Research Committee and other members of the Research Committee for their invaluable contribution in the revision of this Technical Guide.

I hope that this endeavour of the Research Committee will go a long way in establishing sound accounting practices and provide guidance to the members as well as to the others concerned.

New Delhi
August 26, 2009

CA. Uttam Prakash Aggarwal
President

Preface

Not-for-Profit Organisations (NPOs) are important for the development of a country as are for-profit organisations. In India, NPOs operate in varied fields such as health, poverty reduction, education, etc., and act as effective movers in socio-economic change of the country. Bearing in mind the important role of NPOs and with the objective of ensuring accountability and transparency for NPOs and their operations, the Research Committee of the Institute, in 2003, brought out the Technical Guide on Accounting and Auditing in Not-for-Profit Organisations to suggest an accounting and financial reporting framework for NPOs.

The Technical Guide not only facilitated in making NPOs accountable for their activities but also in standardising the accounting practices followed by diverse NPOs based on the accrual system of accounting. As a result, in 2006, the Technical Guide was revised on the basis of the feedback received from various users of the Technical Guide and the participants in various conferences and workshops. Revisions were also made to incorporate revisions in existing Accounting Standards/issuance of new Accounting Standards since the issuance of the first edition of the Technical Guide. In both editions of the Technical Guide, salient features and principal requirements of all the Accounting Standards formulated by the Institute of Chartered Accountants of India were discussed, followed by the issues which may arise in the course of application of these Standards by NPOs. However, given that some of the Accounting Standards may not be relevant to NPOs, and with a view to provide focused guidance on specific accounting issues of NPOs, the Research Committee decided to revise the Technical Guide. Accordingly, the Committee has brought out this Technical Guide on Accounting for Not-for-Profit Organisations (NPOs), explaining the accounting of key elements of the financial statements – income, expenses, assets and liabilities, in the context of NPOs, in accordance with the Accounting Standards relevant to NPOs.

On behalf of the Research Committee, I would like to place on record my deep appreciation to CA. Rozmin Ajani, an expert in the area of accounting in the NPO sector, for preparing the basic draft of this revised Technical Guide.

I trust that this revised edition of the Technical Guide will further aid in establishing sound accounting and reporting system in the NPO sector and will be immensely helpful to members and others concerned.

New Delhi
August 25, 2009

CA. Harinderjit Singh
Chairman
Research Committee

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INTRODUCTION

1. Voluntary effort has always been an integral part of Indian culture and social tradition. In a societal context, voluntary organisations 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”, emphasising the important role voluntary organisations 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.

2. Some voluntary organisations are called Non-Government Organisations (NGOs). This is, once again, to emphasise that the organisation is not controlled by the government or any other outside agency. Other synonyms used to describe these organisations include Private Voluntary Organisations, Non-Profit Organisations and Civil Service Organisations. The terminology used in the Technical Guide is Not-for-Profit Organisations (NPOs).

3. The World Bank defines NPOs as “private organisations 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:

(a) ***Community Based Organisations (CBOs***) – these serve a specific population in a narrow geographical area in individual developing countries.

(b) ***National Organisations*** – these operate in developing countries.

(c) ***International Organisations*** – these are typically headquartered in developed countries and carry out operations in more than one developing country.

4. The term NPO is thus very broad and encompasses many different types of organisations. Further, NPOs range from large international charities, to community-based self-help groups. Certain research institutes and professional associations also operate as NPOs.

5. Some common factors that characterise NPOs are as follows:

   (a) Formal, i.e., institutionalised to some extent – if not registered, at least having a definite programme or aims and objects, as also rules and regulations of governance

   (b) Private, i.e., not part of the apparatus of the State, even though they may receive support from government sources

   (c) 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

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

   (e) Voluntary, i.e., involving some meaningful degree of voluntary participation, either in the actual conduct of the organisation's activities or in the management of its affairs

   (f) 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 organisations affiliated to religious institutions, e.g., schools run by the Arya Samaj or Christian missionaries, etc.

(g) Non-political, i.e., not primarily involved in promoting candidates for elected office, etc.

6. There are certain features that distinguish NPOs from 'for-profit' organisations. These include:

(a) *Organisational objectives*: The basic difference between 'for-profit' organisations and NPOs is 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' organisations, is earning profits. Profits define their very purpose of existence.

(b) *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 NPO than in a 'for-profit' organisation. Thus, other indicators for performance measurement are needed for this sector.

(c) *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.

(d) *Funding*: A unique characteristic of the NPO 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.

(e) *Volunteerism*: A typical and most outstanding feature of the NPO sector is the extent of voluntary services

that are contributed to such organisations. 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. Earlier voluntary organisations were started and managed mostly by people of goodwill who did not necessarily have professional qualifications or competence. But today, professionals and experts from diverse fields are associated with this sector. Harnessing the power of the volunteer to deliver otherwise uneconomic services and maintaining enthusiastic volunteer support is a challenge to the NPO sector.

(f) *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 organisations; cultural associations to continent wide farmers' networks and women's groups to environmental federations.

7. With regard to accounting, there exists in NPOs diversity in accounting practices which is due to the following factors:

(a) *Existence of a large number of unregistered NPOs*: Large numbers of NPOs in India are small in size and are not registered under any statute. These NPOs carry out diverse types of activities such as educational, developmental and cultural. No authentic information is available about the accounting practices being followed by these unregistered NPOs.

(b) *Lack of awareness on applicability of accounting standards*: There is lack of awareness among NPOs on the benefits of adopting sound accounting practices

based on the generally accepted accounting principles, promulgated, inter alia, as Accounting Standards, in accounting for various transactions. There is also a lack of awareness on applicability of Accounting Standards formulated by the Institute of Chartered Accountants of India to the sector.

(c) *Adoption of different basis of accounting*: Current accounting practices in the NPO sector reveal that basis of accounting other than accrual are continued to be followed by many NPOs.

(d) *Influence of tax and other laws*: The existing accounting practices in the NPO sector are generally driven by the requirements of the tax and other laws such as Foreign Contribution (Regulation) Act, 1976 rather than with a view to reflect a true and fair view of the state of affairs and results of the activities carried on by an NPO during the year.

8. As a result of the above factors, the existing accounting practices in the NPO sector have the following characteristics:

(a) There is no standard basis of accounting being followed by NPOs. Cash, hybrid, accrual, modified cash/accrual basis of accounting are being followed.

(b) The Accounting Standards formulated by the Institute of Chartered Accountants of India, are generally not being applied.

(c) There is lack of uniformity in presentation of financial statements.

(d) There are different disclosure practices being followed by individual NPOs.

(e) There is diversity in terminology and accounting policies being adopted.

9. In view of the above, information provided by the financial statements of different NPOs is not standard or comparable. This has given rise to confusion and misunderstanding among the users of financial information provided by NPOs.

10. A great need is, therefore, being felt for accountability of the financial resources used by the NPOs. A sound accounting and financial reporting framework acts as an important ingredient for promoting accountability of an organisation. It has, however, been found that the present system of accounting and financial reporting followed by NPOs does not adequately meet the accountability concerns of the donor-agencies, including government and other stakeholders such as members/beneficiaries, governing board, management staff, volunteers and general public.

OBJECTIVE

11. The objective of this Technical Guide is to recommend, with a view to harmonising the diverse accounting practices being followed across NPOs, a standardised framework for the preparation and presentation of financial statements in NPOs. This includes the application of sound accounting principles pertaining to recognition, measurement and disclosure of various items of income and expenses, assets and liabilities in the financial statements of NPOs keeping in view the peculiarities of the activities of NPOs.

SCOPE

12. This Technical Guide is applicable to all NPOs whether community based, national or international, having their operations in India.

13. This Technical Guide specifically excludes from its scope, Governmental Organisations and Municipal Corporations.

14. This Technical Guide focuses on presenting a standardised framework for preparation and presentation of financial statements

in NPOs, using sound accounting principles pertaining to recognition, measurement and disclosures. Therefore, the requirements of various Acts including the Income-tax Act and the Foreign Contribution (Regulation) Act, do not form part of this Technical Guide.

15. For the purpose of this Technical Guide, the NPO is considered as the reporting entity. Therefore, if an NPO has different programmes, projects, branch offices, or sources of funds, for the sake of convenience and transparency it may maintain separate accounts for each such sub-entity. However, for the purpose of preparation of financial statements; the accounts for all programmes, projects, branch offices and sources of funding have to be consolidated into that of the NPO as the reporting entity.

16. This Technical Guide is applicable not only to the programme implementation activities but also to other incidental activities including income generating activities carried on by NPOs.

DEFINITIONS

17. For the purpose of this Technical Guide, the following terms are used with the meanings specified:

Accounting policies are the specific accounting principles, bases, conventions, rules and practices adopted by NPOs in preparation and presentation of financial statements.

Accrual basis means a basis of accounting under which transactions and other events are recognised 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 recognised in the financial statements of the periods to which they relate. The elements recognised under accrual accounting are assets, liabilities, revenue and expenses.

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

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

Designated funds are unrestricted funds which have been set aside by the management of the NPOs 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 incurrences of liabilities that result in decreases in the net assets of an NPO.

Fair value is the amount for which an asset could be exchanged or a liability could be settled between knowledgeable, willing parties in an arm's length transaction.

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 NPO 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 NPO.

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 NPO.

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

Net assets are the excess of the book value of assets (other than fictitious assets) of the NPO over its liabilities.

Restricted funds are contributions received by an NPO, the use of which is restricted by the contributor(s).

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

ACCOUNTING FRAMEWORK FOR NPOs

18. This Framework is concerned with general purpose financial statements (hereafter referred to as 'financial statements'). Such financial statements are prepared and presented at least annually and are directed toward the common information needs of a wide range of users. These users have to rely on the financial statements as their major source of financial information and cannot prescribe the information they want from an organisation. The general purpose financial statements should, therefore, be prepared and presented with their needs in view. Special purpose financial reports, for example, computations prepared for taxation purposes or specialised needs of regulatory bodies, donor agencies, or others having the authority to obtain the type of information they need are outside the scope of this Framework. For instance, a donor agency may prescribe a specific format for reporting the utilisation of its own funds. Where the general purpose financial statements prepared in accordance with the recommendations contained in this Technical Guide do not provide such requisite information, it would be appropriate to prepare a separate statement for the specific purpose envisaged in the relevant statute/regulation or specified in the donor requirements. The recommendations contained in this Technical Guide may be applied to such specific purpose statements to the extent appropriate.

19. It is often argued that since profit is not the objective of NPOs, the accounting framework, which is relevant for business entities is not appropriate for NPOs. 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:

(a) **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 in NPOs, for the purpose of including the same in the financial statements by defining the aforesaid terms.

(b) **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 recognised in the financial statements.

(c) **Principles of measurement of items of income, expenses, assets and liabilities**

These principles lay down at *what* amount the aforesaid items should be recognised in the financial statements.

(d) **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.

20. With regard to elements of financial statements, it may be noted that what is considered as an asset (e.g., land and furniture), by a business entity is an asset for an NPO also. However, in case of an NPO, there may be certain assets having only service potential and no economic benefits, while this may or may not be the case for a business entity. Same is the case for items of income,

expenses and liabilities. Therefore, the elements of financial statements remain the same in NPOs as in business entities.

21. Similarly, 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 organisation does not depend upon the purpose for which the organisation is run. A grant is recognised 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 organisation will fulfill the conditions attached to it, and under cash basis of accounting at the time when the grant is actually received. Thus, a business entity and an NPO would both follow the aforesaid criteria for recognition of grant as income depending upon the basis of accounting (i.e., cash or accrual basis, discussed hereinafter) followed by the respective organisation rather than the purpose for which the organisation is run. Similarly, principles for recognition of other incomes, expenses, assets and liabilities would be the same for business entities and NPOs.

22. Insofar as the measurement principles are concerned, the same principles are relevant to NPOs as those to business entities. For example, depreciation of an asset represents primarily the extent to which the asset is used during an accounting period by an organisation. Thus, whether an asset, such as a photocopying machine, is used by an NPO or by a business entity, the measure of charge by way of depreciation depends primarily upon the use of the asset rather than the purpose for which the organisation is run. Accordingly, the measurement principles for other expenses, income, assets and liabilities are the same for business entities and NPOs.

23. Insofar 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

organisation. 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.

24. 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.

25. 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 out by them.

BASIS OF ACCOUNTING

26. The term ‘basis of accounting’ refers to the timing of recognition of revenue, expenses, assets and liabilities in accounts. The commonly prevailing bases of accounting are:

(a) cash basis of accounting; and

(b) accrual basis of accounting.

27. Under the cash basis of accounting, transactions are recorded when the related cash receipts or cash payments take place. Thus, the revenue of NPOs, such as donations, grants, etc. are recognised when funds are actually received. Similarly, expenses on acquisition and maintenance of assets used for rendering services as well for employee remuneration and other items are recorded when the related payments are made. The end-product

of cash basis of accounting is a statement of receipts and payments that classifies cash receipts and cash payments under different heads. A statement of assets and liabilities may or may not be prepared.

28. Accrual basis of accounting is the method of recording transactions by which revenue, expenses, assets and liabilities are reflected in the accounts in the period in which they accrue. The accrual basis of accounting includes considerations relating to deferral, allocations, depreciation and amortisation. This basis is also referred to as 'Mercantile Basis of Accounting'.

29. Accrual basis of accounting attempts to record the financial effects of the transactions and other events of an enterprise in the period in which they occur rather than recording them in the period(s) in which cash is received or paid. Accrual basis recognises that the economic events that affect an enterprise's performance often do not coincide with the cash receipts and payments. The goal of accrual basis of accounting is to relate the accomplishments (measured in the form of revenue) and the efforts (measured in terms of costs) so that the reported net income measures an enterprise's performance during a period rather than merely listing its cash receipts and payments. Apart from income measurement, accrual basis of accounting recognises assets, liabilities or components of revenue and expenses for amounts received or paid in cash in past, and amounts expected to be received or paid in cash in future.

30. In cash based accounting, no account is taken of whether the asset is still in use, has reached the end of its useful life, or has been sold. Thus, cash based information fails to show a proper picture of the financial position and performance for the accounting period. A cash based system does not provide information about total costs of an organisation's activities. On the other hand, accrual system of accounting offers the opportunity to the organisation to improve management of assets, and provides useful information about the real level of organisation's liabilities, relating to both debts and other obligations such as employee entitlements.

31. NPOs registered under the Companies Act, 1956, are required to maintain their books of account according to accrual basis as required in section 209(3)(b) of the said Act. If the books are not kept on accrual basis, it shall be deemed as per the provisions of the aforesaid section, that proper books of account are not kept.

32. Accrual is the scientific basis of accounting and has conceptual superiority over the cash basis of accounting. It is, therefore, recommended that all NPOs, including non-company NPOs, should maintain their books of account on accrual basis.

ACCOUNTING STANDARDS

33. Accounting is often said to be a social science. It operates in an open and ever-changing economic environment. The nature of transactions entered into by various enterprises and the circumstances surrounding such transactions differ widely. This characteristic of accounting measurements historically led to the adoption of different accounting practices by different enterprises for dealing with similar transactions or situations.

34. Comparability is one of the important qualitative characteristics of accounting information. This implies that the information should be measured and presented in such a manner that the users are able to compare the information of an enterprise through time and with similar information of other enterprises. Adoption of different accounting practices by different enterprises for similar transactions or situations tends to reduce the comparability of accounting information.

35. Recognising the need for bringing about a greater degree of uniformity in accounting measurements, the trend all over the world now is towards formulation of accounting standards to be adopted in preparation of accounting information and its presentation in financial statements. Accounting Standards lay down the rules for measurement and presentation of accounting information by different enterprises.

36. 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. These Standards thus reflect what can be construed as proper application of accrual accounting to different types of transactions and events.

APPLICABILITY OF ACCOUNTING STANDARDS TO NPOs

37. The 'Preface to the Statements of Accounting Standards', issued by the Institute of Chartered Accountants of India, states the following:

> "3.3 Accounting Standards are designed to apply to the general purpose financial statements and other financial reporting, which are subject to the attest function of the members of the ICAI. Accounting Standards apply in respect of any enterprise (whether organised in corporate, co-operative or other forms) engaged in commercial, industrial or business activities, irrespective of whether it is profit oriented or it is established for charitable or religious purposes. Accounting Standards will not, however, apply to enterprises only carrying on the activities which are not of commercial, industrial or business nature, (e.g., an activity of collecting donations and giving them to flood affected people). Exclusion of an enterprise from the applicability of the Accounting Standards would be permissible only if no part of the activity of such enterprise is commercial, industrial or business in nature. Even if a very small proportion of the activities of an enterprise is considered to be commercial, industrial or business in nature, the Accounting Standards would apply to all its activities including those which are not commercial, industrial or business in nature."

38. From paragraph 37, it is apparent that the **Accounting Standards formulated by the ICAI do not apply to an NPO *if no part of the activity of such entity is commercial, industrial or business in nature*. The Standards would apply even if a**

very small proportion of activities is considered to be commercial, industrial or business in nature. For example, where an NPO is engaged in the commercial activity of granting loans/credit to small entrepreneurs at nominal rates of interest or in the industrial activity of manufacturing clothes for the rural poor, Accounting Standards formulated by the ICAI would apply to such an NPO. It may be mentioned that since the Accounting Standards contain wholesome principles of accounting, these principles provide the most appropriate guidance even in case of those organisations to which Accounting Standards do not apply. It is, therefore, recommended that all NPOs, irrespective of the fact that no part of the activities is commercial, industrial or business in nature, should follow Accounting Standards. This is because following the Accounting Standards laid down by ICAI would help NPOs 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 NPOs. For instance, where an Accounting Standard refers to the term 'statement of profit and loss', in the context of NPOs, this Technical Guide uses the term 'income and expenditure account'.

39. NPOs incorporated under section 25 of the Companies Act, 1956, are required to comply with the Accounting Standards by virtue of sub-section (3A) of section 211 of the said Act. Sub-section (3B) of section 211 requires that where the profit and loss account (income and expenditure account) and balance sheet of a company do not comply with the Accounting Standards, the company shall disclose in its profit and loss statement (income and expenditure account) and balance sheet the fact of such deviation, the reason therefore and the financial effect, if any, arising due to such deviation. Further, section 227(3)(d) requires the auditor to state whether profit and loss account (income and expenditure account) and balance sheet comply with Accounting Standards referred to in sub-section (3C) of section 211. Sub-section (3C) of section 211 provides that for the purposes of this section, the expression 'accounting standards' means the standards of accounting recommended by the Institute of Chartered

Accountants of India constituted under The Chartered Accountants Act, 1949 (38 of 1949), as may be prescribed by the Central Government in consultation with the National Advisory Committee on Accounting Standards (NACAS) established under sub-section (1) of section 210A. Proviso to sub-section (3C) of the section provides that the standards of accounting specified by the Institute of Chartered Accountants of India shall be deemed to be the Accounting Standards until the Accounting Standards are prescribed by the Central Government under this sub-section. It may be noted that Accounting Standards 1 to 7 and 9 to 29 as formulated and recommended by the Institute of Chartered Accountants of India have been notified by the Central Government under Companies (Accounting Standards) Rules, 2006, in consultation with the NACAS, vide Notification dated December 7, 2006 in the Official Gazette.

40. As far as non-company NPOs (including trusts, societies registered under the Societies Registration Act, 1860) carrying on even a very small proportion of commercial, industrial or business activities are concerned, Accounting Standards, formulated by the Institute of Chartered Accountants of India, are mandatory for the members of the Institute in the performance of their attest functions as per the relevant announcements made by the Institute of Chartered Accountants of India from time to time.

41. 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*] which have become recommendatory from April 1, 2009, would become mandatory only from April 1, 2011. For the purpose of applicability of Accounting Standards[1], pursuant to the

[1] Applicability of Accounting Standards to Companies and Non-Corporate Entities is given in the 'Harmonisation of Various Differences Between the Accounting Standards Issued by the ICAI and the Accounting Standards notified by the Central Government' (Announcement of the Council of the Institute published in 'The Chartered Accountant', February 2008, page 1340).

notification[2] of the Accounting Standards by the Central Government, companies have been classified as Small and Medium Sized Companies (SMCs) and Non-SMCs. The ICAI has classified entities other than companies into three categories, viz., Level I, Level II and Level III, where the entities that fall within the meaning of the latter two categories are Small and Medium-sized Enterprises (SMEs). The criteria for classification of non-corporate entities and companies into different categories, and the applicability of the individual Accounting Standards to non-corporate entities and companies are given in Appendix II. Given their resources and scale of operations, entities falling within the category of SMEs/SMCs are given relaxations/exemptions under certain Accounting Standards that contain onerous requirements. This is relevant for small and medium-sized NPOs which meet the criteria of SMEs/SMCs. In this context it may be mentioned that one of the criteria for categorising SMEs/SMCs is 'turnover', and turnover in the respect of NPOs would mean their gross income.

42. Keeping in view the nature of activities carried on by NPOs, some Accounting Standards may not be relevant to the NPOs unless events or transactions of the nature covered by the Standard take place[3]. For example, Accounting Standard (AS) 22, *Accounting for Taxes on Income*, would be relevant only where the NPO is required to pay any tax under the provisions of the Income-tax

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[2] Refer paragraph 39

[3] Accounting Standards normally not relevant to NPOs and accordingly not covered in this Technical Guide are as follows:

- (a) Accounting Standard (AS) 7, *Construction Contracts*
- (b) Accounting Standard (AS) 14, *Accounting for Amalgamations*
- (c) Accounting Standard (AS) 16, *Borrowing Costs*
- (d) Accounting Standard (AS) 20, *Earnings Per Share*
- (e) Accounting Standard (AS) 21, *Consolidated Financial Statements*
- (f) Accounting Standard (AS) 22, *Accounting for Taxes on Income*
- (g) Accounting Standard (AS) 23, *Accounting for Investments in Associates in Consolidated Financial Statements*
- (h) Accounting Standard (AS) 24, *Discontinuing Operations*
- (i) Accounting Standard (AS) 25, *Interim Financial Reporting*
- (j) Accounting Standard (AS) 27, *Financial Reporting of Interests in Joint Ventures*

However, it may be mentioned that NPOs should follow these Accounting Standards as and when and to the extent these are applicable to them.

Act. Accounting Standards generally relevant to NPOs have been discussed hereinafter while dealing with peculiar items of income, expenses, assets and liabilities. It may also be noted here that while considering whether an Accounting Standard is relevant to NPOs or not given the nature of their activities, the Accounting Standards which companies are presently required to follow have been taken into account. Accordingly, as the accounting standards on financial instruments, i.e., AS 30, AS 31 and AS 32 are not required to be presently followed by companies, these have not been covered in this Technical Guide.

RECOGNITION AND MEASUREMENT PRINCIPLES

INCOME

43. Income is increase in economic benefits or service potential during the accounting period when the increase results either in the form of inflows or enhancements of assets or in the form of decreases in liabilities. The definition of income encompasses both revenue and gains.

44. Revenue arises in the course of ordinary activities of an organisation. Revenue in case of NPOs is in the form of

(a) Grants from government/foundations/donor agencies on the basis of duly approved grant letters, specifying the timeframe/guidelines for grant accrual

(b) Research and development grants

(c) Donations

(d) Sale of non-mission related products for income generation

(e) Revenue from fund-raising activities, appeals, events, collections

(f) Consultancy income earned by NPOs by providing various services

(g) Interest and dividend from investments

(h) Royalty

It may be mentioned that while (a) to (c) are to accounted for as per Accounting Standard (AS) 12, *Accounting for Government Grants*, (d) to (h) are to be accounted for as per Accounting Standard (AS) 9, *Revenue Recognition*.

45. Gains represent other items that meet the definition of 'income' and may or may not arise in the course of the ordinary activities of NPOs. Gains represent increases in economic benefits and as such are no different in nature from revenue. Gains include, for example, profits arising from the disposal of fixed assets and sale of investments. When gains are recognised in the income and expenditure account, they are usually disclosed separately.

Recognition Criteria for Items of Income

46. An item that meets the definition of income becomes eligible to be recognised in the financial statements if:

(a) it is probable that the inflow or other enhancement of future economic benefits has occurred; and

(b) the inflow or other enhancements of future economic benefits can be measured reliably.

Revenue Recognition

47. The criteria for recognition of income specified in the above paragraph have been applied for developing principles of recognition of revenue in AS 9, in respect of revenue arising from sale of goods, rendering of services and use of resources of the organisation by others. In the context of NPOs, these principles are discussed in the ensuing paragraphs.

48. ***Recognition of revenue by NPOs from sale of goods:*** Many NPOs perform income generating activities such as sale of goods, i.e., postcards, calendars, candles, etc. As per AS 9, revenue from sale of goods should be recognised when all the following conditions are fulfilled:

(a) The seller of the goods has transferred to the buyer the property in the goods for a price, or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership;

(b) No significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods; and

(c) It is not unreasonable to expect ultimate collection of the consideration.

49. ***Recognition of revenue by NPOs from rendering of services*****:** Rendering of services by NPOs includes providing various consultancy services in the areas of their expertise. In a transaction involving rendering of services, revenue should be recognised on the basis of the performance of the services. If the performance consists of the execution of more than one act, revenue should be recognised proportionately by reference to the performance of each act (i.e., on the basis of proportionate completion method). If performance consists of the execution of a single act, or if it consists of the performance of more than one act and the acts yet to be performed are very significant in relation to the transaction as a whole, revenue should be recognised only on the completion of performance of the sole or the final act (i.e., on the basis of completed service contract method). Normally, the terms and conditions of performance of acts constituting the consultancy are documented by way of contracts or MOUs signed by NPOs. In such cases, recognition of revenue is linked to satisfactory compliance with such terms and conditions. **In general, revenue from services should be recognised only when no significant uncertainty exists regarding the amount of the consideration that will be derived from rendering of the service and about**

its ultimate collectability. However, where, at the time of rendering of the service or sale of goods by an NPO, the ultimate collection of revenue cannot be assessed with reasonable certainty, revenue recognition should be postponed, till the time when it is reasonably certain that the ultimate collection will be made. When such uncertainty arises after the rendering of service or making of sale, it is more appropriate to make a provision than to adjust the revenue recorded originally.

50. ***Revenue arising on account of the use of NPO's resources by others:*** By way of use of its resources by others, NPOs earn revenue in the form of interest (on savings bank account or on short term deposits), dividends on investments, and royalty. Such revenue should be recognised as follows provided no significant uncertainty as to measurability or collectability exists:

(a) Interest should be recognised on a time proportion basis taking into account the principal outstanding.

(b) Dividends should be recognised when the right of an NPO to receive the dividend payment is established.

(c) Royalties should be recognised on accrual basis in accordance with the terms of the relevant agreement.

Grants and Donations – Recognition and Measurement

51. Grants are assistance by government/non-government agencies in cash or in kind for part or future compliance with certain conditions. Receipt of grants by NPOs is significant in preparation of financial statements for following two reasons:

(a) Firstly, if a grant has been received, an appropriate method of accounting therefore is necessary;

(b) Secondly, it is desirable to give an indication of the extent to which the recipient NPO has benefited from such a grant during the reporting period. Further, this will facilitate comparison of an NPO's financial statements with those of prior periods and with those of other NPOs, which are receiving similar types of grants.

52. Accounting Standard (AS) 12, *Accounting for Government Grants*, prescribes accounting treatment for government grants. The accounting treatment prescribed in AS 12 is based on the nature of the grant and the purpose for which the grant is received. **Accordingly, NPOs should follow the principles enunciated in AS 12 in respect of accounting for government grants as also for the grants received from non-government sources, e.g., foundations, individual donors and corporate bodies.**

53. According to the principles laid down in AS 12, grants should not be recognised until there is reasonable assurance that:

(a) the NPO will comply with the conditions attached to them; and

(b) the grants will be received.

54. **A mere promise or undertaking from the government and other donor agencies as to the grant does not provide reasonable assurance that the grant will be received and, therefore, does not require its recognition.** The NPOs should recognise a grant in its financial statements only at the stage it attains reasonable assurance, on the basis of all available evidence, that the grant will be received. If there is no reasonable assurance that the grant or any part thereof, will be received, recognition of such a grant, or a part thereof, should be postponed. However, the fact that collection of the grant has been delayed does not necessarily mean that reasonable assurance does not exist. The grant, the recognition of which has been postponed as suggested hereto before, should be recognised only in the period in which reasonable assurance is attained that the grant will be received. In some cases, the reasonable assurance will be attained only when cash is actually received. In such a case, recognition of grant on receipt basis does not mean that the NPO has not followed accrual basis of accounting.

55. Keeping in view the principles enunciated in AS 12, the nature of activities carried on by NPOs and maintaining uniformity of accounting policies followed, an NPO should account for grants as follows:

(a) Grant received or receivable for construction or acquisition of a specific fixed asset, such as, land, building, furniture, etc., should be accounted for as below:

  (i) Grants received to acquire a non-depreciable asset, e.g., freehold land, should be recognised separately as a 'Restricted Fund' in the balance sheet. When the asset is acquired, the concerned restricted fund is transferred to the 'General Fund' in the balance sheet. However, if a grant related to a non-depreciable asset requires the fulfillment of certain obligations, the grant should be treated as deferred income and recognised as income over the same period over which the cost of meeting such obligations is charged to income.

  (ii) Grants related to a depreciable fixed asset should be treated as deferred income and recognised in the income and expenditure account by allocating it over the useful life of the asset in the proportion in which a depreciation on the asset concerned is charged.

  (iii) The deferred income balance, if any, should be shown separately in the balance sheet.

(b) Grants in the form of non-monetary assets (such as fixed assets) received at a concessional rate should be accounted for on the basis of their acquisition cost to the NPO. In case a non-monetary grant is received free of cost, it should be recognised at the nominal value of Re. 1.

(c) For grants received for the purpose of meeting revenue expenditure of the NPO, both the grant (to the extent utilised during the period) and the relevant expense should be disclosed separately in the income and expenditure account. Such a disclosure would be useful in appreciating the operations undertaken by the NPO during the period.

(d) Grants of the nature of promoters' contribution[4] should be recognised separately as a part of the General Fund in the balance sheet.

(e) In some cases, a grant may be receivable by an NPO as compensation for expenses or losses incurred in a previous accounting period, or for providing immediate financial support to the NPO with no related further costs. Such grants should be recognised and disclosed in the income and expenditure account of the period in which they are receivable.

(f) The amount refundable in respect of grants received that relate to revenue as well as those that relate to specific fixed assets, should be applied first against any unamortised deferred credit remaining in respect of the grant. To the extent that the amount refundable exceeds any such deferred credit, or where no deferred credit exists, the amount should be charged to the income and expenditure account of the NPO.

(g) The principles enunciated in respect of grants as dealt with in the above points also apply to donations.

56. The detailed application of the principles enunciated above in respect of grants and donations in the financial statements, in the context of fund based accounting, has been dealt with subsequently.

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[4] See explanation of 'Corpus' given in paragraph 110.

57. **Grants and donations in foreign currency and the resulting foreign exchange differences:** NPOs may receive grants or donations in foreign currency. To account for transactions in foreign currency, the principles of Accounting Standard (AS) 11, *The Effects of Changes in Foreign Exchange Rates* will apply. Accordingly, as per AS 11, transactions for the receipt of grants/ donations involving foreign exchange should be initially recorded at the exchange rate prevalent on the date of transaction. Subsequently, at each balance sheet date, the amounts receivable in respect of such grants/donations should be reported using the closing exchange rate, i.e., the rate prevailing on the balance sheet date. Any exchange differences related to amounts receivable arising on account of change in exchange rates between the transaction date and the balance sheet date should be recognised in the income and expenditure account.

EXPENSES

58. The definition of 'expense' encompasses both, expenses that arise in the course of the ordinary activities of NPOs as well as losses. Expenses that arise in the course of the ordinary activities of NPOs include monetary expenses such as programme implementation expenses; office administration/maintenance expenses; salaries and other employee benefits; and non-monetary expenses such as depreciation. The expenses take the form of an outflow or depletion of assets or enhancement of liabilities.

59. Losses represent other items that meet the definition of 'expense' and may or may not arise in the course of the ordinary activities of NPOs. Losses represent decreases in economic benefits and as such they are no different in nature from other expenses. Losses include, for example, those resulting from disasters such as fire and flood, as well as those arising from the disposal of fixed assets. The definition of expenses also includes unrealised losses. These losses are generally recognised in the income and expenditure account, and are usually disclosed separately.

Recognition Criteria for Items of Expense

60. An item that meets the definition of 'expense' becomes eligible to be recognised in the income and expenditure account when and only when:

(a) it is probable that the consumption or loss of future economic benefits resulting in a reduction in assets and/or an increase in liabilities has occurred;

(b) the consumption or loss of future economic benefits can be measured reliably.

61. Under accrual basis of accounting, expenses are recognised on the following basis:

(a) *Identification with revenue transactions*: Costs directly associated with the revenue recognised during the relevant period (in respect of which whether money has been paid or not) are considered as expenses and are charged to income for the period.

(b) *Identification with a period of time*: In many cases, although some costs may have connection with the revenue for the period, the relationship is so indirect that it is impracticable to attempt to establish it. However, there is a clear identification with a period of time. Such costs are regarded as 'period costs' and are expensed in the relevant period, e.g., salaries, telephone, travelling, depreciation on office building, etc. Similarly, the costs the benefits of which do not clearly extend beyond the accounting period are also charged as expenses.

62. Expenses relating to a future period are accounted for as prepaid expenses even though they are paid for in the current accounting period. Similarly, expenses of the current year, for which payment has not yet been made (outstanding expenses), are charged to the income and expenditure account for the current accounting period.

Programme implementation expenses and office administration/maintenance expenses

63. The expenditures in NPOs are generally a blend of programme implementation expenses, programme monitoring expenses, salaries and administration expenses. All the programme implementation/monitoring expenses and office administration/ maintenance expenses should be recognised in the income and expenditure account on the basis of the criteria for recognition as stated in the previous paragraphs. The recognition of other types of expenses has been covered in the following paragraphs.

Salaries and other employee benefits

64. The salaries in case of NPOs are towards the programme staff and non-programme staff members. For the purpose of recognition of expenses there is no distinction between these two major categories of salaries and other benefits. Accounting Standard (AS) 15 (revised), *Employee Benefits* prescribes accounting and disclosure for all employee benefits, except employee share-based payments. Though it is applicable to all enterprises, considering the limited resources available with the SMEs/SMCs to apply AS 15 (revised), relaxations/exemptions from certain requirements of AS 15 (revised) have been provided to them. Accordingly, NPOs falling within the meaning of SMEs/SMCs can avail of such relaxations/exemptions. For example, an NPO falling under the category of SMEs and whose average number of persons employed during the year is less than 50 is exempted completely from the application of actuarial method for defined benefit plans [for details of all the exemptions/relaxations available under AS 15 (revised) to SMEs/SMCs, Appendix II may be referred].

65. AS 15 (revised) identifies four categories of employee benefits:

(a) short-term employee benefits, such as wages, salaries and social security contributions (e.g., contribution to an insurance company by an employer to pay for medical care of its employees), paid annual leave, profit-sharing and bonuses (if payable within twelve months of the end of the period) and non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees;

(b) post-employment benefits such as gratuity, pension, other retirement benefits, post-employment life insurance and post-employment medical care;

(c) other long-term employee benefits, including long-service leave or sabbatical leave, jubilee or other long-service benefits, long-term disability benefits and, if they are not payable wholly within twelve months after the end of the period, profit-sharing, bonuses and deferred compensation; and

(d) termination benefits.

66. ***Recognition of short-term employee benefits*:** AS 15 (revised) requires an enterprise to recognise the undiscounted amount of short-term employee benefits when an employee has rendered service in exchange for those benefits.

67. ***Post-employment benefits:*** These are classified as either *defined contribution plans* or *defined benefit plans*. Under defined contribution plans such as provident fund, the enterprise's obligation is limited to the amount that it agrees to contribute to the fund and in consequence, actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall on the employee. AS 15 (revised) requires that when an employee has rendered service to an enterprise during a period, the enterprise should recognise the contribution payable to a defined contribution plan in exchange for that service. All other post-employment benefit plans are defined benefit plans. Defined benefit plans may be unfunded, or they may be wholly or partly funded by contributions by an enterprise, and sometimes its employees, into an entity, or fund, that is legally separate from the reporting enterprise and from which the employee

benefits are paid. Examples of defined benefit plans are pension and gratuity. As per AS 15 (revised), for defined plans, the amount recognised in the balance sheet should be the present value of the defined benefit obligation (that is, the present value of expected future payments required to settle the obligation resulting from employee service in the current and prior periods), as adjusted for unrecognised past service cost, and reduced by the fair value of plan assets at the balance sheet date. The present value of the defined benefit obligation should be determined using an actuarial valuation method (Projected Unit Credit Method). The Standard also prescribes amounts with regard to the defined benefit plans to be reflected in the income and expenditure account.

68. ***Other long-term employee benefits:*** AS 15 (revised) requires a simplified method of accounting for other long-term employee benefits. This method differs from the accounting required for post-employment benefits insofar as that all past service cost is recognised immediately.

69. ***Termination benefits:*** These are employee benefits payable as a result of either an enterprise's decision to terminate an employee's employment before the normal retirement date; or an employee's decision to accept voluntary redundancy in exchange for these benefits. An enterprise should recognise termination benefits as a liability and an expense when and only when:

(a) the enterprise has a present obligation as a result of a past event;

(b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

(c) a reliable estimate can be made of the amount of the obligation.

Non-monetary expenses – Depreciation

70. NPOs use buildings, computers, furniture and fixtures and

other assets having long life. Such assets are used by NPOs over their useful life and, accordingly, are depreciated over that period. Such assets are known as 'depreciable assets'.

71. Depreciation is a measure of the wearing out, consumption or other loss of value of a depreciable asset arising from use, effluxion of time or obsolescence through technology and market changes. Depreciation is allocated so as to charge a fair proportion of the depreciable amount in each accounting period during the expected useful life of the asset. Thus, the purpose of charging depreciation is to spread the cost of a depreciable asset over its useful life so as to charge it as an expense in the income and expenditure account. A corresponding depreciation fund may be created as a management decision or under a legal requirement, if any, to replace the asset on the expiry of its useful life. Thus, non-creation of a depreciation fund, if there is no legal requirement, does not adversely affect the true and fair view of the financial statements even though it may be financially prudent to do so.

72. Depreciable amount of a depreciable asset refers to the historical cost, or the revalued amount, as reduced by its estimated residual value. The useful life of a depreciable asset is either the period over which it is expected to be used by the organisation, or the number of production or similar units expected to be obtained from the use of the asset by an organisation.

73. Accounting Standard (AS) 6, *Depreciation Accounting*, prescribes requirements for charging depreciation on various depreciable assets. Keeping in view the requirements of AS 6, nature of activities carried on by NPOs and to maintain uniformity of accounting followed by various NPOs, depreciation should be provided on various depreciable assets as follows:

(a) The method of depreciation used by NPOs to charge depreciation should be followed consistently. A change from one method to another should be made only if its adoption is required by statute or for compliance with an accounting standard or if it is considered that the change would result in a more appropriate preparation or presentation of the financial statements of the NPO. When a change in the method is made, depreciation should be recalculated in accordance with this new method from the date of the asset coming into use. The deficiency or surplus arising from the retrospective recomputation of depreciation in accordance with the new method should be charged or credited (as the case may be) to the income and expenditure account for the year in which the method of depreciation is changed.

(b) The rates of depreciation that NPOs are required to follow should be in accordance with the expected useful life of the assets. In case of NPOs registered under the Companies Act, the rates as prescribed in Schedule XIV to the said Act should be applied.

(c) Any addition or extension which becomes an integral part of the existing asset should be depreciated over the remaining useful life of that asset. Alternatively, depreciation on such addition or extension may be provided at the rate applied to the existing asset. However, where an addition or extension retains its separate identity and is capable of being used after the existing asset is disposed of, depreciation on the same should be provided independently on the basis of an estimate of its own useful life.

(d) Where a depreciable asset is disposed of, scrapped, retired, etc., the net surplus or deficiency, if material, should be disclosed separately.

74. In case of donated fixed assets or fixed assets received as non-monetary grants, no depreciation is required to be provided if the assets are recorded at nominal value (see paragraph 55).

75. It is sometimes argued that no depreciation need be provided in case of fixed assets which are purchased and are expected to be replaced by donors when the useful life of the assets is over.

However, this argument is not valid because, in accounting, the purpose of charging depreciation is not to accumulate funds to replace a fixed asset; the purpose is to allocate the cost of the fixed asset over its useful life so that the periodic net result of operations of the enterprise reflects the use of the fixed asset.

ASSETS

76. An asset is a resource controlled by an NPO as a result of past events and from which future economic benefits or service potential is expected to flow to the NPO. A resource should be considered to be controlled by an NPO if it is in a position to control the use of the asset, i.e., it is in a position to obtain all the rewards from the asset which means all the future economic benefits associated with it will flow to the NPO.

77. Many assets, for example, computers and buildings have a physical form. However, physical form is not essential to the existence of an asset. Hence, intangible assets such as copyrights and computer software are also assets, if they are controlled by the NPO and future benefits from their use are expected to flow to the NPO.

Recognition and Measurement of Assets

78. An asset should be recognised in the balance sheet when and only when:

(a) it is probable that the future economic benefits embodied in the asset will be received; and

(b) the asset possesses a cost or value that can be measured reliably.

79. Assets can be classified into various categories depending on their nature and life such as fixed assets; intangible assets; investments – both current and long-term; and current assets – inventories, loans and advances, cash and bank balances.

80. The recognition and measurement principles with regard to the aforesaid categories of assets are dealt with hereinafter in the context of the accounting standards where relevant from the perspective of NPOs.

Fixed assets

81. Accounting Standard (AS) 10, *Accounting for Fixed Assets*, lays down, *inter alia*, recognition and measurement principles with regard to tangible fixed assets, the salient features of which from the perspective of an NPO are given below:

(a) A *fixed asset* is defined as "an asset held with the intention of being used for the purpose of producing or providing goods or services and is not held for sale in the normal course of business".

(b) The financial statements should disclose, *inter alia*, the gross book value of fixed assets. The gross book value of a fixed asset should be either its historical cost or a revalued amount.

(c) The cost of a fixed asset is determined in the manner given below:

   (i) The cost of a purchased fixed asset comprises its purchase price and any attributable cost of bringing the asset to its working condition for its intended use.

   (ii) The cost of a self-constructed fixed asset should comprise those costs that relate directly to the specific asset and those that are attributable to the construction activity in general and can be allocated to the specific asset.

   (iii) When a fixed asset is acquired in exchange or in part exchange for another asset, the asset acquired should be recorded either at fair market value or at the net book value of the asset given up, adjusted for any balancing payment or receipt of cash or other consideration. Fair market value is the price that would be agreed to in an open and unrestricted market between knowledgeable and willing parties dealing at arm's length who are fully informed and are not under any compulsion to transact. Fair market value may be determined by reference either to the asset given up or to the asset acquired, whichever is more clearly evident.

(iv) Where several fixed assets are purchased for a consolidated price, the consideration should be apportioned to various assets on a fair basis as determined by competent valuers.

(d) Subsequent expenditure related to an item of fixed asset should be added to its book value only if it increases the future benefits from the existing asset beyond its previously assessed standard of performance.

(e) Material items retired from active use and held for disposal should be stated at the lower of their net book value and net realisable value and shown separately in the financial statements.

(f) A fixed asset should be eliminated from the financial statements on disposal or when no further benefit is expected from its use and disposal.

(g) Any profit or loss arising from retirement or disposal of fixed assets should be dealt with as below:

(i) Losses arising from the retirement or gains or losses arising from disposal of a fixed asset which is carried at cost should be recognised in the income and expenditure account.

(ii) Where a previously revalued item of fixed asset is disposed off, any loss or gain (i.e., the difference between net disposal proceeds and the net book value) should be charged or credited to the income and expenditure account. However, to the extent that such a loss is related to an increase which was previously recorded as a credit to revaluation reserve and which has not been subsequently reversed or utilised, it may be charged directly to that account.

(h) All costs which are incurred in bringing an asset to its working condition for its intended use should be added to the cost of the fixed asset. Examples of directly attributable costs are, initial delivery and handling costs, site preparation, professional fees, for example fees of architects and engineers. In case of land, cost of any improvement to land such as filling cost, fencing cost, etc. should be capitalised as a part of the cost of land. In case any super-structure has been built on land, the cost of such super-structure should be capitalised separately under the head 'buildings'.

(i) Where a fixed asset is obtained by an NPO free of cost, such an asset is a non-monetary grant and, accordingly, should be accounted for as per AS 12, which requires that non-monetary grants should be accounted for at a nominal value (e.g. rupee one). Any incidental costs of acquisition such as registration charges, transportation charges, etc., should be added to the cost of the fixed asset. When such assets are disposed off, the gain being the difference in the carrying amount, i.e., Re. 1 and the sale proceeds should be recognised.

82. The application of AS 10 to some major items of fixed assets in the context of peculiar features of NPOs is discussed below:

(a) ***Land:*** An NPO may acquire land in a variety of ways such as the following:

(i) By way of purchase from land owners.

(ii) Land gifted to NPOs by institutions or individuals, whether with or without any conditions as to their use. This includes open spaces gifted by the promoters of colonies, etc.

(iii) Land provided to NPOs by government free of cost, whether with or without any conditions as to their use.

Besides the above, some land may also be vested in NPOs in respect of which such an NPO acts merely as a trustee and has no ownership rights.

The accounting treatment of land acquired through the above modes may be as follows:

- ***Land acquired through purchase***

  Such land should be recorded at the aggregate of the purchase price paid/payable and other costs incidental to acquisition such as registration charges.

- ***Land acquired free of cost***

  In many cases, land is provided by the government free of cost. In some cases, land is also provided by individuals or institutions under endowment for specific purposes like construction of schools, etc., or by promoters of colonies, etc., for construction of parks and similar common facilities. The cost of such land to the NPOs is nil. In substance, such land received is a non-monetary grant and, accordingly, should be accounted for at nominal value as per AS 12. However, to maintain proper control, such land must be recorded in the fixed assets register.

  Any incidental costs of acquisition such as registration charges should be added to the above.

- ***Vested Government Land***

    Such land is neither owned by the NPO nor do the economic benefits from use of such land otherwise flow to the NPO. The ownership remains with the government and the NPO merely acts as a trustee in respect of such land. As neither the ownership nor the economic benefits arising from such land vest with the NPO, it should not be considered as an asset of the NPO.

- ***Land Improvements***

    Cost of any improvement to land such as filling cost, fencing cost, etc., should be capitalised as a part of the cost of land. However, in case of vested government land, the cost of improvement to land should not be capitalised but treated as a revenue expenditure. In case any super-structure has been built on land, the cost of such super-structure should be capitalised separately under the head 'buildings'.

(b) Buildings: The cost of buildings should be taken as the aggregate of the purchase price and incidental costs such as registration charges. In the case of self-constructed buildings, the cost would comprise those costs that relate directly to the construction of the building and an appropriate portion of other general construction costs.

(c) Plant and Machinery: The cost of plant and machinery would include, besides purchase price, such costs as site preparation costs, installation costs and professional fees.

(d) Other Fixed Assets: The cost of other fixed assets such as vehicles, furniture and fittings, office equipment, etc., comprise the purchase price and incidental costs such as freight, installation charges, etc.

(e) Composite Fixed Assets: In some cases, a single asset may comprise several components of different nature. For example, a park may comprise, apart from land, buildings, pumping station machinery, swings, etc. Where each of these assets has been purchased/constructed separately, the attributable cost (i.e., purchase price and incidental costs, or the cost of construction, as the case may be) of each asset should be capitalised under the respective account head. On the other hand, where a composite asset has been purchased or constructed for a consolidated amount, such amount should be apportioned among the various components of the asset on a reasonable basis, e.g., in proportion to their respective market prices on the date of acquisition.

83. ***Opening Balance at the Time of Shift to Accrual Basis:*** A major problem in accounting for fixed assets would arise at the time an NPO switches over to accrual basis of accounting. Many assets, e.g., those received by way of donations or endowments, may not have been recorded at the time they were acquired. It would be necessary to identify such assets and account for them appropriately. In accounting for such assets, factors such as adverse possession, defects in title, etc., would also need to be considered.

Intangible assets

84. The recognition and measurement of intangible assets is prescribed under Accounting Standard (AS) 26, *Intangible Assets*, the salient features of which from the perspective of an NPO are given below:

(a) Intangible asset is defined as "an identifiable non-monetary asset, without physical substance, held for use in the production or supply of goods or services, for rental to others, or for administrative purposes".

(b) If an item covered by AS 26 does not meet the definition of an intangible asset, expenditure to acquire it or generate it internally is recognised as an expense when it is incurred.

(c) In some cases, an asset may incorporate both intangible and tangible elements that are, in practice, inseparable. To determine whether such an asset should be treated as fixed assets under AS 10, or as an intangible asset under AS 26, judgement is required to assess as to which element is predominant.

(d) An intangible asset should be recognised if, and only if:

  (i) it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise; and

  (ii) the cost of the asset can be measured reliably.

(e) The future economic benefits flowing from an intangible asset may include revenue from the sale of products or services, cost savings, or other benefits resulting from the use of the asset by the enterprise.

(f) The cost of an intangible asset comprises its purchase price, including any import duties and other taxes (other than those subsequently recoverable by the enterprise from the taxing authorities), and any directly attributable expenditure for making the asset ready for its intended use.

(g) Intangible asset acquired free of charge, or for nominal consideration, by way of a government grant should be accounted for in accordance with the requirements of AS 12, *Accounting for Government Grants.*

(h) Cost of intangible asset acquired in exchange or part exchange of another asset is determined in accordance with the principles laid down in this regard in AS 10, *Accounting for Fixed Assets.*

(i) Internally generated goodwill should not be recognised as an asset because it is not an identifiable resource controlled by the enterprise that can be measured reliably at cost. Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance should not be recognised as intangible assets.

(j) No intangible asset arising from research (or from the research phase of an internal project) should be recognised. Expenditure on research (or on the research phase of an internal project) should be recognised as an expense when it is incurred.

Impairment of Assets

85. An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the asset. If this is the case, the asset is described as impaired and Accounting Standard (AS) 28, *Impairment of Assets*, requires the enterprise to recognise an impairment loss. AS 28 also specifies when an enterprise should reverse an impairment loss and it prescribes certain disclosures for impaired assets. It applies to accounting for the impairment of all assets carried at cost as also to the assets carried at revalued amounts in accordance with other applicable Accounting Standards. It may be mentioned that the recoverable amount is the higher of 'net selling price' and 'value in use' of the asset. For determining 'value of use', the present value of future cash flows from the asset is required to be worked out. It may be noted in respect of this requirement, that SMEs/SMCs are given relaxation not to use the present value technique, but to arrive at the amount of 'value in use' based on reasonable estimate. This is relevant for an NPO that falls within the meaning of SME/SMC [for details of the relaxation available under AS 28 to SMEs/SMCs, Appendix II may be referred].

Current Assets

86. ***Inventories*:** NPOs carrying on any trading/manufacturing activity may have inventories at the year-end that are:

(a) held for sale in the ordinary course of business;

(b) in the process of production for such sale; or

(c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.

In accordance with the Accounting Standard (AS) 2, *Valuation of Inventories*, these inventories should be valued at lower of cost and net realisable value.

87. Certain items are manufactured or purchased for the purpose of distributing to beneficiaries either free of cost or at a nominal amount. Since such items are not held for the purpose of sale or in the process of production for such sale or they are not in the form of materials or supplies to be consumed in the production process or in the rendering of services of commercial, industrial or business nature, such items cannot be considered as inventories within the meaning of AS 2. In view of this, such items should be valued at the lower of cost or replacement cost, if available.

88. In certain cases, NPOs may receive items from donor agencies either free of cost or at a nominal charge for distribution to beneficiaries or for sale. A part of these items may remain undistributed/unsold, at the year-end. NPOs should disclose the market prices or estimated net realisable values of such items, lying at the year-end, in the notes to accounts, along with quantitative details.

89. ***Loans and advances:*** These should be carried at the lower of cost and their net realisable value. In view of this, if there is a significant uncertainty about collectability of a loan or advance, e.g., loan given to employees, a provision to the extent of the amount considered uncollectable should be made by a charge to the income and expenditure account.

90. ***Investments:*** As per Accounting Standard (AS) 13, *Accounting for Investments*, which deals with accounting for investments in the financial statements of enterprises and related disclosure requirements, investments are defined as "assets held by an enterprise for earning income by way of dividends, interest,

and rentals, for capital appreciation, or for other benefits to the investing enterprise". NPOs may invest their funds in securities such as, government bonds and units. They may also invest monies received in respect of specific funds with a view to liquidate them at the time of incurrence of the expenditure for the specified purpose. These investments could be in short term fixed deposits with banks. NPOs should account for investments in accordance with AS 13 as follows:

(a) An NPO should disclose current investments and long term investments distinctly in its financial statements. A *current investment* is an investment that is by its nature readily realisable and is intended to be held for not more than one year from the date on which such investment is made. A *long term investment* is an investment other than a current investment.

(b) The cost of an investment should include acquisition charges such as brokerage, fees and duties. Where an investment has been purchased on cum-dividend or cum-interest basis, the interest or dividend received subsequently should be allocated between pre-acquisition and post-acquisition periods. The interest or dividend relating to the pre-acquisition period represents a recovery of cost and should, accordingly, be deducted in arriving at cost.

(c) Investments classified as current investments should be carried in the financial statements at the lower of cost and fair value.

(d) The comparison of cost and fair value for determining the carrying amount of current investments should be made either on an individual investment basis (i.e., cost and fair value should be compared separately for each investment) or by category of investment (i.e., cost of an entire category of investments such as government securities should be compared with its fair value).

(e) Investments classified as long term investments should be carried in the financial statements at cost. However, provision for diminution should be made to recognise a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually.

(f) Any reduction in the carrying amount and any reversals of such reductions should be charged to income.

(g) On disposal of an investment, the difference between the carrying amount and net disposal proceeds should be charged or credited to income. When disposing of a part of the holding of an individual investment, the carrying amount to be allocated to that part is to be determined on the basis of the average carrying amount of the total holding of the investment.

LIABILITIES

91. An essential characteristic of a liability is that the enterprise has a present obligation. An obligation is a duty or responsibility to act or perform in a certain way. Obligations may be legally enforceable as a consequence of a binding contract or a statutory requirement. This is normally the case, for example, with amounts payable for goods and services received and taxes to be paid. Obligations also arise, however, from normal practices followed by the enterprise, custom and a desire to maintain good relations or act in an equitable manner.

Recognition and Measurement of Liabilities

92. A liability should be recognised in the balance sheet when and only when:

(a) it is probable that any future sacrifice of economic benefits will be required; and

(b) the amount of the liability can be measured reliably.

93. The settlement of a liability usually involves the enterprise giving up resources embodying economic benefits in order to satisfy the claim of the other party. Settlement of a liability may occur in a number of ways, for example, by:

(a) payment of cash;

(b) transfer of other assets;

(c) provision of services;

(d) replacement of that obligation with another obligation

An obligation may also be extinguished by other means, such as a creditor waiving or forfeiting its rights.

94. In the case of NPOs, liabilities are normally in the form of payments due to the suppliers of material and services or any income received in advance. They could also represent unutilised grants of funding agencies. These liabilities should be measured at the amount at which they are due for payment and recognised on the basis of the criteria specified above.

PROVISIONS

95. Some liabilities can be measured only by using a substantial degree of estimation. Such liabilities are commonly described as 'provisions'. Provisions are created through a charge to the income and expenditure account against the corresponding liability created. Examples of provisions include provisions for payment of telephone and electricity charges of NPOs.

Recognition and Measurement of a Provision

96. An NPO should recognise and measure provisions in accordance with Accounting Standard (AS) 29, *Provisions, Contingent Liabilities and Contingent Assets*. AS 29 requires that a provision should be recognised when:

(a) there is a present obligation as a result of a past event;

(b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

(c) a reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision should be recognised.

As per AS 29, present obligation is an obligation if, based on the evidence available, its existence at the balance sheet date is considered probable, i.e., more likely than not. According to AS 29, the amount recognised as a provision should be the best estimate of the expenditure required to settle the present obligation at the balance sheet date.

97. ***Contingent liabilities:*** AS 29 defines the terms 'contingent liability' and 'possible obligation' as below:

"A contingent liability is:

(a) a possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise; or

(b) a present obligation that arises from past events but is not recognised because:

(i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

(ii) a reliable estimate of the amount of the obligation cannot be made."

> ***"Possible obligation – an obligation is a possible obligation if, based on the evidence available, its existence at the balance sheet date is considered not probable."***

98. As per AS 29, an NPO should not recognise a contingent liability on the face of financial statements, but it should make the following disclosures, for each class of contingent liability, in the notes to financial statements, unless the possibility of any outflow in settlement is remote:

- (a) a brief description of the nature of the contingent liability;
- (b) an estimate of its financial effect;
- (c) an indication of the uncertainties relating to any outflow; and
- (d) the possibility of any reimbursement.

99. Where any of the information required in the paragraph above is not disclosed because it is not practicable to do so, that fact should be stated.

BOOKS OF ACCOUNT TO BE MAINTAINED BY AN NPO

100. Every NPO should maintain proper books of account with respect to:

- (a) all sums of monies received by the NPO and the matters in respect of which receipts take place, showing distinctly the amounts received from income generating activities and through grants and donations;
- (b) all sums of money expended by the NPO and the matters in respect of which expenditure takes place;
- (c) all assets and liabilities of the NPO.

101. Proper books of account would not be deemed to be kept with respect to the matters specified therein:

(a) if such books are not kept as are necessary to give a true and fair view of the state of affairs of the NPO, and to explain its transactions;

(b) if such books are not kept on accrual basis and according to the double entry system of accounting; and

(c) if such books are not kept so as to reflect a true and fair view of various funds maintained by the NPO.

102. The books of account of an NPO may be structured in a manner that is suited to its needs and requirements. For instance:

(a) A separate set of books and records may be maintained for foreign and Indian contributions, as per the requirements of the Foreign Contribution (Regulation) Act.

(b) Similarly, separate sets of books and records may be maintained for the various projects, branches and field offices that the NPO may have for implementing its programmes and interventions.

(c) Separate ledgers and records may also be maintained with regard to the various funds representing the grants received from various sources, including the governments and different funding agencies, received with or without stipulations and restrictions. This may also be referred to as Fund Based Accounting, which is discussed in detail in the following paragraphs.

FORMATS OF FINANCIAL STATEMENTS

103. The accounting process in an organisation culminates in the preparation of its financial statements. The financial statements

are intended to reflect the operating results during a given period and the state of affairs at a particular date in a clear and comprehensive manner. The basic financial statements relevant to an NPO are income and expenditure account and balance sheet and notes, other statements and explanatory material that are an integral part of the financial statements. They may also include supplementary schedules and information based on or derived from, and expected to be read with such statements. In addition, NPOs should also prepare a cash flow statement in accordance with Accounting Standard (AS) 3, *Cash Flow Statements* where applicable[5]. Financial statements do not, however, include reports by the governing body, for example, the trustees, statement by the chairman, discussion and analysis by management and similar reports that may be included in a financial or annual report.

104. Income and expenditure account is a nominal account which is prepared by an NPO in lieu of a profit and loss account. An income and expenditure account should contain all revenue earned and expenses incurred by an NPO during an accounting period. The net result, i.e., the difference between revenues and expenses is depicted in the form of surplus, i.e., excess of income over expenditure, or deficit, i.e., excess of expenditure over income for the period. For the preparation of income and expenditure account only revenue items are taken into consideration and capital items are totally excluded. Incomes received in advance and prepaid expenses at the end of the accounting period are also excluded while preparing this account and are disclosed as a liability and an asset, respectively, in the balance sheet. These are included as incomes and expenses in the accounting periods to which they relate.

105. Since the purpose of fund based accounting in an NPO, discussed in detail hereinafter, is to present income and expense in respect of restricted funds as distinguished from unrestricted fund, it is recommended that the income and expenditure account should have three columns, namely,

[5] An NPO falling within the meaning of SME/SMC is exempted from applying AS 3, i.e., preparing a cash flow statement.

(a) 'Unrestricted Funds', further sub-classified into 'Designated Funds' and 'General Fund';

(b) 'Restricted Funds'; and

(c) 'Total' column reflecting the total income and expenses of 'Unrestricted Funds' and 'Restricted Funds'.

106. Although an NPO may separate designated funds from other unrestricted funds in its internal accounting records as mentioned above, care must be taken in the published accounts so as not to give the impression that there is some legal distinction between the two, as in fact the NPO can use both types of funds at its discretion. If the trustees/management do wish to highlight the fact that they are setting aside resources for a specific project or purpose, the designated funds may be disclosed as a separate category of unrestricted funds.

107. NPOs should not present the balance sheet in multi-columnar form. An integrated balance sheet for the NPO as a whole should be presented. In the balance sheet, assets and liabilities should not be set-off against each other, even though these may be related to the same programme/project. Rather these should be disclosed separately. Balance of various funds should be distinctly disclosed in the balance sheet.

108. In the preparation and presentation of financial statements, the overall consideration should be that they give a true and fair view of the state of affairs of the NPO and of the surplus or deficit as reflected in the balance sheet and the income and expenditure account, respectively. The financial statements should disclose every material transaction, including transactions of an exceptional and extraordinary nature. The financial statements should be prepared in conformity with relevant statutory requirements, the accounting standards and other recognised accounting principles and practices.

109. NPOs incorporated under section 25 of the Companies Act, 1956, are governed by the provisions of the said Act. Under the

Act, these NPOs are required to follow the Accounting Standards issued by the Institute of Chartered Accountants of India and to prepare balance sheet and profit and loss account (income and expenditure account in case of companies not carrying business for profit) in the formats set out in Schedule VI to the Act, or as *near thereto as circumstances admit*. NPOs which are not registered under the Companies Act but the statute which governs them prescribes a format for the purpose of preparation of the financial statements, should prepare the financial statements in accordance with the requirements of the said statute. The Accounting Standards should also be followed by such NPOs as are already discussed in this Technical Guide. For use by NPOs, which are not governed by any statute or for which the governing statute does not prescribe any formats, illustrative formats of financial statements are given in the Appendix I. It may be emphasised that formats given in the Appendix are merely illustrative and an NPO may modify the formats appropriately keeping in view the nature of activities, requirements of donor agencies, etc. The formats should be viewed as laying down the minimum rather than the maximum information that NPOs should present in their financial statements. Those NPOs who wish to present more detailed information are encouraged to do so.

FUND BASED ACCOUNTING

110. NPOs frequently receive grants/donations and other forms of revenue the use of which may be either unrestricted or subject to the restrictions imposed by the contributors, i.e., such funds can only be used for specific purposes and, therefore, are not available for an NPO's general purposes. Further, there might also be legal/ other binding restrictions on NPOs to use certain specific amounts only for specified purposes or NPOs may also on their own, earmark certain unrestricted funds for specific purposes. For the purpose of appropriate presentation of these funds in the financial statements, it is necessary to understand their nature and characteristics, which is described below:

(a) *Unrestricted funds*: Unrestricted funds refer to funds contributed to an NPO with no specific restrictions. The obligation of an NPO while accepting an unrestricted

donation or grant is to ensure its usage for the general purposes of the NPO. All incomes (donations, legacies, investment income, fees, etc.) not subject to external restrictions are a part of unrestricted funds. For the purpose of presentation in the income and expenditure account and the balance sheet the unrestricted funds can be further classified into three categories viz., corpus, designated funds and general fund.

(i) *Corpus:* Corpus refers to funds contributed by founders/promoters generally to start the NPO. They are non-reducible funds which can however be increased by additional contribution by the founders/ promoters to further the objects of the NPO. These funds need to be distinguished from funds which are in the nature of founders'/promoters' contribution, which are grants given by contributors other than founders/promoters with reference to the total investment in an undertaking or by way of contribution towards outlay. No repayment is ordinarily expected of such grants.

(ii) *Designated funds*: Designated funds are unrestricted funds which have been set aside by the trustees/ management of an NPO for specific purposes or to meet future commitments. Unlike restricted funds, any designations are self-imposed and are not normally legally binding. The NPO can lift the designation whenever it wishes and reallocate the funds to some other designated purpose.

(iii) *General fund*: Unrestricted funds other than 'designated funds' and 'corpus' are a part of the 'General Fund'.

(b) *Restricted funds*: Restricted funds are subject to certain conditions set out by the contributors and agreed to by the NPO when accepting the contributions. The restriction may apply to the use of the moneys received

or income earned from the investment of such moneys or both. Funds, the use of which is subject to legal restrictions are also considered as restricted funds.

Endowment funds are another form of restricted funds. Endowment funds are those funds which have been received with a stipulation from the contributor/donor that the amount received should not be used for any purpose. Only the income earned from these funds can be used either for general purposes of the NPO or for specific purposes, depending on the terms of the contribution made. Usually, the amount received is invested outside the NPO as per the terms of the contribution, if any.

111. Designated funds are created by appropriation of the surplus for the year for meeting a revenue expenditure or capital expenditure in future. When a revenue expenditure is incurred with respect to a designated fund, the same is debited to the income and expenditure account ('Designated Funds' column). A corresponding amount is transferred from the concerned designated fund account to the credit of the income and expenditure account after determining the surplus/deficit for the year since the purpose of the designated fund is over to that extent. Where the designated fund has been created for meeting a capital expenditure, the relevant asset account is debited by the amount of such capital expenditure and a corresponding amount is transferred from the concerned designated fund account to the credit of the income and expenditure account after determining surplus/deficit for the year. In respect of the assets, e.g., a building, being constructed by an NPO, on completion of the same, the entire balance, if any, of the relevant designated fund is transferred to the credit of the income and expenditure account after determining the surplus/deficit for the year.

112. In case an NPO holds specific investments against the designated funds, income earned, if any, on such investments, is credited to the income and expenditure account for the year in which the income is so earned and is shown in 'Designated Funds'

column. An equivalent amount may be transferred to the concerned designated fund account after determining the surplus/deficit for the year as per the policy of the NPO.

113. All items of revenue and expenses that do not relate to any designated fund or restricted fund are reflected in the 'General Fund' column of the income and expenditure account. The surplus/deficit for the year after appropriations is transferred and presented as surplus/deficit separately as a part of 'General Fund' in the balance sheet. Apart from such surplus/deficit, the 'General Fund' also includes the following which are separately presented in the balance sheet:

(a) Grants related to a non-depreciable asset. (See Grants and Donations – Recognition and Measurement)

(b) Grants of the nature of founders'/promoters' contribution. (See Grants and Donations – Recognition and Measurement)

114. Restricted funds, that represent the contributions received the use of which is restricted by the contributors, are credited to a separate fund account when the amount is received and reflected separately in the balance sheet. Such funds may be received for meeting revenue expenditure or capital expenditure. Where the fund is meant for meeting revenue expenditure, upon incurrence of such expenditure, the same is charged to the income and expenditure account ('Restricted Funds' column); a corresponding amount is transferred from the concerned restricted fund account to the credit of the income and expenditure account ('Restricted Funds' column). Where the fund is meant for meeting capital expenditure, upon incurrence of the expenditure, the relevant asset account is debited which is depreciated as per AS 6. Thereafter, the concerned restricted fund account is treated as deferred income, to the extent of the cost of the asset, and is transferred to the credit of the Income and Expenditure Account in proportion to the depreciation charged every year (both the income so transferred and the depreciation should be shown in the 'Restricted Funds' column). The unamortised balance of deferred income would

continue to form part of the restricted fund. Any excess of the balance of the concerned restricted fund account over and above the cost of the asset may have to be refunded to the donor. In case the donor does not require the same to be refunded, it is treated as income and credited to the income and expenditure account pertaining to the relevant year ('General Fund' column). Where the restricted fund is in respect of a non-depreciable asset, the concerned restricted fund account is transferred to the 'General Fund' in the balance sheet when the asset is acquired.

115. The restricted funds will normally carry a stipulation as to the use of income earned on investments made out of the contributions received. If the terms stipulate that the income earned should be used for the same purpose for which the contribution was made, the income earned should be credited to the concerned restricted fund account. Where the terms stipulate a general use of the income earned, the same should be credited to the income and expenditure account ('General Fund' column) of the year in which the income is so earned.

116. With regard to endowment funds, the income earned from investments of these funds is recognised in the income and expenditure account only to the extent of the expenditure incurred for the relevant purpose. Both the income and the expense should be shown in the 'Restricted Funds' column. Any excess of the income not recognised as aforesaid would continue to remain part of the concerned fund.

DISCLOSURES

117. Accounting Standard (AS) 1, *Disclosure of Accounting Policies*, principally requires the disclosure of significant accounting policies and specifies the manner of their disclosure. A clear statement of significant accounting policies followed in the preparation and presentation of financial statements is necessary, irrespective of the type of entity presenting the financial statements. Further, all significant accounting policies should be disclosed at one place. Accordingly, NPOs should disclose their significant

accounting policies and this disclosure should be made at one place.

118. Where an NPO has followed a basis of accounting other than accrual, a disclosure in this regard should be made. An illustrative list of accounting policies that an NPO could disclose is as follows:

(a) The bases of recognition of major types of expenses and revenue

(b) Accounting for income from and expenditure on specialised activities such as research

(c) Conversion or translation of foreign currency (in case of organisations receiving foreign funds)

(d) Method(s) of depreciation

(e) Valuation of inventories

(f) Valuation of investments

(g) Treatment of employee benefits

(h) Valuation of fixed assets

(i) Treatment of contingent liabilities

119. As per Accounting Standard (AS) 2, *Valuation of Inventories*, an NPO should disclose in the financial statements:

(a) the accounting policies adopted in measuring inventories, including the cost formula used; and

(b) the total carrying amount of inventories and its classification appropriate to the NPO.

120. As per Accounting Standard (AS) 9, *Revenue Recognition*, in addition to the disclosures required by AS 1, an NPO should also disclose the circumstances in which revenue recognition has been postponed pending the resolution of significant uncertainties.

121. As per Accounting Standard (AS) 6, *Depreciation Accounting,* an NPO should disclose in the financial statements:

(a) the historical cost or other amount substituted for historical cost of each class of depreciable assets;

(b) total depreciation for the period for each class of assets; and

(c) the related accumulated depreciation.

122. The following information should also be disclosed in the financial statements alongwith the disclosure of other accounting policies:

(a) depreciation methods used; and

(b) depreciation rates or the useful lives of the assets, if they are different from the principal rates specified in the statute governing the NPO.

123. As per Accounting Standard (AS) 10, *Accounting for Fixed Assets*, an NPO should make the following disclosures in the financial statements:

(a) gross and net book values of fixed assets at the beginning and end of the accounting period along with additions, disposals, acquisitions and other movements during the year;

(b) expenditure incurred on account of fixed assets in the course of construction or acquisition; and

(c) revalued amounts substituted for historical costs of fixed assets, the method adopted to compute the revalued amounts, the nature of any indices used, the year of any appraisal made, and whether an external valuer was involved in carrying out the revaluation.

124. As per Accounting Standard (AS) 11, *The Effects of Changes in Foreign Exchange Rates*, an NPO should make the following disclosures in its financial statements:

(a) the amount of exchange differences included in the net profit or loss for the period; and

(b) net exchange differences accumulated in foreign currency translation reserve as a separate component of shareholders' funds, and a reconciliation of the amount of such exchange differences at the beginning and end of the period.

125. As per Accounting Standard (AS) 12, *Accounting for Government Grants*, an NPO should make the following disclosures in the financial statements:

(a) The accounting policy adopted for government grants, including the methods of presentation in the financial statements.

(b) The nature and extent of government grants recognised in the financial statements, including grants of non-monetary assets given at a concessional rate or free of cost.

These disclosures are also required to be made in respect of donations and other grants received by an NPO.

126. As per Accounting Standard (AS) 13, *Accounting for Investments*, an NPO should make the following disclosures in the financial statements:

(a) the accounting policies for the determination of carrying amount of investments;

(b) classification of investments;

(c) the amounts included in income and expenditure account for:

  (i) interest, dividends (showing separately dividends from subsidiary companies), and rentals on investments showing separately such income from long term and current investments;

  (ii) profits and losses on disposal of current investments and changes in the carrying amount of such investments; and

  (iii) profits and losses on disposal of long term investments and changes in the carrying amount of such investments;

(d) significant restrictions on the right of ownership, realisability of investment or the remittance of income and proceeds of disposal;

(e) the aggregate amount of quoted and unquoted investments, giving the aggregate market value of quoted investments;

(f) other disclosures as specifically required by the relevant statute governing the enterprise.

127. As per Accounting Standard (AS) 17, *Segment Reporting,* an NPO that is operating in different geographical locations or is involved in different kinds of service delivery programmes/projects which meet the definitions of 'geographical segment' and 'business segment', should disclose segmental information according to the requirements of AS 17. However, small and medium sized NPOs

falling within the meaning of SMEs/SMCs need not follow this Standard.

128. Accounting Standard (AS) 18, *Related Party Disclosure*s, establishes the requirements for disclosure of related party relationships, and transactions between a reporting enterprise and its related parties. *Related party* – parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions. *Related party transaction* is a transfer of resources or obligations between related parties, regardless of whether or not a price is charged.

129. Without the related party disclosures, there is a general presumption that transactions reflected in financial statements are consummated on an arm's-length basis between independent parties. NPOs are responsible to a number of stakeholders and in this context related party disclosures assume prime importance. Related party transactions may adversely affect the expectations of stakeholders, and furthermore, disclosing transactions between related parties also enhances transparency, accountability, and fairness. NPOs should, therefore, disclose the related party relationships and transactions in accordance with the requirements of AS 18. Some of the examples of related party transactions are as follows:

(a) sale, purchase, and transfer of property;

(b) services received or provided;

(c) property and equipment leases;

(d) borrowing or lending, including guarantees; and

(e) receipt of salary, honorarium or any other monetary or non-monetary benefits.

130. For the purposes of AS 18, trustees of an NPO would be considered as key management personnel and, accordingly, trustees and their relatives would, *inter alia*, be treated as related parties. It may be noted that according to AS 18, relative, in relation to an individual, means the spouse, son, daughter, brother, sister, father and mother who may be expected to influence, or be influenced by, that individual in his/her dealings with the reporting enterprise.Where an NPO falls in Level III category of non-corporate entities, it is exempted from meeting the requirements of AS 18. However, due to the heavy implications of related party transactions on the functioning of an NPO, it is recommended that the disclosures required in AS 18 should be made by all NPOs.

131. As per Accounting Standard (AS) 26, *Intangible Assets,* with regard to intangible assets, an NPO should disclose in the financial statements the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:

(a) the useful lives or the amortisation rates used;

(b) the amortisation methods used;

(c) the gross carrying amount and the accumulated amortisation (aggregated with accumulated impairment losses) at the beginning and end of the period.

132. An NPO should also disclose in the financial statements:

(a) if an intangible asset is amortised over more than ten years, the reasons why it is presumed that the useful life of an intangible asset will exceed ten years from the date when the asset is available for use. In giving these reasons, the NPO should describe the factor(s) that played a significant role in determining the useful life of the asset;

(b) a description, the carrying amount and remaining amortisation period of any individual intangible asset that is material to the financial statements of the NPO as a whole;

(c) the existence and carrying amounts of intangible assets whose title is restricted and the carrying amounts of intangible assets pledged as security for liabilities; and

(d) the amount of commitments for the acquisition of intangible assets.

The financial statements of an NPO should also disclose the aggregate amount of research and development expenditure recognised as an expense during the period.

133. Accounting Standard (AS) 27, *Financial Reporting of Interests in Joint Ventures*, sets out principles and procedures for accounting for interests in joint ventures and reporting of joint venture assets, liabilities, income and expenses in the financial statements of venturers and investors. In case of NPOs, there may be instances where two or more NPOs jointly undertake or fund a certain project or activity which is considered as a jointly controlled operation. Similarly, two or more NPOs may jointly control an asset. In addition, an NPO may also have joint control in a jointly controlled entity with other enterprises that may be in any form of organisation. Accordingly, in such cases, NPOs should report their interests in such joint ventures in separate as well as in the consolidated financial statements (prepared as per AS 21) in accordance with the requirements of AS 27.

134. In respect of the funds created in the financial statements, the NPO should disclose the following in the schedules/notes to accounts:

(a) In respect of each major fund, opening balance, additions during the period, deductions/utilisation during the period and balance at the end;

(b) Assets, such as investments, and liabilities related to each fund separately;

(c) Restrictions, if any, on the utilisation of each fund balance;

(d) Restrictions, if any, on the utilisation of specific assets.

135. NPOs should also disclose the following in the Notes to accounts:

(a) Details of the services rendered by volunteers for which no payment has been made;

(b) Fair value of the non-monetary grants and donations, e.g., a fixed asset received free of cost, received during the year. The quantitative details of such grants and donations should be separately disclosed; and

(c) Fair values of all the assets, received as non-monetary grants, existing on the balance sheet date, should be separately disclosed. If it is not practicable to determine the fair values of the assets on each balance sheet date, then such values may be determined after a suitable interval, say, every three years, and disclose the date of determination, along with the fair values.

The fair value of an asset would normally be the market price in an active, liquid and freely accessible market. The market price of an item can be the purchase price of the item donated, where the proof of purchase price is available, e.g., the donor has provided the invoice received from the supplier, declaration for customs duty purposes where the assets have been received from abroad, etc. In case the market price of the asset is not available then market price of a comparable asset may be used as fair value. It is recommended that the method of determination of fair value is also disclosed.

TRANSITION TO ACCRUAL BASIS OF ACCOUNTING

136. A major problem in transition from cash basis of accounting to accrual basis of accounting is the determination of opening balances of assets and liabilities.

137. Many assets, e.g., those received by way of donations or gifts, may not have been recorded at the time they were acquired. It is necessary to identify such assets and account for them appropriately. In every case where the original cost cannot be ascertained, without unreasonable expense or delay, the valuation shown by the books should be considered. For the purpose of this paragraph, such valuation should be the net amount at which an asset stood in the NPOs' books at the commencement of the application of this Technical Guide after deduction of the amounts previously provided or written off for depreciation. Similarly, the opening balances of current assets like, receivables and loans and advances, should also be determined.

138. In the case of liabilities, the NPOs should make an assessment on the basis of records available of the amounts payable to creditors, suppliers and others in respect of expenditure incurred for acquisition of assets or to meet revenue expenses.

139. In a manner similar to the above, the balances on account of the various funds including unrestricted and restricted should be determined and reflected on the liability side of the balance sheet.

140. The difference, if any, between the total debit balances and the credit balances as determined on the basis of the paragraphs above, should be taken as the balance of the 'General Fund'.

141. Accounting policies should be applied consistently from one financial year to the next. Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. As per Accounting Standard 5, 'Net profit or

loss for the period, prior period items and changes in accounting policies', in case of a change in accounting policies which has a material effect in the current period, the amount by which any item in the financial statements is affected by such change, should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.

Appendix I
ILLUSTRATIVE FORMATS FOR FINANCIAL STATEMENTS

Part I – General Instructions and Accounting Principles

1. The financial statements of NPOs (viz., balance sheet and income and expenditure account) should be prepared on accrual basis.

2. A statement of all significant accounting policies adopted in the preparation and presentation of the balance sheet and the income and expenditure account should be included in the NPO's balance sheet. Where any of the accounting policies is not in conformity with Accounting Standards, , and the effect of departures from Accounting Standards is material, the particulars of the departure should be disclosed, together with the reasons therefor and also the financial effect thereof except where such effect is not ascertainable.

3. Accounting policies should be applied consistently from one financial year to the next. Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. In case of a change in accounting policies which has a material effect in the current period, the amount by which any item in the financial statements is affected by such change, should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.

4. The accounting treatment and presentation in the balance sheet and the income and expenditure account of transactions and events should be governed by their substance and not merely by the legal form.

5. In determining the accounting treatment and manner of disclosure of an item in the balance sheet and/or the income and expenditure account, due consideration should be given to the materiality of the item.

6. Notes to the balance sheet and the income and expenditure account should contain the explanatory material pertaining to the items in the balance sheet and the income and expenditure account.

7. If the information required to be given under any of the items or sub-items in these formats cannot be conveniently included in the balance sheet or the income and expenditure account itself, as the case may be, it can be furnished in a separate schedule or schedules to be annexed to and forming part of the balance sheet or the income and expenditure account. This is recommended where items are numerous.

8. The schedules referred to above, accounting policies and explanatory notes should form an integral part of the financial statements.

9. The corresponding amounts for the immediately preceding financial year for all items shown in the balance sheet and the income and expenditure account should also be given in the balance sheet or income and expenditure account, as the case may be.

10. A cash flow statement should be annexed to the balance sheet, wherever applicable, showing cash flows during the period covered by the income and expenditure account and during the corresponding previous period.

11. Disclosures as suggested in the formats are minimum requirements. An NPO is encouraged to make additional disclosures.

Part II – Balance Sheet

FUNDS EMPLOYED

UNRESTRICTED FUNDS

Corpus	Corpus refers to funds contributed by founders/promoters of the NPO.
General Fund	
(i) Funds in the nature of founders'/ promoters' contribution	General Fund includes all financial resources except those required to be accounted for in another fund, i.e., it includes funds which neither have any restriction on their use nor have been designated for any specific purpose. The balance, if any, in the income and expenditure account after appropriation, i.e., surplus/(deficit) is transferred to this fund.
(ii) Funds related to non-depreciable assets not requiring fulfillment of any obligation	Grants and donations relating to non-depreciable assets, e.g., freehold land, which do not require fulfillment of any obligation, are included under this head.
(iii) Surplus/(Deficit)	'Surplus/(Deficit)' represents the balance of income and expenditure account, after appropriations, if any.
Designated Funds	Designated/Earmarked funds are unrestricted funds set aside by the NPO for specific purposes or to meet specific future commitments.
RESTRICTED FUNDS	Restricted funds are funds subject to certain conditions set out by the contributors and agreed to by the

NPO when accepting the contribution or are funds subject to certain legal restrictions. This head includes:

(i) Endowment funds that are received with the stipulation that only the income earned can be used, either for the general purposes of NPO or for specific purposes

(ii) Funds related to depreciable/non-depreciable assets in respect of which assets are still to be acquired

(iii) Balances of deferred income, e.g., grants and donations in respect of which specific depreciable assets have been acquired

(iv) Funds related to specific items of revenue expenditure not yet incurred

Each restricted fund should be reflected separately either on the face of the balance sheet or in the schedule(s) to the balance sheet.

Notes:

1. The following particulars should be shown in respect of Surplus/(Deficit):

   Balance at the beginning of the year

Add: Excess of income over expenditure for the year after appropriations, if any.

Less: Excess of expenditure over income for the year after appropriations, if any.

Balance at the end of the year

2. The following particulars should be shown in respect of each Designated and Restricted Fund:

   (a) Balance at the beginning of the year

   (b) Additions during the year

   (c) Deductions during the year

   (d) Balance at the end of the year

3. Designated/Restricted Funds represented by specifically earmarked bank balances/ investments should be disclosed separately in respect of each fund.

LOANS, if any

Notes:

1. Loans, if any, should be classified as 'secured' and 'unsecured' on the basis of the fact whether these are secured or not, wholly or partly, against an asset of the NPO.

2. Loans, if any, should also be classified on the basis of due date into the following categories:

   (a) Loans repayable within 12 months

   (b) Loans repayable within 1 to 5 years

   (c) Loans repayable after 5 years

3. Interest free loans should be disclosed separately from interest bearing loans. Interest accrued and due on loans should be included under the appropriate sub-heads.

REPRESENTED BY

FIXED ASSETS

Land	Includes freehold land and leasehold land.
Buildings	Include office and works buildings, residential buildings, school and college buildings, hospital buildings, public buildings, temporary structures and sheds.
Plant and machinery	Include air conditioners, generator sets, television sets, fire extinguishers, etc.
Vehicles	Include buses, lorries, vans, cars, scooters, etc.
Office equipments	Include such items as fax machines, photocopiers, EPABX, typewriters, duplicating machines, etc.
Computers	
Furniture fixtures and	

fittings, and electrical appliances	
Furniture	Includes items such as cabinets, almirahs, tables, chairs and partitions
Fixtures and fittings, and electrical appliances	Include electrical fixtures and fittings such as fans, bulbs and tubelights and electrical appliances such as air-conditioners, water and air coolers, etc.
Intangible assets	Includes computer software purchased, patents, trade marks etc.
Livestock	
Other fixed assets	

Notes:

1. Under each head, the original cost, the additions thereto and deductions there from during the year, depreciation written off or provided during the year, and the total depreciation written off or provided up to the end of the year should be stated.

2. (a) The cost of a fixed asset should be determined by adding to the purchase price any attributable costs of bringing it to its working condition for its intended use.

   (b) The cost of construction of a fixed asset should be determined by adding to the purchase price of the materials and consumables used, the costs incurred by the NPO which are attributable to the construction of that asset.

3. Advance payments to contractors and suppliers should not be classified under the specific fixed

assets but disclosed as a separate item.

4. Separate disclosure under each of the above heads should be made in respect of donated assets (i.e., assets that have been received free of cost as non-monetary grant/donation by the NPO) and assets financed under a lease agreement.

5. Fair value and quantitative details of fixed assets received, as non-monetary grants and donations, during the year, should be disclosed in the notes to accounts.

6. Fair values of all the donated fixed assets, existing on the balance sheet date, should be disclosed in the notes to accounts. If it is not practicable to determine the fair values of the assets on each balance sheet date, then such values may be determined after a suitable interval, say, every three years. In such a case, date of determination of fair values should also be disclosed along with the fair values of assets.

7. Restrictions, if any, on the utilisation of each asset should also be disclosed in the notes to accounts.

CAPITAL WORK-IN-PROGRESS	Capital expenditure on incomplete construction work should be shown under this head.
INVESTMENTS **Long-term**	'Long-term investment' means an investment other than a current investment.
Central Government Securities State Government Securities	
Other Securities	**Notes:** 1. Long-term investments should be shown at cost. The book value of long-term investments should be reduced to recognise a decline, other than temporary, in their value. Such reduction should be determined and made for each investment individually. 2. Aggregate amount of the NPO's long-term quoted investments and also the market value thereof should be shown. Aggregate amount of the NPO's unquoted investments should also be shown. 3. 'Quoted investment' for this purpose, means an investment in respect of which a quotation or permission to deal on a recognised stock exchange has been granted, and the expression 'unquoted investment' should be construed accordingly.

Current Investments	'Current investment' means an investment that is by its nature readily realisable and is intended to be held for not more than one year from the date on which such investment is made.
Central Government Securities	
State Government Securities	
Other Securities	**Note:** Current investments should be shown at the lower of cost and fair value, which should be determined either on an individual investment basis or by category of investment.
CURRENT ASSETS	If the net realisable value of any current asset, except items held for distributing either free of cost or at a nominal amount, is lower than its book value, the amount to be included in respect of that asset should be the net realisable value.
Closing stock	Includes items that are held for sale in the ordinary course of business, in the process of production for such sale, or in the form of materials or supplies to be consumed in the production process or in the rendering of services. **Notes:** (i) Items held for sale in the ordinary course of business should be valued at the

	lower of cost and net realisable value.
	(ii) Items held for distribution free of cost or at a nominal amount, should be shown separately. Such items should be valued at lower of cost and replacement cost, if available.
	(iii) Fair values of items received as non-monetary grants and donations, existing on the balance sheet date, should be disclosed in notes to accounts.
Receivables	
Donations and grants receivable	Include donations and grants in respect of which there is reasonable assurance that (i) the NPO will comply with the condition attached, and (ii) the donations and grants will be received.
Others (Please specify)	**Note:**
	Receivables outstanding for (i) upto six months, (ii) more than six months and upto one year, and (iii) more than one year, should be shown separately under respective heads.
Balances with Banks and Post Office	Particulars should be given of balances lying on current accounts, call accounts and deposit accounts.
With Scheduled Banks	
With Non-scheduled Banks	

With Post Office	
Cash Balances	Include cheques, drafts and pay orders on hand.
Other Current Assets	**Notes:** Items such as interest accrued on investments should be included under this head. Where any item constitutes ten percent or more of total current assets, the nature and amount of such item may be shown separately.
LOANS, ADVANCES AND DEPOSITS	
Advances to staff	
Interest bearing	
Non-interest bearing	
Advances to suppliers/ contractors	
Advances in cash to contractors for capital works	
Advances in cash to contractor/suppliers for other works	
Material issued to contractors	

Advances in cash for services	
Advances to others	
Other amounts recoverable in cash or kind or for value to be received	
Prepaid expenses	
Deposits (other than with banks)	
Telephone	
Electricity	
Others	Where any item constitutes ten per cent or more of total loans, advances and deposits, the nature and amount of such item may be shown separately and the same may not be included under this head.
LESS: CURRENT LIABILITIES AND PROVISIONS	
Current Liabilities	
Creditors	
For Goods	
For Services	
For Statutory Liabilities	

Donations and Grants in advances	
Expenses Payable	
Other Current Liabilities	Where any item constitutes ten per cent or more of total current liabilities and provisions, the nature and amount of such item may be shown separately and the same may not be included under this head.
Provisions	
For retirement benefits	
For leave encashment	
For contingencies	
Others (specify)	

Part III – Instructions for Preparing Income and Expenditure Account

1. The income and expenditure account should disclose every material feature and should be so made out as to clearly disclose the result of the working of the NPO during the period covered by the account.

2. Donations and grants should be recognised only at a stage when there is a reasonable assurance that:

the NPO will comply with the conditions attached, and

the donations and grants will be received.

3. Any item under which income exceeds 1 per cent of the total turnover/gross income of the NPO or Rs. 5,000/-, whichever is higher, should be shown as a separate and distinct item against an appropriate account head in the income and expenditure account. These items, therefore, should not be shown under the head 'miscellaneous income'.

4. Any item under which expenses exceed 1 per cent of the total turnover/gross income of the NPO or Rs. 5,000/-, whichever is higher, should be shown as a separate and distinct item against an appropriate account head in the income and expenditure account. These items, therefore, should not be shown under the head 'miscellaneous expenses'.

5. Depreciation should be provided so as to charge the depreciable amount of a depreciable asset over its useful life.

6. Fair value and quantitative details of items, being sold or being distributed free of cost or at nominal amount, that have been received as non-monetary grants and donations, should be disclosed as below, in the notes to accounts:

Balance at the beginning of the year

Add: Receipts during the year

Less: Distribution during the year

Sale during the year

Balance at the end of the year

Part IV – Income and Expenditure Account

Particulars	**March 31, 2010**				**March 31, 2009**
	Unrestricted Funds		**Restricted Funds**	**Total**	**Total**
	General Fund	**Designated Funds**			
INCOME					
Donations and Grants					
Fees from Activities					
Income from sale of items such as publications					
Other Income					
Interest and dividends					
Profit on sale of investments and fixed assets					
Miscellaneous income					
Excess of Expenditure over Income for the year					
EXPENDITURE					
Materials consumed (a) Opening balance (b) *Add*: Purchases (c) *Less*: Closing balance					
Staff Payments & Benefits Salary, wages and bonus Allowances Reimbursements Employee welfare Terminal benefits Other employee costs					
Administrative & General Expenses Rents, rates and taxes Communication expenses Printing & stationery Electricity					

Particulars	March 31, 2010				March 31, 2009
	Unrestricted Funds		Restricted Funds	Total	Total
	General Fund	Designated Funds			
Travelling & conveyance expenses					
Insurance charges					
Remuneration to auditors					
Others					
Repairs & Maintenance					
Buildings					
Plant & Maintenance					
Furniture & Fixtures					
Others					
Depreciation					
Financial Expenses such interest on loans					
Other Expenses					
Write offs and provisions					
Miscellaneous expenses					
Loss on sale of investments and fixed assets					
Excess of Income over Expenditure for the year					
Appropriations					
Transfers to funds, e.g.,					
Building fund					
Transfers from funds					

Appendix II
APPLICABILITY OF ACCOUNTING STANDARDS

(1) Criteria for classification of non-corporate entities as decided by the Institute of Chartered Accountants of India

Level I Entities

Non-corporate entities which fall in any one or more of the following categories, at the end of the relevant accounting period, are classified as Level I entities:

(i) Entities whose equity or debt securities are listed or are in the process of listing on any stock exchange, whether in India or outside India.

(ii) Banks (including co-operative banks), financial institutions or entities carrying on insurance business.

(iii) All commercial, industrial and business reporting entities, whose turnover (excluding other income) exceeds rupees fifty crore in the immediately preceding accounting year.

(iv) All commercial, industrial and business reporting entities having borrowings (including public deposits) in excess of rupees ten crore at any time during the immediately preceding accounting year.

(v) Holding and subsidiary entities of any one of the above.

Level II Entities (SMEs)

Non-corporate entities which are not Level I entities but fall in any one or more of the following categories are classified as Level II entities:

(i) All commercial, industrial and business reporting entities, whose turnover (excluding other income) exceeds rupees forty lakh but does not exceed rupees fifty crore in the immediately preceding accounting year.

(ii) All commercial, industrial and business reporting entities having borrowings (including public deposits) in excess of rupees one crore but not in excess of rupees ten crore at any time during the immediately preceding accounting year.

(iii) Holding and subsidiary entities of any one of the above.

Level III Entities (SMEs)

Non-corporate entities which are not covered under Level I and Level II are considered as Level III entities.

Additional requirements

(1) An SME which does not disclose certain information pursuant to the exemptions or relaxations given to it should disclose (by way of a note to its financial statements) the fact that it is an SME and has complied with the Accounting Standards insofar as they are applicable to entities falling in Level II or Level III, as the case may be.

(2) Where an entity, being covered in Level II or Level III, had qualified for any exemption or relaxation previously but no longer qualifies for the relevant exemption or relaxation in the current accounting period, the relevant standards or requirements become applicable from the current period and the figures for the corresponding period of the previous accounting period need not be revised merely by reason of its having ceased to be covered in Level II or Level III, as the case may be. The fact that the entity was covered in Level II or Level III, as the case may be, in the previous period and it had availed of the exemptions or relaxations available to that Level of entities should be disclosed in the notes to the financial statements.

(3) Where an entity has been covered in Level I and subsequently, ceases to be so covered, the entity will not qualify for exemption/relaxation available to Level II entities, until the entity ceases to be covered in Level I for two consecutive years. Similar is the case in respect of an entity, which has been covered in Level I or Level II and subsequently, gets covered under Level III.

(4) If an entity covered in Level II or Level III opts not to avail of the exemptions or relaxations available to that Level of entities in respect of any but not all of the Accounting Standards, it should disclose the Standard(s) in respect of which it has availed the exemption or relaxation.

(5) If an entity covered in Level II or Level III desires to disclose the information not required to be disclosed pursuant to the exemptions or relaxations available to that Level of entities, it should disclose that information in compliance with the relevant Accounting Standard.

(6) An entity covered in Level II or Level III may opt for availing certain exemptions or relaxations from compliance with the requirements prescribed in an Accounting Standard, provided that such a partial exemption or relaxation and disclosure should not be permitted to mislead any person or public.

(7) In respect of Accounting Standard (AS) 15, *Employee Benefits*, exemptions/relaxations are available to Level II and Level III entities, under two sub-classifications, viz., (i) entities whose average number of persons employed during the year is 50 or more, and (ii) entities whose average number of persons employed during the year is less than 50. The requirements stated in paragraphs (1) to (6) above, *mutatis mutandis*, apply to these sub-classifications.

(2) Criteria for classification of companies under the Companies (Accounting Standards) Rules, 2006

Small and Medium-Sized Company (SMC) as defined in Clause 2(f) of the Companies (Accounting Standards) Rules, 2006:

"Small and Medium Sized Company" (SMC) means, a company-

(i) whose equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India;

(ii) which is not a bank, financial institution or an insurance company;

(iii) whose turnover (excluding other income) does not exceed rupees fifty crore in the immediately preceding accounting year;

(iv) which does not have borrowings (including public deposits) in excess of rupees ten crore at any time during the immediately preceding accounting year; and

(v) which is not a holding or subsidiary company of a company which is not a small and medium-sized company.

Explanation: For the purposes of clause (f), a company shall qualify as a Small and Medium Sized Company, if the conditions mentioned therein are satisfied as at the end of the relevant accounting period.

Non-SMCs

Companies not falling within the definition of SMC are considered as Non-SMCs.

Instructions

A. General Instructions

1. SMCs shall follow the following instructions while complying with Accounting Standards under these Rules:-

1.1 the SMC which does not disclose certain information pursuant to the exemptions or relaxations given to it shall disclose (by way of a note to its financial statements) the fact that it is an SMC and has complied with the Accounting Standards insofar as they are applicable to an SMC on the following lines:

"The Company is a Small and Medium Sized Company (SMC) as defined in the General Instructions in respect of Accounting Standards notified under the Companies Act, 1956. Accordingly, the Company has complied with the Accounting Standards as applicable to a Small and Medium Sized Company."

1.2 Where a company, being an SMC, has qualified for any exemption or relaxation previously but no longer qualifies for the relevant exemption or relaxation in the current accounting period, the relevant standards or requirements become applicable from the current period and the figures for the corresponding period of the previous accounting period need not be revised merely by reason of its having ceased to be an SMC. The fact that the company was an SMC in the previous period and it had availed of the exemptions or relaxations available to SMCs shall be disclosed in the notes to the financial statements.

1.3 If an SMC opts not to avail of the exemptions or relaxations available to an SMC in respect of any but not all of the Accounting Standards, it shall disclose the standard(s) in respect of which it has availed the exemption or relaxation.

1.4 If an SMC desires to disclose the information not required to be disclosed pursuant to the exemptions or relaxations available to the SMCs, it shall disclose that information in compliance with the relevant accounting standard.

The SMC may opt for availing certain exemptions or relaxations from compliance with the requirements prescribed in an Accounting Standard, provided that such a partial exemption or relaxation and disclosure shall not be permitted to mislead any person or public.

B. Other Instructions

Rule 5 of the Companies (Accounting Standards) Rules, 2006, provides as below:

> "5. An existing company, which was previously not a Small and Medium Sized Company (SMC) and subsequently becomes an SMC, shall not qualify for exemption or relaxation in respect of Accounting Standards available to an SMC until the company remains an SMC for two consecutive accounting periods."

(3) Applicability of Accounting Standards to Companies

(I) Accounting Standards applicable to all companies in their entirety for accounting periods commencing on or after December 7, 2006

AS 1 Disclosures of Accounting Policies

AS 2 Valuation of Inventories

AS 4 Contingencies and Events Occurring After the Balance Sheet Date

AS 5 Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies

AS 6 Depreciation Accounting

AS 7 Construction Contracts (revised 2002)

AS 9 Revenue Recognition

AS 10 Accounting for Fixed Assets

AS 11 The Effects of Changes in Foreign Exchange Rates (revised 2003)

AS 12 Accounting for Government Grants

AS 13 Accounting for Investments

AS 14 Accounting for Amalgamations

AS 16 Borrowing Costs

AS 18 Related Party Disclosures

AS 22 Accounting for Taxes on Income

AS 24 Discontinuing Operations

AS 26 Intangible Assets

(II) Exemptions or Relaxations for SMCs as defined in the Notification

(A) Accounting Standards not applicable to SMCs in their entirety:

AS 3 Cash Flow Statements

AS 17 Segment Reporting

(B) Accounting Standards not applicable to SMCs since the relevant Regulations require compliance with them only by certain Non-SMCs[6]:

(i) AS 21, Consolidated Financial Statements

(ii) AS 23, Accounting for Investments in Associates in Consolidated Financial Statements

(iii) AS 27, Financial Reporting of Interests in Joint Ventures (to the extent of requirements relating to Consolidated Financial Statements)

(C) Accounting Standards in respect of which relaxations from certain requirements have been given to SMCs:

(i) Accounting Standard (AS) 15, Employee Benefits (revised 2005)

(a) paragraphs 11 to 16 of the standard to the extent they deal with recognition and measurement of short-term accumulating compensated absences which are non-vesting (i.e., short-term accumulating compensated absences in respect of which employees are not entitled to cash payment for unused entitlement on leaving);

(b) paragraphs 46 and 139 of the Standard which deal with discounting of amounts that fall due more than 12 months after the balance sheet date;

(c) recognition and measurement principles laid down in paragraphs 50 to 116 and presentation and disclosure requirements laid down in paragraphs 117 to 123 of the Standard in respect of accounting

[6] AS 21, AS 23 and AS 27 (relating to consolidated financial statements) are required to be complied with by a company if the company, pursuant to the requirements of a statute/regulator or voluntarily, prepares and presents consolidated financial statements.

for defined benefit plans. However, such companies should actuarially determine and provide for the accrued liability in respect of defined benefit plans by using the Projected Unit Credit Method and the discount rate used should be determined by reference to market yields at the balance sheet date on government bonds as per paragraph 78 of the Standard. Such companies should disclose actuarial assumptions as per paragraph 120(l) of the Standard; and

(d) recognition and measurement principles laid down in paragraphs 129 to 131 of the Standard in respect of accounting for other long-term employee benefits. However, such companies should actuarially determine and provide for the accrued liability in respect of other long-term employee benefits by using the Projected Unit Credit Method and the discount rate used should be determined by reference to market yields at the balance sheet date on government bonds as per paragraph 78 of the Standard.

(ii) AS 19, Leases

Paragraphs 22 (c), (e) and (f); 25 (a), (b) and (e); 37 (a) and (f); and 46 (b) and (d) relating to disclosures are not applicable to SMCs.

(iii) AS 20, Earnings Per Share

Disclosure of diluted earnings per share (both including and excluding extraordinary items) is exempted for SMCs.

(iv) AS 28, Impairment of Assets

SMCs are allowed to measure the ‘value in use’ on the basis of reasonable estimate thereof instead of computing the value in use by present value technique. Consequently, if an SMC chooses to measure the 'value in use' by not using the present value technique, the relevant provisions of AS 28, such as discount rate etc., would not be applicable to such an SMC. Further, such an SMC need not disclose the information required by paragraph 121(g) of the Standard.

(v) AS 29, Provisions, Contingent Liabilities and Contingent Assets

Paragraphs 66 and 67 relating to disclosures are not applicable to SMCs.

(D) AS 25, Interim Financial Reporting, does not require a company to present interim financial report. It is applicable only if a company is required or elects to prepare and present an interim financial report. Only certain Non-SMCs are required by the concerned regulators to present interim financial results, e.g., quarterly financial results required by the SEBI. Therefore, the recognition and measurement requirements contained in this Standard are applicable to those Non-SMCs for preparation of interim financial results.

(4) Applicability of Accounting Standards to Non-corporate Entities (As on 1.4.2008)

(I) Accounting Standards applicable to all Non-corporate Entities in their entirety (Level I, Level II and Level III)

AS 1 Disclosures of Accounting Policies

AS 2 Valuation of Inventories

AS 4 Contingencies and Events Occurring After the Balance Sheet Date

AS 5 Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies

AS 6 Depreciation Accounting

AS 7 Construction Contracts (revised 2002)

AS 9 Revenue Recognition

AS 10 Accounting for Fixed Assets

AS 11 The Effects of Changes in Foreign Exchange Rates (revised 2003)

AS 12 Accounting for Government Grants

AS 13 Accounting for Investments

AS 14 Accounting for Amalgamations

AS 16 Borrowing Costs

AS 22 Accounting for Taxes on Income

AS 26 Intangible Assets

(II) Exemptions or Relaxations for Non-corporate Entities falling in Level II and Level III (SMEs)

(A) Accounting Standards not applicable to Non-corporate Entities falling in Level II in their entirety:

AS 3 Cash Flow Statements

AS 17 Segment Reporting

(B) Accounting Standards not applicable to Non-corporate Entities falling in Level III in their entirety:

AS 3 Cash Flow Statements

AS 17 Segment Reporting

AS 18 Related Party Disclosures

AS 24 Discontinuing Operations

(C) Accounting Standards not applicable to all Non-corporate Entities since the relevant Regulators require compliance with them only by certain Level I entities[7] :

AS 21, Consolidated Financial Statements
AS 23, Accounting for Investments in Associates in Consolidated Financial Statements
AS 27, Financial Reporting of Interests in Joint Ventures (to the extent of requirements relating to Consolidated Financial Statements)

(D) Accounting Standards in respect of which relaxations from certain requirements have been given to Non-corporate Entities falling in Level II and Level III (SMEs):

(a) Accounting Standard (AS) 15, Employee Benefits (revised 2005)

(1) Level II and Level III Non-corporate entities whose average number of persons employed during the year is 50 or more are exempted from the applicability of the following paragraphs:

[7] AS 21, AS 23 and AS 27 (to the extent these standards relate to preparation of consolidated financial statements) are required to be complied with by a non-corporate entity if the non-corporate entity, pursuant to the requirements of a statute/regulator or voluntarily, prepares and presents consolidated financial statements.

(a) paragraphs 11 to 16 of the standard to the extent they deal with recognition and measurement of short-term accumulating compensated absences which are non-vesting (i.e., short-term accumulating compensated absences in respect of which employees are not entitled to cash payment for unused entitlement on leaving);

(b) paragraphs 46 and 139 of the Standard which deal with discounting of amounts that fall due more than 12 months after the balance sheet date;

(c) recognition and measurement principles laid down in paragraphs 50 to 116 and presentation and disclosure requirements laid down in paragraphs 117 to 123 of the Standard in respect of accounting for defined benefit plans. However, such entities should actuarially determine and provide for the accrued liability in respect of defined benefit plans by using the Projected Unit Credit Method and the discount rate used should be determined by reference to market yields at the balance sheet date on government bonds as per paragraph 78 of the Standard. Such entities should disclose actuarial assumptions as per paragraph 120(l) of the Standard; and

(d) recognition and measurement principles laid down in paragraphs 129 to 131 of the Standard in respect of accounting for other long-term employee benefits. However, such entities should actuarially determine and provide for the accrued liability in respect of other long-term employee benefits by using the Projected Unit Credit Method and the discount rate used should be determined by reference to market yields at the balance sheet date on government bonds as per paragraph 78 of the Standard.

(2) Level II and Level III Non-corporate entities whose average number of persons employed during the year is less than 50 are exempted from the applicability of the following paragraphs:

(a) paragraphs 11 to 16 of the standard to the extent they deal with recognition and measurement of short-term accumulating compensated absences which are non-vesting (i.e., short-term accumulating compensated absences in respect of which employees are not entitled to cash payment for unused entitlement on leaving);

(b) paragraphs 46 and 139 of the Standard which deal with discounting of amounts that fall due more than 12 months after the balance sheet date;

(c) recognition and measurement principles laid down in paragraphs 50 to 116 and presentation and disclosure requirements laid down in paragraphs 117 to 123 of the Standard in respect of accounting for defined benefit plans. However, such entities may calculate and account for the accrued liability under the defined benefit plans by reference to some other rational method, e.g., a method based on the assumption that such benefits are payable to all employees at the end of the accounting year; and

(d) recognition and measurement principles laid down in paragraphs 129 to 131 of the Standard in respect of accounting for other long-term employee benefits. Such entities may calculate and account for the accrued liability under the other long-term employee benefits by reference to some other rational method, e.g., a method based on the assumption that such benefits are payable to all employees at the end of the accounting year.

(ii) AS 19, Leases

Paragraphs 22 (c),(e) and (f); 25 (a), (b) and (e); 37 (a) and (f); and 46 (b) and (d) relating to disclosures are not applicable to non-corporate entities falling in Level II.

Paragraphs 22 (c),(e) and (f); 25 (a), (b) and (e); 37 (a), (f) and (g); and 46 (b), (d) and (e) relating to disclosures are not applicable to Level III entities.

(iii) AS 20, Earnings Per Share

Diluted earnings per share (both including and excluding extraordinary items) is not required to be disclosed by non-corporate entities falling in Level II and Level III and information required by paragraph 48(ii) of AS 20 is not required to be disclosed by Level III entities if this standard is applicable to these entities.

(iv) AS 28, Impairment of Assets

Non-corporate entities falling in Level II and Level III are allowed to measure the 'value in use' on the basis of reasonable estimate thereof instead of computing the value in use by present value technique. Consequently, if a non-corporate entity falling in Level II or Level III chooses to measure the 'value in use' by not using the present value technique, the relevant provisions of AS 28, such as discount rate etc., would not be applicable to such an entity. Further, such an entity need not disclose the information required by paragraph 121(g) of the Standard.

(v) AS 29, Provisions, Contingent Liabilities and Contingent Assets

Paragraphs 66 and 67 relating to disclosures are not applicable to non-corporate entities falling in Level II and Level III.

(E) AS 25, Interim Financial Reporting, does not require a non-corporate entity to present interim financial report. It is applicable only if a non-corporate entity is required or elects to prepare and present an interim financial report. Only certain Level I non-corporate entities are required by the concerned regulators to present interim financial results, e.g., quarterly financial results required by the SEBI. Therefore, the recognition and measurement requirements contained in this Standard are applicable to those Level I non-corporate entities for preparation of interim financial results.