EXPOSURE DRAFT

Draft Report

on

Uniform Accounting & Reporting Framework for NGOs

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
(Set up by an act of Parliament)
NEW DELHI

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Contents

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1. INTRODUCTION

Voluntary efforts are an integral part of every economy. In many countries, the governmental efforts in the area of socio-economic development are supplemented by the activities of many non-governmental, voluntary and social organisations, which forms an important part of not-for-profit sector. These organisations play a vital role in bringing the under-privileged to the common stream of the society. In India, the NGOs operate in varied fields such as health, poverty reduction, education, spirituality and religion etc. These may be in form of a corporation, a trust, a co-operative or a foundation.

With the passage of time, there has been a substantial increase in the activities of the NGOs. Their presence has also increased from the national to the international level and sources of funds have also diversified from private donations to international funding agencies. Due to this manifold increase, there is a need for consensus on certain varied accounting as well as legal issues, so that a more meaningful financial reporting can be made.

In India, a large number of NGOs (including unregistered NGOs), follow different basis of accounting. Moreover, in the environment of varied Acts and Legislations governing the NGO sector across India and varied interpretation of certain terms under the related laws by the judiciary, there is no uniformity in preparation and presentation of financial statements in NGO Sector. Also, there is an apparent lack of awareness among the NGOs on applicability of the accounting standards issued by the Institute of Chartered Accountants of India (ICAI). Due to these factors, the financial statements of the NGOs do not meet the current requirements of various stakeholders and are incomparable.

Following are some of the factors indicating the diversity in accounting practices being followed by the NGOs:

- ✓ ***Existence of unregistered NGOs*:** Many NGOs in India are small in size and are not registered under any statute. No authentic information is available about the accounting practices being followed by these unregistered NGOs.

- ✓ ***Lack of awareness on applicability of accounting standards*:** There is lack of awareness among NGOs on the benefits of adopting sound accounting practices. There is also a lack of awareness on applicability of Accounting Standards formulated by the ICAI.

- ✓ ***Adoption of different bases of accounting*:** Current accounting practices in the NGO sector reveal that bases of accounting other than, 'Accrual' are continued to be followed by many NGOs.

- ✓ ***Influence of tax and other laws*:** The existing accounting practices in the NGO sector are generally driven by the requirements of the tax and other laws such as Indian Trust Act (1882), Various State Trusts Acts, Societies Registration Act (1860), 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 NGO during the year.

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

- ✓ There is no standard basis of accounting being followed by NGOs. Cash, hybrid, accrual, and modified cash/accrual basis of accounting are being followed.

- ✓ The Accounting Standards formulated by the Institute of Chartered Accountants of India, are generally not being applied.

- ✓ There is lack of uniformity in presentation of financial statements.

- ✓ There are different disclosure practices being followed.

- ✓ There is diversity in terminology and accounting policies being adopted.

- ✓ There is no proper reporting, whereby end-use of earmarked or restricted funds can be verified.

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

A concern has also been expressed by the Ministry of Corporate Affairs, Government of India, vide their letter ref no: 1/1/2010/CL.V dated 2/8/2010, that the present system of accounting and financial reporting followed by NGOs does not adequately meet the accountability concerns of the donors, including government and other stakeholders such as members/beneficiaries, governing board, management staff, volunteers and general public. A need is, therefore, being felt for improved accountability of the financial resources used by the NGOs. A sound accounting and financial reporting framework acts as an important ingredient for promoting accountability and for development of NGO Sector.

2. OBJECTIVES OF THE STUDY

The objectives of this Study is to recommend the following, with a view to harmonise the diverse accounting practices being followed across NGOs:

- ✓ To recommend a Uniform Accounting & Reporting Framework for the preparation and presentation of financial statements in NGOs. 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 NGOs keeping in view the peculiarities of the activities of NGOs.

- ✓ To suggest standardised formats of Financial Statements for NGOs.

- ✓ To recommend an appropriate method of accounting to be followed along with the financial control guidelines.

3. SCOPE

- ✓ The contents of this report are applicable to the following NGOs, whether community based, national or international, having their operations in India:

  - Societies registered under the Societies Registration Act 1860;
  - Public Trusts;
  - Trusts registered under State enactments; and
  - Other NGOs set up under any other Central/State Enactments.

- ✓ This report specifically excludes from its scope, Section 25 Companies, Co-operative Societies, Local Bodies, Political Organisations and Private Trusts.

- ✓ This report focuses on presenting a standardised framework for preparation and presentation of financial statements in NGOs, 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 report.

- ✓ For the purpose of this report, an NGO is considered as the reporting entity. Therefore, if an NGO 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 NGO as the reporting entity.

- ✓ This report is applicable not only to the programme implementation activities but also to other incidental activities including income generating activities carried on by NGOs.

4. ACCOUNTING FRAMEWORK FOR NGOs

With a view to recommend suitable accounting system for NGOs, 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 by NGOs, for the purpose of including the same in the financial statements by defining the aforesaid terms.

Assets are resources controlled by an entity from which future economic benefits or service potential is expected to flow to the entity. It may thus be noted that the definition of 'asset' would remain the same whether an entity is a business enterprise or an NGO, insofar as expectation of the future economic benefits is concerned. In other words, what is considered as an asset by a business entity e.g., Land, Building, Furniture and Equipment etc., would be considered as an asset by an NGO also. However, in case of an NGO, certain items which may not have future economic benefits but have service potential would also be considered as assets. The other elements of financial statements, viz., income, expenses and liabilities, will also remain the same for NGOs as in business entities.

(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 NGOs. In other words, these principles lay down *when* an item of income, expense, asset or liability should be recognised in the financial statements.

There is no difference in the application of the recognition principles to business entities and NGOs. 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. Thus, a business entity and an NGO would both follow the aforesaid criteria for recognition of grant as income. Similarly, principles for recognition of other incomes, expenses, assets and liabilities would be the same for business entities and NGOs.

(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. Ordinarily, the same principles of measurement would be applicable in case of NGOs as those for business entities.

(d) Presentation and disclosure principles

These principles lay down the manner in which the financial statements are to be presented by NGOs and the disclosures to be made therein.

Insofar as presentation of financial statements is concerned, NGOs generally follow what is known as 'fund based accounting' whereas the business entities do not follow this system. This is because NGOs 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 NGOs 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.

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. The accounting framework discussed above would apply to all categories and types of NGOs. However, the books of account to be maintained by various NGOs may depend upon the nature of activities and/or programmes carried on by them.

5. BASIS OF ACCOUNTING

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.

Under the cash basis of Accounting, transactions are recorded when the related cash receipts or cash payments take place. Thus, the revenue of NGOs, 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 as 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.

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 accrual of income, provisioning of expenses, deferral, allocations like depreciation and amortisation. This basis is also referred to as 'Mercantile Basis of Accounting'.

Accrual basis of accounting records 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 or revenue and expenses for amounts received or paid in cash in past, and amounts expected to be received or paid in cash in future.

In cash basis of 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.

NGOs 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.

Recommendation:

Accrual is the scientific basis of accounting and has conceptual sup eriority over the cash basis of accounting. It is, therefore, recommended that NGOs should maintain their books of account on accrual basis.

It is suggested that all NGOs falling in Level s I & II should be mandated to apply accrual basis of accounting[1].

Small NGOs i.e. NGOs falling in Level III should not be mandated to apply the accrual basis of accounting but are encouraged to follow the same considering the superiority of accrual basis of accounting over cash basis of accounting.

6. ACCOUNTING STANDARDS AND THEIR APPLICABILITY TO NGOs

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.

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 recognition, measurement, disclosures and presentation of accounting information by different enterprises.

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. The accounting standards issued by the Institute of Chartered Accountants of India are applicable to Commercial, Industrial and Business en terprises.

NGOs usually fall under non-commercial, non-industrial or non-business enterprises, hence Accounting Standards are usually not applicable to these

[1] *(Criteria for classification of the NGOs into different levels has been suggested f or the purpose of following the basis of accounting and applicability of accounting standards to these entities, which is discussed in the later part of this report (see Appendix -II.)*

enterprises. '*Preface to the Statements of Accounting Standards*' issued by the ICAI has, however, clarified that even if a small portion of a charitable organisation is

considered to be commercial, industrial or business in nature, then it cannot claim exemption from application of accounting standards. In that case Accounting Standards shall apply to the entity as a whole and not only to commercial, industrial or business transactions.

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."

For the purpose of developing uniform accounting framework for NGOs, the applicability of Accounting Standards to NGOs has been reviewed. As at present NGOs not falling within the ambit of commercial, industrial or business segment, accounting standards are not mandatory. Since the wholesome principles contained in the Accounting Standards provide most appropriate guidance even in case of those organisations to which Accounting Standards do not apply. Therefore, it is recommended that for the purpose of proper financial reporting framework **Accounting Standards issued by the ICAI should be made mandatory to NGOs** ***(See Appendix-I)*** These Accounting Standards would help NGOs 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 NGOs. For instance, where an Accounting Standard refers to the term 'Statement of Profit And Loss', in the context of NGOs, this Report uses the term 'Income and Expenditure account'.

However, to provide relief to small NGOs, it is suggested that the NGOs should be classified into three categories, *viz*., Level I, Level II and Level III, for the

purpose of applicability of Accounting Standards. The NGOs falling in the third level would be considered as the small NGOs. NGOs which fall within the meaning of small NGOs should not be mandated to apply the Accounting Standards but are encouraged to apply the same.

Entities falling in Level I should be mandated to apply the Accounting Standards. Entities falling in Level II should also be mandated to apply the Accounting Standards. However, Level II entities may avail certain relaxations/exemptions for applying the Accounting Standards.

***Appendix-I* provides the direction for applicability of the Accounting Standards to NGOs.**

The criteria for classification of NGOs into different categories is given in *Appendix -II*.

7. REGULATORY BODY FOR NGOs

NGOs in India play a significant role in the process of social and economic development. Presently, there is no single regulatory body in India for NGOs inspite of having substantial resources at their command. Different Acts for different organisations such as Trusts, Societies, Section 25 Companies specify different accounting and reporting requirements, which do not meet the current information requirement of various stakeholders viz. Donors/Contributors/Intending Grantors /Regulators/Lenders/Governments/Employees/Intending/Donors/Intending Contributors/Grantors/Public at large etc.

Recommendation:

In view of above, it is recommended that the NGOs may be brought under the common regulatory control and mechanism by introduction/amendment of suitable legal structure in India. This mechanism is necessary for ensuring proper accountability, financial discipline, end-use of funds and to meet the needs of stakeholders.

8. FINANCIAL CONTROL

Keeping in view financial control for good governance of NGOs and effective and proper end-use of public funds, the following matters have been deliberated NGOs frequently receive grants/donations/contributions and other forms of revenue, the use of which may be either unrestricted or subject to the restrictions imposed by the contributors i.e. use of funds for specific purposes. Further, there might also be legal/other binding restrictions on NGOs to use certain funds for

specific purposes or NGOs may also on their own, earmark or appropriate certain unrestricted funds for specific purposes.

Funds received by NGO may be divided into[2]:

i. Restricted Funds

ii. Unrestricted Funds

   a. Corpus Fund

   b. Designated Funds

   c. General Fund

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:

i. Restricted Funds

These funds are subject to certain conditions set out by the contributor and agreed to by the NGO, while accepting the contributions. The restriction may apply to use of the funds received or income earned from the investment of such funds or both.

In case of Endowment Funds principal sum is not used and the funds received are generally deployed in specific investments. The income earned from investments is utilised for specific purposes.

Funds, which are created because of legal requirements, are also considered as restricted funds.

ii. Unrestricted Funds

These are the funds contributed to NGO with no specific restrictions. The obligation of an NGO while accepting an unrestricted donation or grant is to ensure its usage for general purposes.

Corpus Fund

It refers to funds contributed by founders/ promoters generally to start the NGO. It also includes donations/contributions received with specific directions. These are non- refundable funds, which can however be increased by additional contribution by the founders/promoters/ donors/contributors with specific directions in furtherance of the objects of the NGO.

[2] Complete details regarding fund based accounting are given in ***Appendix- III***

Designated Funds

These are unrestricted funds which have been set aside by the trustees / management of the NGO for specific purposes or to meet future requirements. These funds can be categorised as self imposed or restricted funds. However, the NGO can modify the designation whenever it wishes and reallocate the funds to some other purpose. These funds are generally created by an appropriation of the surplus for the year.

General Fund

Theses are unrestricted funds other than designated funds and corpus.

'Funds' are generally represented by specific investments/bank balances. If appropriated surplus is not invested specifically, it is usually called as 'Reserve' and not 'Fund'.

9. BOOKS OF ACCOUNT TO BE MAINTAINED BY NGOs REQUIRED TO FOLLOW ACCRUAL BASIS OF ACCOUNTING

The NGOs generally maintain the following books of account –

1. Receipt Book
2. Voucher Files
3. Cash Book / Bank Book
4. Ledger

Books of account should be maintained like any other commercial organisation following the rules of Double Entry Book Keeping System and generally accepted accounting practices prevailing in India. On following Accrual System of Accounting, it is necessary to maintain a Journal Book.

NGOs with reference to specific requirements may maintain the following additional books of account –

1. Purchase Book
2. Sales Book / Bill Book
3. Inventory Register
4. Other Books as deemed necessary

Every NGO should maintain proper books of account with respect to:

(a) all sums of monies received by the NGO 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 NGO and the matters in respect of which expenditure takes place;

(c) all assets and liabilities of the NGO.

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, income and expenditure and cash flows of the NGO, and to explain its transactions;

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

The books of account of an NGO 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 NGO may have for implementing its programmes and interventions.

(c) Separate ledgers, accounts 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.

10. FORMATS OF FINANCIAL STATEMENTS UNDER ACCRUAL BASIS OF ACCOUNTING

It has been observed that different Acts specify different accounting and reporting requirements for NGOs. The financial statements of NGOs as at present are having different contents and formats with limited utility. This needs to be reviewed with reference to requirement of various stakeholders.

It is suggested that the following statements should form part of General Purpose Financial Statements of an NGO:

1. Balance Sheet
2. Income and Expenditure Account
3. Cash Flow Statement (wherever applicable)

4. Notes forming part of financial statements

Since, the fund based accounting has relevance for an NGO, it is recommended that the Income and Expenditure Account should have three columns, as given below, to present income and expense in respect of restricted funds as distinguished from unrestricted fund,,

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

(b) 'Restricted Funds'; and

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

Although an NGO 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 NGO 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.

An integrated Balance Sheet for the NGO 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.

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 NGO 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.

Recommendation:

For use by NGOs, which are not governed by any statue or for which the governing statute does not prescribe any formats, formats of financial statements are given in the *Appendix* IV. It is recommended that the statutes having specific formats for financial reporting by NGOs may also modify the same in line with the suggested formats. It may be emphasised that an

NGO 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 NGOs should present in their financial statements. Those NGOs who wish to present more detailed information are encouraged to do so.

11. RECOMMENDATIONS

1. All NGOs falling within Levels I & II should be mandated to apply accrual basis of accounting. NGOs falling within the Level III may follow any other basis of accounting but are encouraged to follow accrual basis.

2. Accounting Standards issued by the ICAI should be made mandatory to NGOs (see ***Appendix I)***, except to small NGOs i.e. Level III, (see ***Appendix II).***

3. Fund based accounting may be introduced for Earmarked/Designated Funds (***Appendix III)***

4. NGOs be brought under the common regulatory control and mechanism by suitable legal structure in India to ensure proper accountability, financial discipline, end-use of funds and to meet the needs of stakeholders.

5. All NGOs should follow a common format for presentation of its general purpose financial Statements (as given in ***Appendix IV).*** It is also recommended that the statutes having specific formats for financial reporting by NGOs may also modify the same in line with the suggested formats.

6. On acceptance of recommendations by the Government of India, the *"Technical Guide on Accounting for Not-for-Profit Organisations"* issued by the Research Committee of the ICAI be modified suitably.

7. It is also recommended that ICAI may frame exclusive Accounting Standards for NGOs.

Appendix-I

Applicability of Accounting Standards issued by the ICAI to NGOs

A. Accounting Standards issued by the ICAI

AS No.	Title
1	Disclosure of Accounting Policies
2	Valuation of Inventories
3	Cash Flow Statement
4	Contingencies and Events occurring after the Balance Sheet Date
5	Net Profit or Loss for the period, prior period items and changes in Accounting Policies
6	Depreciation Accounting
7	Accounting for Construction Contracts
9	Revenue Recognition
10	Accounting for Fixed Assets
11	Accounting for the effect of changes in Foreign Exchange rates
12	Accounting for Government Grants
13	Accounting for Investments
14	Accounting for Amalgamations
15	Accounting for Retirement Benefits in the Financial Statements of Employers
16	Borrowing Costs
17	Segment Reporting
18	Related Party Disclosures
19	Leases
20	Earnings per share
21	Consolidated Financial Statements
22	Accounting for Taxes on Income
23	Accounting for investment in Associates in Consolidated Financial Statements

AS No.	Title
24	Discontinuing operations
25	Interim Financial Reporting
26	Intangible Assets
27	Financial Reporting of Interests in Joint Venture
28	Impairment of Assets
29	Provisions Contingent Assets and Contingent liabilities
30	Financial Instruments: Recognition and Measurement
31	Financial Instruments: Presentation
32	Financial Instruments: Disclosure

It may be noted that that, 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*] are not mandatory even in case of commercial entities .

It may also be noted that below mentioned Accounting Standards may not be relevant to NGOs. However, it is suggested that NGOs should follow such Accounting Standards to the extent applicable to them:

(AS 7) Accounting for Construction Contracts
(AS 14) Accounting for Amalgamations
(AS 20) Earnings per share
(AS 21) Consolidated Financial Statements
(AS 22) Accounting for Taxes on Income etc..
(AS 23) Accounting for investment in Associates in Consolidated Financial Statements
(AS 24) Discontinuing operations
(AS 25) Interim Financial Reporting
(AS 27) Financial Reporting of Interests in Joint Venture

Guidance for applying the accounting standards issued by the ICAI to NGOs has been provided in the *"Technical Guide on Accounting for Not-for-Profit Organisations (NGOs)"* issued by the Research Committee of the ICAI which has been discussed under the heads *viz*. recognition and measurement of Income, Expenses, Assets,

Liabilities, Provisions and Disclosures to be made by the NGOs. The same may be referred to by the NGOs for the guidance.

It may also be noted that where an Accounting Standard on the subject matter relevant to NGOs does not exist, the NGOs may draw guidance from Accounting Standards for Local Bodies (ASLBs) issued by ICAI and in case of non existence of guidance even from ASLBs, the NGOs may draw guidance from the corresponding International Public Sector Accounting Standards (IPSASs).

(B) Exemption /Relaxations to Level II Entities:

(a) Accounting Standards not applicable to Level II entities in their entirety:

AS 3 Cash Flow Statements
AS 17 Segment Reporting
AS 18 Related Party Disclosures
AS 24 Discontinuing Operations

Accounting Standards in respect of which relaxations from certain requirements should be given to Level II entities):

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

(1) Level II entities whose average number of persons employed during the year is 50 or more 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 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 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), (f) and (g); and 46 (b), (d) and (e) relating to disclosures are not applicable to Level II entities.

(iii) AS 28, Impairment of Assets

Entities falling in Level II 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 entity falling in Level II 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.

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

Paragraphs 66 and 67 relating to disclosures are not applicable to entities falling in Level II

Appendix-II

Criteria for classification of NGOs, for the purpose of the applicability of the Accounting Standards

Level I Entities:

All NGOs whose annual gross revenue (including grants/subsidies/donations etc.) exceeds ` 50 Crore in the immediately preceding accounting year, shall fall under this category.

Level II Entities:

All NGOs whose annual gross revenue (including grants/subsidies/donations etc.) exceeds ` 1 Crore but does not exceed `50 Crores in the immediately preceding accounting year, shall be considered as the Level II entities.

Level III Entities:

All NGOs whose annual gross revenue (including grants/subsidies/donations etc.) is up to ` 1 Crore in the immediately preceding accounting year, shall be considered as the Level III entities.

Note: It may be noted that 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 in the case in respect of an entity, which has been covered in Level I or Level II and subsequently, gets covered under Level III.

Appendix - III

FUND BASED ACCOUNTING (UNDER ACCRUAL BASIS OF ACCOUNTING)

NGOs 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 NGOs general purposes. Further, there might also be legal/ other binding restrictions on NGOs to use certain specific amounts only for specified purposes or NGOs 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 are described below:

(a) *Unrestricted funds*: Unrestricted funds refer to funds contributed to an NGO with no specific restrictions. The obligation of an NGO while accepting an unrestricted donation or grant is to ensure its usage for the general purposes of the NGO. 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 NGO. They are non-reducible funds which can however be increased by additional contribution by the founders/ promoters to further the objects of the NGO. 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 NGO for specific purposes or to meet future commitments. Unlike restricted funds, any designations are self-imposed and are not normally legally binding. The NGO 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 NGO 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.

(c) *Endowment funds:* These 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 NGO or for specific purposes, depending on the terms of the contribution made. Usually, the amount received is invested outside the NGO as per the terms of the contribution, if any.

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 asset, e.g., a building, being constructed by an NGO, 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.

In case an NGO 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 NGO.

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.

(b) Grants of the nature of founders'/promoters' contribution.

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. The concerned restricted fund account is treated as deferred income, not exceeding 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.

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.

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.

Formats of Financial Statements

(NGOs)

Name of Entity _____

BALANCE SHEET AS AT _____

(`……)

SOURCES OF FUNDS	Schedule	Current Year	Previous Year
UNRESTRICTED FUNDS			
Corpus Fund	1		
General Fund			
General Funds in the nature of founders'/ promoters' contribution	2		
Funds related to non-depreciable assets not requiring fulfillment of any obligation	3		
Designated Funds	4		
RESTRICTED FUNDS	5		
LOANS/BORROWINGS	6		
Secured			
Unsecured	7		
CURRENT LIABILITIES & PROVISIONS			
TOTAL			
APPLICATION OF FUNDS			
FIXED ASSETS	8		
Tangible Assets			
Intangible Assets			
Capital Work-In-Progress			
INVESTMENTS	9		
Long Term			
Short term			
CURRENT ASSETS	10		
LOANS, ADVANCES & DEPOSITS	11		
TOTAL			
Significant Accounting Policies	21		
Notes on Accounts	22		

Name of Entity _____

INCOME AND EXPENDITURE ACCOUNT FOR THE PERIOD/YEAR ENDED _____

(`……)

INCOME	**Schedule**	**Current Year**				**Previous Year**
		Unrestricted Funds		**Restricted Fund**	**Total**	**Total**
		General fund	**Designated fund**			
Income from operations Fee & Subscription Grants & Donations Other Income	12 13 14 15					
TOTAL (A)						
EXPENDITURE Materials consumed Employee Benefit Expenses Administrative and General Expenses Finance costs Depreciation & Amortisation Expenses Other Expenses	16 17 18 19 20					
TOTAL (B)						
Balance being excess of Income over Expenditure (A-B) Transfer to/from Designated fund Building fund Others (specify)						
Balance Being Surplus (Deficit) Carried to General Fund						
Significant Accounting Policies Notes on Accounts	21 22					

General Instructions

1. The financial statements of NGOs (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 NGO'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 therefore 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 statem ents.

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 NGO is encouraged to make additional disclosures.

12. The figures in the Balance Sheet and Income and Expenditure account, if rounded off, shall be rounded off as below:

Amount of Gross Revenue (in `)	**Rounding off to (`)**
Less than One lakh	No rounding off
Ten lakhs or more but less than ten laks	Hundred
One lakh or more but less than one crore	Thousand
One crore or more but less than one hundred crore	Lakh / Million
One hundred Crore or more but less than one thousand crore	Crore / Billion

SCHEDULES FORMING PART OF ACCOUNTS

Name of Entity _____

SCHEDULES FORMING PART OF BALANCE SHEET AS AT …….

SCHEDULE 1 – CORPUS FUND

a) Corpus Fund refers to funds contributed by founders/promoters of the NGO.

b) The Opening Balances, Additions and the Closing Balance of the Corpus/Capital Fund shall be shown under this head.

SCHEDULE -2 GENERAL FUNDS IN THE NATURE OF FOUNDERS'/ PROMOTERS' CONTRIBUTION

a) 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.

b) The balance, if any, in the income and expenditure account after appropriation, i.e., surplus/(deficit) is transferred to this fund.

SCHEDULE- 3 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.

SCHEDULE 4 – DESIGNATED/EARMERKED FUNDS

a) Designated/Earmarked funds are unrestricted funds set aside by the NGO for specific purposes or to meet specific future commitments.

b) The following shall be shown in respect of each of the designated fund.

Balance at the beginning of the year
Additions during the year
Deductions during the year
Balance at the end of the year

c) Disclosures shall be made under relevant heads based on self-imposed conditions/restrictions on the grants.

d) Assets, such as investments, and liabilities related to each designated fund shall be disclosed separately.

SCHEDULE 5 – RESTRICTED FUNDS

a) Restricted funds are funds subject to certain conditions set out by the contributors and agreed to by the NGO when accepting the contribution or are funds subject to certain legal restrictions. This head includes:

1. Endowment funds that are received with the stipulation that only the income earned can be used, either for the general purposes of NGO or for specific purposes

2. Funds related to depreciable/non- depreciable assets in respect of which assets are still to be acquired

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

4. Funds related to specific items of revenue expenditure not yet incurred.

b) The following shall be shown in respect of each of the restricted fund.

Balance at the beginning of the year
Additions during the year
Deductions during the year
Balance at the end of the year

c) Funds received from the Central/State Governments are to be shown as separate funds and not to be mixed up with any other funds.

d) Disclosures shall be made under relevant heads based on conditions /restrictions attached to the grants.

e) Assets, such as investments, and liabilities related to each designated fund shall be disclosed separately.

SCHEDULE 6 – LOANS /BORROWINGS

a) The head shall be classified into funds borrowed from Central Government, State Government, Financial Institutions, banks or other institutions or agencies etc. and separately disclosed.

b) Borrowings shall further be sub-classified as secured and unsecured and specified separately in each case. Secured loans and borrowings shall be such as are against hypothecation/pledge/ charge on asset on the entity. Unsecured loans and borrowings comprise amount in respect of wh ich no asset of entity is charged as security or encumbered.

c) Terms of repayment of term loans and other loans shall be stated.

d) 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

(b) Loans repayable after 5 years

e) Interest free loans should be disclosed separately from interest bearing loans, interest accrued and due on loans should be included under appropriate sub - head.

f) Nature of security and name of State Government shall be specified separately in each case.

SCHEDULE 7- CURRENT LIABILITIES & PROVISIONS

a) Current Liabilities shall be classified and disclosed separately as:

1. Creditors

   For materials

   For services

2. Statutory Liabilities
3. Interest accrued but not due on borrowings
4. Expenses Payable
5. Other Current Liabilities (specify)

b) Provisions shall be classified and disclosed as follows:

For retirement benefits

Others (specify)

c) where any item constitutes ten percent or more of the total current liabilities and provisions, the nature and amount of such items may be shown separately and may not be included under the head 'Others'

SCHEDULE 8 –FIXED ASSETS

Under this head, classification and disclosures shall be as follows:

Land	Includes freehold land and leasehold land.
Buildings	Include office and other 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/Peripherals	Includes computers, printers and other peripherals like CDs, U.P.S & Software etc.
Furniture fixtures and fittings, and electrical appliances	Furniture includes items such as cabinets, almirahs, tables, chairs and partitions Include electrical fixtures and fittings such as fans, bulbs and tube lights and electrical appliances such as air-conditioners, water and air coolers, etc.
Library Books	In some cases the number of Library Books could be very large or there may be an established Library. In such cases these books may be disclosed as a separate category of assets. Library books will include books/journals/information stored in CD ROMs
Tube wells & water supply system	Tubewells and Water Supply Systems may be shown as a distinct category.

Intangible assets	Shall be classified as computer software purchased, goodwill, patents, trade marks etc and shall be specified separately.
Capital Work-In-Progress	Fixed assets in the course of construction should be shown against this head till they are ready for their intended use. Plant, machinery and equipment acquired and pending installation should be included here. Advances to suppliers/contractors on capital account should also be included.

a) Fixed assets are those assets which are held with the intention of being used for the purpose of producing or providing services and not held for sale in the normal course.

b) Under each head, the original cost, the additions thereto and deductions therefrom 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.

c) 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.

d) 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 NGO which are attributable to the construction of that asset.

e) Advance payments to contractors and suppliers should not be classified under the specific fixed assets but disclosed as a separate item.

f) 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 NGO) and assets financed under a lease agreement.

g) 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.

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

SCHEDULE 9 – INVESTMENTS

a) The investments shall be classified and disclosed under long term investments and current investments.

b) '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.

c) 'Long-term Investment' means an investment other than a current investment.

d) Both 'Long-term Investment' & 'Current Investment' shall be classified and disclosed as follows:
   1. Investment made in Government Securities
   2. Other approved Securities
   3. Others (to specified)

e) Investments shall further be sub-classified as investments from endowment / earmarked funds and other investments in each case and disclosure accordingly.

f) Long-term investments should be measured 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.

g) Aggregate amount of the NGO's long-term quoted investments and also the market value thereof should be shown. Aggregate amount of the NGO's unquoted investments should also be shown.

h) 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.

i) 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.

j) The significant restrictions on the right of ownership, realisability of investment shall be disclosed by way of notes.

SCHEDULE 10 – CURRENT ASSETS

a) 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.

b) The current assets shall be classified and disclosed as follows:

- Inventories: Include items that are held in the normal course, or in the form of materials or supplies to be consumed.
- Mode of valuation of the Inventories shall be disclosed.

2. Receivables shall be classified and disclosed as:
   - Donations and grants in respect of which is there is a reasonable assurance that (i) the entity will comply with the conditions attached, and (ii) the donation and grants will be received.
   - Others (specify)
   - Any debts due by the employees of the entity should be separately stated.

3. Balances with Banks & Post office shall be shown as follows:
   With Scheduled Banks
   With Non-scheduled Banks
   With Post Office

   - Particulars should be given of balances lying on current account, call accounts and deposit accounts shall be given.
   - Bank deposits with more than 12 months maturity shall be disclosed separately.
   - Amounts held as bank balances against earmarked/endowment funds should be separately disclosed.
   - Where any deposit accounts are pledged or charged as security or are encumbered, the fact should be disclosed.
   - Overdue/matured deposits should be separately disclosed.

4. Cash and Cash equivalents shall be classified as cash on hand, cheques and drafts on hand, balance with banks and others (specify) and disclosed accordingly.

5. Other current assets should be classified and disclosed as follows:

- 'Other current assets' is an all-inclusive heading, which incorporates current assets that do not fit into any other asset categories.
- Interest accrued on investments should be included under this head.
- Interest accrued on investments from Earmarked/Endowment Funds and that on other Investment should be shown separately.
- Where any item constitutes ten percent or more of the total or more of the total current assets, the nature and amount of such items may be shown separately.

SCHEDULE 11 – LOANS, ADVANCES & DEPOSITS

a) These shall be classified and disclosed as follows:

1. Loans & advances to-
   - Staff (interest bearing and non-interest bearing shall be shown separately)
   - Others (includes (i) other amounts recoverable in cash or kind for value to be received, and (ii) prepaid expenses)
2. Deposits (other than with bank) such as for telephone and electricity etc.
3. Others (specify)

b) Where any item constitutes ten percent 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 the head Others.

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 NGO 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 NGO will comply with the conditions attached, and the donations and grants will be received.

3. Any item under which income/expense exceed one percent of annual gross revenue of the NGO or Rs. 50,000/ 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 be shown under the head miscellaneous and other income/expense.

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

5. An NGO shall disclose the following additional information by way of notes:

   a) Disclosure in respect of expenditure incurred on objects of the NGO.
   b) Details of the services rendered by volunteers for which no payment has been made.
   c) Net gain/loss on foreign currency transaction and
   d) Details of items of exceptional and extraordinary nature;
   e) Prior period items;

SCHEDULE 12 – INCOME FROM OPERATIONS

The Income shall be classified and disclosed as follows:

Income from services
Other Income

SCHEDULE 13- FEES & SUBSCRIPTIONS

a) This shall be classified and disclosed as follows:

1. Entrance Fees
2. Annual Fees/Subscriptions
3. Seminar/Program Fees
4. Consultancy fee
5. Others (Specify)

b) In case the fees like entrance fee, subscriptions etc. are in the nature of capital receipts, such amount should be recognised to the Corpus Fund. Otherwise such fees will be incorporated in this schedule.

c) In case the major activities of the entity are to organise seminar/workshop and/or provide services, such income should form part of the Schedule 1 2.

SCHEDULE 14-GRANTS & DONATIONS

The grants & donations received shall be classified and disclosed as follows:

1. Central Government
2. State Government (s)
3. Institutions/Welfare Bodies
4. International Organisations
5. Others (Specify)

SCHEDULE 15- OTHER INCOME

Other incomes shall be classified and disclosed as follows:

1. Interest earned on government securities, bonds & debentures, depo sits with scheduled & non-scheduled banks, saving accounts and loans & advances given to employees or others etc.
2. Dividend on shares or mutual funds etc.

3. Income from royality & sale of publications - In case the major activities of the Entity are to publish books, journals, documents etc., such income should form part of the Schedule 12.
4. Profit on sale of investments
5. Profit on sale of fixed assets
6. Rent received
7. Other Miscellaneous Income
8. Items of material amounts included in Miscellaneous Income should be separately disclosed.
9. In case of income from investments distinction should be made in respect of
   a. Owned by the entity and
   b. those held against earmarked/endowment funds

SCHEDULE 16-MATERIALS CONSUMED

Material consumed shall be shown as:

Opening stock
Add: Purchases
Less: Closing stock

SCHEDULE 17 – EMPLOYEE BENEFIT EXPENSES

a) These shall be classified and disclosed as follows:
   1. Salaries and Wages
   2. Allowances and Bonus
   3. Contribution to Provident Fund
   4. Contribution to Other Fund (Specify)
   5. Employees Retirement and Terminal Benefits
   6. Others (specify)

SCHEDULE 18 – ADMINISTRAIVE AND GENERAL EXPENSES

a) These shall be classified and disclosed as follows:

   1. Rents, rates and taxes
   2. Communication expenses
   3. Printing & stationery
   4. Electricity
   5. Travelling & conveyance expenses
   6. Insurance charges
   7. Remuneration to auditors
   8. Professional Charges

9. Others (specify)
10. Repair & Maintenance of Building, Furniture & Fixture, Plant & Machinery etc.

SCHEDULE 19 – FINANCE COSTS

Finance cost shall be classified and disclosed as follows:

a) Interest on fixed loans
b) Interest on other loans
c) Bank charges
d) Others (specify)

SCHEDULE 20 – OTHER EXPENSES

Other expenses shall be classified as write offs, provisions, miscellaneous expenses, loss on sale of investments and fixed assets etc and disclosed as accordingly.

SCHEDULE 21 – SIGNIFICANT ACCOUNTING POLICIES

NGOs should disclose their significant accounting policies and this disclosure should be made at one place.

Where an NGO 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 NGO 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

Name of Entity _____

Cash Flow Statement for the year ended _____

		(`……..)
Cash Flow from Operating Activities:		
Surplus/(deficit) for the year		**xxx**
Adjustments for the non-operating incomes/expenses		
Depreciation	xx	
Write offs	xx	
Interest expenses on loans	xx	
(Interest Income)	xx	
(Dividend Income)	xx	
(Grants relating to assets to the extent recognised as income in the Income & Expenditure Account)	xx	
		xxx
Surplus/(deficit) before changes in the Current Assets/Current Liabilities		**xxx**
(Increase)/Decrease in Current Assets	xx	
Increase/(Decrease) in Current Liabilities	xx	
		xxx
Net Cash from Operating Activities		**xxx**
Cash Flow from Investing Activities:		
(Purchase)/Sale of fixed assets	xx	
(Purchase)/Sale of investments	xx	
Interest received	xx	
Dividend received	xx	
Net Cash from Investing Activities		**xxx**
Cash Flow from Financing Activities:		
Additions to corpus fund during the year	xx	
Grants/funds in nature of founders'/promoters' contribution	xx	
Grants/funds related to assets not requiring fulfillment of any obligation	xx	
Endowment fund (principal sum)	xx	
Proceeds from long term borrowings	xx	
(Repayment of long-term borrowings)	xx	
Interest paid on loans	xx	
Net Cash Flow From Financing Activities		**xxx**
Net Increase/Decrease in Cash equivalents		**xxx**
Cash and Cash equivalent at the beginning of the period		**xxx**
Cash and Cash equivalent at the end of the period		**xxx**

Note: Guidance for preparation of the cash flow statement can be obtained from AS 3 *'Cash Flow Statement'*. In respect of financing activities, it may be noted that the financing activities of an NGO may differ from the financing activities of a business enterprise. In case of an NGO, cash flow arising from financing activities includes corpus fund, grants/donations, endowment funds etc. in place of proceeds from shares, as in the case of business enterprises.

Note: It may be noted that these formats are not exhaustive but are illustrative.

It may be also be noted that as the contents of this report would have significant impact on the NGO sector of the economy, so it would be appropriate to have comments of NGOs and other concerned stakeholders on the same before finalising the report. However, this report is a draft to be exposed for comments.