Accounting Standard for Not for Profit Organisations (NPOs)

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Accounting Standard for Not-for-Profit Organizations (NPOs)

Section – 1 Introduction

1.1 Not-for-Profit Organization (NPO) include entities formed for promoting education, health, finance & commerce, art, science, religion, sports, social services, charity or any other useful object, and applies or intends to apply its profits, if any, or other income in promoting its objects, and prohibits the distribution of surplus to its members, sponsors, promoters, etc..

Non Profit Organisations (NPOs) established for the purposes defined above, whether or not the enterprise is formed under Section 42 of the Companies Ordinance, 1984 and interalia include trusts formed under the Trust Act, 1889 or societies formed under the Societies Act or any other recognisable form of organisation giving value to the groups of people they administer to.

1.2. Not-for-Profit Organizations are divided into following classes:

a) Large Sized Not-for-Profit Organizations, being organizations with annual gross revenue of more than Rs.500 million.
b) Medium Sized Not-for-Profit Organizations, being organizations with annual gross revenues between Rs.100 million and Rs.500 million.
c) Small Sized Not-for-Profit Organizations, being organizations not falling in a) or b) or d).
d) Micro NPOs, being organizations not registered under Companies Ordinance, 1984 with annual gross revenue less than Rs.25 million.

Scope

1.3 This standard is applicable to the Not-for-Profit organizations registered under The Companies Ordinance, 1984.

1.4 A Not-for-Profit organization, not registered under The Companies Ordinance, 1984, is recommended to prepare its financial statements in accordance with this standard and shall state that its financial statements have been prepared in accordance with '*Accounting Standard for NPOs*'.

Basis of Accounting

1.5. A Not-for-Profit organization that is registered under the Companies Ordinance, 1984, is required to prepare its financial statements in accordance the Fifth schedule of the Companies Ordinance, 1984 . These organizations will apply provisions of this Standard so far as they are not in conflict with the provisions contained in the Companies Ordinance.

1.6. The main text of the Standard deals with the normal accounting practice for NPOs that produce full accrual based accounts. Some NPOs will have to meet additional requirements while others may have the option of preparing briefer reports and accounts. Micro NPOs are encouraged to use accrual based accounting using a specified framework i.e. AFRS for SSEs. Alternately, these Micro NPOs may use the method described in 1. 9(d).

1.7. A NPO classified as a Public Interest Entity (PIE) will in addition to this Standard will prepare its financial statements under IFRS as applicable in Pakistan.

Primary Sources

1.8. A Not-for-Profit organization applying this Standard will also apply the primary source of how to account and report transactions and events as explained in 1.9.

1.9. The Primary source of how to account and report transactions and events in financial statements will vary according to the class of the Not-for-Profit Organization, as described in 1.2-. The accounting and reporting requirements applicable to different classes shall be as follows:

a. A Large Sized Not-for-Profit Organization shall prepare financial statements in accordance with this standard, and the International Accounting Standards (IAS), and International Financial Reporting Standards (IFRS) as applicable in Pakistan.

b. A Medium Sized Not-for-Profit Organization shall prepare financial statements in accordance with this standard, and the International Financial Reporting Standards for Small & Medium Sized Entities[1] (IFRS for SMEs) as applicable in Pakistan.

c. A Small Sized Not-for-Profit Organization shall prepare financial statements in accordance with this standard, and Accounting and Financial Reporting Standards for Small Sized Entities (AFRS for SSE) as applicable in Pakistan.

d. Micro NPOs, may opt to prepare their accounts on cash receipts and disbursement basis. If they opt to prepare and present their financial statement on accrual basis, they will prepare financial statements in accordance with this standard, and Accounting and Financial Reporting Standards for Small Sized Entities (AFRS for SSE) as applicable in Pakistan.

1.10. When a Not-for-Profit organization applies IFRSs or IFRS for SME or AFRS for SSEs, references to 'entity' in those standards should be read as 'Not-for-Profit organization".

1.11. Except for first time adoption, a Not-for-Profit organization will continue to be classified according to criteria specified in either a), b), c) or d) of 1.8 for two reporting periods before moving upwards or downwards in the reporting hierarchy.

1.12. When the primary sources do not deal with the accounting and reporting in financial statements of transactions or events encountered by the organization, or additional guidance is needed to apply a primary source to specific circumstances, an organization shall adopt accounting policies and disclosures that are:

a. consistent with the primary sources; and

b. developed through the exercise of professional judgment and the application of the concepts described in this standard.

1.13. The primary sources provide the financial statement accounting and reporting requirements as well as explanations and guidance for most transactions and events encountered by an organization. A rule of general application cannot be phrased to suit all circumstances or combinations of circumstances that may arise. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events encountered by the organization or when additional guidance is needed to apply a primary source to specific circumstances.

1.14. When the concepts contained in this standard, conflict with a primary source as described in 1.8above, the requirements of the primary source shall prevail.

1.15. An organization may be required to prepare financial statements in accordance with regulatory, legislative or contractual requirements. When these requirements are within the range of acceptable choices allowed by this Standard, the basis of accounting can be described as being in accordance with the primary sources. The aim is to minimize instances where the primary sources and regulatory or legislative requirements conflict.

Consistency of accounting policies

1.16. A Not-for-Profit Organizations selects and applies its accounting policies for a period consistently for similar transactions, other events and circumstances

[1] Or AFRS for Medium Sized Entities, till the time IFRS for SMEs is not adopted

Section – 2 Financial Statements Concepts

Financial statements

2.1 Financial statements of Not-for-Profit organizations provide information about:

a) the organization's economic resources, obligations and net assets;
b) changes in the organization's economic resources, obligations and net assets; and
c) the economic performance of the organization.

2.2 The content of financial statements is usually limited to financial information about transactions and events. Financial statements are based on representations of past, rather than future, transactions and events,

2.3 Financial statements form part of the process of financial reporting that includes also, for example, information in other reports such as an annual report and a funding proposal. While many financial statement concepts also apply to such information, this Standard deals specifically only with financial statements.

Objective of Financial Statements

2.4 Members of, and contributors to, Not-for-Profit organizations are often segregated from management, creating a need for external communication of economic information about the organization to members and contributors. A Not-for-Profit organization's creditors and others who do not have internal access to organization information also need external reports to obtain the information they require.

2.5 It is not practicable to expect financial statements to satisfy the many and varied information needs of all external users of information about an organization. Consequently, the objective of financial statements of Not-for-Profit organizations focuses primarily on information needs of members, contributors and creditors. Financial statements prepared to satisfy these needs are often used by others who need external reporting of information about an organization.

2.6 Members, contributors and creditors of Not-for-Profit organizations are interested, for the purpose of making resource allocation decisions, in the organization's cost of service and how that cost was funded and in predicting the ability of the organization to meet its obligations and achieve its service delivery objectives.

2.7 In some cases the provision of services and the production of goods are carried out by Not-for-Profit organizations in the private sector. Not-for-profit organizations are often not subject to the same mechanism for delivering goods, rendering services and receiving money as are profit-oriented enterprises. However, NPOs are often restricted by spending mandates imposed by their members and contributors. Contributors include individuals, corporations, organizations and other donors such as governments and other public sector bodies that grant funds for specified and non-specified purposes.

2.8 Members and contributors also require information about how the management of an organization has discharged its stewardship responsibility to those that have provided resources to the organization. Information regarding discharge of stewardship responsibilities is especially important as resources are often contributed for specific purposes and management is accountable for the appropriate utilization of such resources.

The cost constraint on useful financial reporting

2.9 Cost is pervasive constraint on the information that can be provided by financial reporting. Reporting financial information imposes cost, and it is important that those costs are justified by the benefits of reporting that information. The evaluation of the nature and amount of benefits and costs is substantially a judgmental process.

Qualitative Characteristics

2.10 Qualitative characteristics define and describe the attributes of information provided in financial statements that make that information useful to users.

Understandability

2.11 The information provided in financial statements should be presented in a way that makes it comprehensible by users who have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence. However, the need for understandability does not allow relevant information to be omitted on the grounds that it may be too difficult for some users to understand.

Relevance

2.12 For the information provided in financial statements to be useful, it must be relevant to the decisions made by users. Information is relevant by its nature when it can influence the decisions of users by helping them evaluate the financial impact of past, present or future transactions and events or confirm, or correct, previous evaluations. Relevance is achieved through information that has predictive value or feedback value and by its timeliness.

Materiality

2.13 Information is material, and therefore has relevance, if its omission or misstatement could influence the economic decisions of the users made on the basis of financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omissions or misstatements. However, it is inappropriate to make, or leave uncorrected, immaterial departures from this standard to achieve a particular presentation of an organization's position, financial performance or cash flows.

Reliability

2.14 The information provided in financial statements must be reliable. Information is reliable when it is free from material error and bias and represents faithfully that which it either purports to represent or could reasonably be expected to represent. Financial statements are not free from bias (ie not neutral) if, by the selection or presentation of information, they are intended to influence the making of a decision or judgement in order to achieve a predetermined result or outcome.

Substance over form

2.15 Transactions and other events and conditions should be accounted for and presented in accordance with their substance and not merely their legal form. This enhances the reliability of financial statements.

Completeness

2.16 To be reliable, the information in financial statements must be complete within the bounds of materiality and cost. An omission can cause information to be false or misleading and thus unreliable and deficient in terms of its relevance.

Comparability

2.17 Users must be able to compare the financial statements of an organization through time to identify trends in its financial position and performance. Users must also be able to compare the financial statements of different organizations to evaluate their relative financial position, performance and cash flows. Hence, the measurement and display of the financial effects of like transactions and other events and conditions must be carried out in a consistent way throughout an organization and over time for that organization, and in a consistent way across organizations. In addition, users must be informed of the accounting policies employed in the preparation of the financial statements, and of any changes in those policies and the effects of such changes.

Timeliness

2.18 To be relevant, financial information must be able to influence the economic decisions of users. Timeliness involves providing the information within the decision time frame. If there is undue delay in the reporting of information it may lose its relevance. Management may need to balance the relative merits of timely reporting and the provision of reliable information. In achieving a balance between relevance and reliability, the overriding consideration is how best to satisfy the needs of users in making economic decisions.

Qualitative characteristics trade-off

2.19 In practice, a trade-off between qualitative characteristics is often necessary, particularly between relevance and reliability. An example is the trade-off between the timeliness of producing financial statements and the reliability of the information reported in the statements. The aim is to achieve an appropriate balance among the characteristics in order to meet the objective of financial statements. The relative importance of the characteristics in different cases is a matter of professional judgment.

Elements of Financial Statements

2.20 Elements of financial statements are the basic categories of items portrayed therein in order to meet the objective of financial statements. There are two types of elements: those that describe the economic resources, obligations and net assets of an organization at a point in time, and those that describe changes in economic resources, obligations and net assets over a period of time. Notes to financial statements, which are useful for the purpose of clarification or further explanation of the items in financial statements, while an integral part of financial statements, are not considered to be an element.

2.21 In the case of Not-for-Profit organizations, the excess or deficiency of revenues and gains over expenses and losses can be an important indicator to users of the extent to which a Not-for-Profit organization has been able to obtain resources to cover the cost of its services.

Financial Position

2.22 The financial position of an organization is the relationship of its assets, liabilities and net assets as of a specific date as presented in the statement of financial position. These are defined as follows:

a) An asset is a resource controlled by the organization as a result of past events and from which future economic benefits are expected to flow to the organization.

b) A liability is a present obligation of the organization arising from past events, the settlement of which is expected to result in an outflow from the organization of resources embodying economic benefits.

c) Net Assets is the residual interest in the assets of the organization after deducting all its liabilities.

Assets

2.23 Assets are economic resources controlled by an organization as a result of past transactions or events and from which future economic benefits may be obtained. Assets have three essential characteristics:

a) they embody a future benefit that involves a capacity, singly or in combination with other assets, to contribute directly or indirectly to future net cash flows or to provide services;

b) the organization can control access to the benefit; and

c) the transaction or event giving rise to the organization's right to, or control of, the benefit has already occurred.

2.24 It is not essential for control of access to the benefit to be legally enforceable for a resource to be an asset, provided the organization can control its use by other means.

2.25 There is a close association between incurring expenditures and generating assets but the two do not necessarily coincide. Hence, when an organization incurs an expenditure, this may provide evidence that economic benefits were sought but is not conclusive proof that an item satisfying the definition of an asset has been obtained. Similarly, the absence of a related expenditure does not preclude an item from satisfying the definition of an asset and thus becoming a candidate for recognition in the statement of financial position. For example, items that have been donated to the organization may satisfy the definition of an asset.

Liabilities

2.26 Liabilities are obligations of an organization arising from past transactions or events, the settlement of which may result in the transfer or use of assets, provision of services or other yielding of economic benefits. Liabilities have the following essential characteristics:

a) they embody a duty or responsibility to others that entails settlement by transfer or use of assets, provision of services or other yielding of economic benefits, at a specified or determinable date, on occurrence of a specified event, or on demand;

b) the duty or responsibility obligates the organization leaving it little or no discretion to avoid it; and

c) the transaction or event obligating the organization has already occurred.

2.27 Liabilities do not have to be legally enforceable provided that they otherwise meet the definition of liabilities; they can be based on equitable or constructive obligations. An equitable obligation is a duty based on ethical or moral considerations. A constructive obligation is one that can be inferred from the facts in a particular situation as opposed to a contractually based obligation.

Net assets

2.28 Net assets, sometimes referred to as fund balances, is the residual interest in a Not-for-Profit organization's assets after deducting its liabilities. Net assets may include specific categories of items whose use may be either restricted or unrestricted.

Performance

2.29 Performance is the relationship of the income and expenses of an organization during a reporting period. This standard permits organizations to present performance in a statement of Income and Expenditure. The statement of income and expenditure is frequently used as measures of performance or as the basis for other measures, such as return on investment or earnings per share.

Revenues

2.30 Revenues are increases in economic resources, either by way of inflows or enhancements of assets or reductions of liabilities, resulting from the ordinary activities of an organization. Revenues of Not-for-Profit organizations normally arise from donations, government grants and other contributions as well as from membership fees, the sale of goods, the rendering of services or the use by others of organization resources yielding rent, interest, royalties or dividends.

Expenses

2.31 Expenses are decreases in economic resources, either by way of outflows or reductions of assets or incurrences of liabilities, resulting from an organization's ordinary revenue generating or service delivery activities.

Gains

2.32 Gains are increases in net assets from peripheral or incidental transactions and events affecting an organization and from all other transactions, events and circumstances affecting the organization except those that result from revenues.

Losses

2.33 Losses are decreases in net assets from peripheral or incidental transactions and events affecting an organization and from all other transactions, events and circumstances affecting the organization except those that result from expenses.

Accrual Basis

2.34 Items recognized in financial statements are accounted for in accordance with the accrual basis of accounting. The accrual basis of accounting recognizes the effect of transactions and events in the period in which the transactions and events occur, regardless of whether there has been a receipt or payment of cash or its equivalent.

Recognition Criteria

2.35 Recognition is the process of including an item in the financial statements of an organization. Recognition consists of the addition of the amount involved into statement totals together with a narrative description of the item (for example, "inventory", "sales" or "contributions") in a statement. Similar items may be grouped together in the financial statements for the purpose of presentation.

2.36 Recognition means inclusion of an item within one or more individual statements and does not mean disclosure in the notes to the financial statements. Notes either provide further details about items recognized in the financial statements, or provide information about items that do not meet the criteria for recognition and thus are not recognized in the financial statements.

2.37 The recognition criteria described in 2.40 provide general guidance on when an item is recognized in the financial statements. Professional judgment is required to consider the specific circumstances to identify whether any particular item is recognized or not.

2.38 The recognition criteria are as follows:

a) the item has an appropriate basis of measurement and a reasonable estimate can be made of the amount involved; and

b) for items involving obtaining or giving up economic benefits, it is probable that such benefits will be obtained or given up.

2.39 It is possible that an item will meet the definition of an element but still not be recognized in the financial statements because it is not probable that economic benefits will be obtained or given up or because a reasonable estimate cannot be made of the amount involved. It may be appropriate to provide information about items that do not meet the recognition criteria in notes to the financial statements. Not recognizing expenditure as an asset does not imply either that the intention of management in incurring the expenditure was other than to generate economic benefits for the organization or that management was misguided. The only implication is that the degree of certainty that economic benefits will flow to the organization is insufficient to warrant the recognition of an asset.

2.40 Revenues are generally recognized when performance is achieved and reasonable assurance regarding measurement and collectability of the consideration exists.

2.41 Unrestricted contributions to Not-for-Profit organizations do not normally arise from the sale of goods or the rendering of services and, consequently, performance achievement is generally not relevant to the recognition of unrestricted contributions; such revenues are generally recognized when received or receivable. Other contributions are recognized based on the nature of the related restriction.

2.42 Gains are generally recognized when realized.

2.43 Expenses and losses are generally recognized when an expenditure or previously recognized asset does not have future economic benefit. Expenses are related to a period on the basis of transactions or events occurring in that period or by allocation.

2.44 Expenses are recognized in the statement of income and expenditure on the basis of a direct association between the costs incurred and the earning of specific items of income. This process, commonly referred to as the matching of costs with revenues, involves the simultaneous or combined recognition of revenues and expenses that result directly and jointly from the same transactions or other events. However, the application of the matching concept does not allow the recognition of items in the statement of financial position that do not meet the definition of assets or liabilities.

2.45 When economic benefits are expected to arise over several accounting periods and the association with operating performance can only be broadly or indirectly determined, expenses are recognized in the statement of income and expenditure on the basis of systematic and rational allocation procedures. This is often necessary in recognizing the expenses associated with the using up of assets such as property, plant, equipment, patents and trademarks. In such cases, the expense is referred to as depreciation or amortization. These allocation procedures are intended to recognize expenses in the accounting periods in which the economic benefits associated with these items are consumed or expire.

2.46 An expense is recognized immediately in the statement of income and expenditure when expenditure produces no economic benefits or when, and to the extent that, economic benefits do not qualify, or cease to qualify, for recognition in the statement of financial position as an asset.

Measurement

2.47 Measurement is the process of determining the amount at which an item is recognized in the financial statements. There are a number of bases on which an amount can be measured. However, financial statements are prepared primarily using the historical cost basis of measurement whereby transactions and events are recognized in financial statements at the amount of cash or cash equivalents paid or received or the fair value ascribed to them when they took place.

2.48 Financial statements are prepared with capital maintenance measured in financial terms and with no adjustment being made for the effect on capital of a change in the general purchasing power of the currency during the period.

Going Concern

2.49 Financial statements are prepared on the assumption that the organization is a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the normal course of operations. Different bases of measurement may be appropriate when the organization is not expected to continue in operation for the foreseeable future.

Section-3 General standards of financial statement presentation

3.1. Financial reporting is essentially a process of communication of information. While the success of this communication depends upon the appropriateness of the accounting principles followed and ultimately upon the degree of understanding by the readers of the financial statements, it also depends upon the extent and clarity of presentation and disclosure in the financial statements. This Section establishes general standards of financial statement presentation.

3.2. Decisions as to presentation and disclosure in specific situations require the exercise of professional judgment, consideration of this standard (Accounting Standard for Not-for-Profit Organizations) and recognition of specific provisions in governing statutes or regulations. Effective reporting also gives recognition to new problems as they arise and changes in the requirements of contributors, creditors, governments and society generally.

Fair Presentation

3.3. Financial statements shall present fairly in accordance with this standard. A fair presentation is achieved by:

a) applying this standard;
b) providing sufficient information about transactions or events having an effect on the organization's financial position, results of operations and cash flows for the periods presented that are of such size, nature and incidence that their disclosure is necessary to understand that effect; and
c) providing information in a manner that is clear and understandable.

3.4. An organization exercises professional judgment to provide sufficient information about the extent and nature of transactions or events having an effect on the organization's financial position, results of operations and cash flows for the periods presented that are of such size, nature and incidence that their disclosure is necessary to understand that effect. This information would include the significant terms and conditions of such transactions, as well as the nature of such events and their financial effects on the periods presented.

3.5. An organization provides information in a manner that clearly conveys the nature and extent, and significant terms and conditions, of the related transactions. Financial statements are prepared in such form and use such terminology and classification of items that significant information is readily understandable. Items not significant in themselves are grouped with such other items as most closely approximate their nature. An organization presents information in a manner that enables users of financial statements to understand, without undue effort, the effects of transactions and related disclosures without the need to consider whether information somewhere else in the financial statements relates to that disclosure or transaction. Information is presented in a manner that relates the disclosures with other descriptions or disclosures for the same or similar transactions or events. An organization discloses amounts such that users of financial statements do not have to recalculate amounts actually disclosed to determine amounts that are required to be disclosed.

Going Concern

3.6. When preparing financial statements, management shall make an assessment of an organization's ability to continue as a going concern. Financial statements shall be prepared on a going concern basis unless management either intends to liquidate the organization or to cease operating, or has no realistic alternative but to do so.

3.7. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the date of the statement of financial position. The degree of consideration depends on the facts in each case. When an organization has a history of revenues exceeding expenses and ready access to financial resources, a conclusion that the going concern basis of accounting is appropriate may be reached without detailed analysis. In other cases, management may need to consider a wide range of factors relating to current and expected results from operations, debt repayment schedules and potential sources of replacement financing before it can satisfy itself that the going concern basis is appropriate.

3.8. For a Not-for-Profit organization, a history of revenues received in excess of costs of the organization's service delivery activities and ready access to financing may demonstrate that the going concern basis of accounting is appropriate without detailed analysis. In other cases, management of a Not-for-Profit organization may need to consider a wide range of factors relating to its cash flow requirements in order to continue providing services and to discharge its stewardship responsibilities. These factors would include other potential funding arrangements.

Financial Statements

3.9. Financial statements of Not-for-Profit organizations shall normally include:

a) statement of financial position[2]
b) statement of income and expenditure

[2] Also may be referred as Balance Sheet

c) statement of changes in net assets
d) statement of cash flows.

Notes to financial statements and supporting schedules to which the financial statements are cross-referenced are an integral part of such statements; the same does not apply to information set out in other material attached to or submitted with financial statements.

3.10. These names are used for descriptive purposes only. Organizations may use whatever titles are appropriate in the circumstances as long as each financial statement provides the information necessary to meet the requirements of this and other Sections in a manner that results in fair presentation.

3.11. Notes to financial statements, and supporting schedules to which the financial statements are cross-referenced, are often essential to clarify or further explain the items in the financial statements. They have the same significance as if the information or explanations were set out in the body of the statements themselves. However, they are not to be used as a substitute for proper accounting treatment.

3.12. Accounting treatments that are not in accordance with this standard are not rectified either by disclosure of the accounting policies used or by information provided in notes or supporting schedules. The information conveyed by every note or supporting schedule is consistent with the accounting treatment given to the specific item to which it relates. When explanatory information about any item shown in the financial statements is presented in such a note or schedule, the description of the item is referenced to the note or schedule.

3.13. An organization shall select only one set of accounting policies in any particular period for purposes of preparing general purpose financial statements in accordance with this standard. In some circumstances, an organization might prepare additional sets of financial statements using alternative accounting policies that are also in accordance with this standard. These additional sets of financial statements shall include a reference to the general purpose financial statements.

Comparative Information

3.14. Financial statements shall be prepared on a comparative basis, unless the comparative information is not meaningful.

3.15. Comparative information is normally meaningful. However, this may not be the case in some rare circumstances, such as when the financial structure of an enterprise has significantly changed.

3.16. The classification of an item in the financial statements of the current period may be different from that in the financial statements of prior periods as a result of a change in the allocation or grouping of items within or among relevant categories. Such a change in classification is a matter of presentation and is not, in itself, a change in an accounting policy. However, to enhance comparability with the financial statements of the current period, the item is reclassified in the financial statements of the prior period to conform to the new basis.

3.17. An organization preparing interim financial statements may present, as comparative information, the statement of income and expenditure, statement of changes in net assets, and the statement of cash flows of the immediately preceding year if year-to-date comparative interim statements were not prepared previously.

Disclosure

3.18. An organization that prepares its financial statements in accordance with this standard shall state the basis of presentation prominently in the notes to its financial statements.

3.19. When management is aware, in making its assessment of an organization's ability to continue as a going concern, of material uncertainties related to events or conditions that may cast significant doubt upon the organization's ability to continue as a going concern, those uncertainties shall be disclosed.

3.20. When financial statements are not prepared on a going concern basis, that fact shall be disclosed, together with the basis on which the financial statements are prepared and the reason why the organization is not regarded as a going concern.

Section- 4 Financial statements presentation

General

4.1. This Section establishes presentation and disclosure standards for financial statements of Not-for-Profit organizations.

4.2. A clear and concise description of a Not-for-Profit organization's purpose, its intended community of service, its status under income tax legislation and its legal form should be included as an integral part of its financial statements.

Fund Accounting

4.3. An organization that uses fund accounting in its financial statements should provide a brief description of the purpose of each fund reported.

4.4. A description of the specific purpose of each fund reported provides useful information for understanding the organization's use of fund accounting. This description would include the extent to which the particular fund is used to report restricted resources and the types of expenses that are reported in the fund.

4.5. Each fund reported would be presented on a consistent basis from year to year. Particular revenues and expenses reported in a given fund would continue to be reported in that fund in future periods. Any change in the revenues and expenses reported in a particular fund would constitute a change in accounting policy, unless the change results from events or transactions that are clearly different from those previously occurring or from the recognition of events or transactions occurring for the first time.

4.6. Financial statements that are reported using fund accounting may follow the multi-column format whereby resources or similar groups of resources are each assigned a separate column. The multi-column format presents information about fund components together with certain totals for the organization as a whole, in accordance with this Section, to give a complete understanding of the total resources available to the organization.

4.7. Other formats may be used to report using fund accounting provided that financial information about the organization as a whole is presented in the organization's financial statements in accordance with this Section.

4.8. An organization may present its financial statements using different formats for the individual statements, as long as it does so in a way that satisfies the requirements of this Section. For example, a statement of income and expenditure and changes in net assets presented in the multi-column format may be accompanied by a statement of financial position that presents assets, liabilities and net assets in a single column without presenting each financial statement item by individual fund. The formats selected for individual statements would be based on the particular circumstances of the organization.

Inter fund transfers and balances

4.9. Inter fund transfers should be presented in the statement of changes in net assets.

4.10. The amount and purpose of inter fund transfers during the reporting period should be disclosed.

4.11. The amounts, terms and conditions of inter fund loans outstanding at the reporting date should be disclosed.

4.12. Transfers between funds or between funds and reserves during a reporting period do not result in increases or decreases in the economic resources of the organization as a whole and therefore are reported in the statement of changes in net assets rather than in the statement of income and expenditure. Allocations of revenues and expenses between funds that are made when the organization first recognizes the revenue or expense are not considered to be transfers. Under the restricted fund method, however, unrestricted revenues would be recognized initially in the general fund and would only be allocated to restricted funds by way of inter fund transfer on meeting or satisfying the imposed condition(s).

4.13. Judgment would be exercised in determining the level of disclosure to provide for inter fund transfers. For example, it may not be necessary to disclose individual transfers. It may be appropriate to aggregate and disclose as a single amount inter fund transfers that are similar in nature.

4.14. When an organization presents its financial statements using a multi-column format, inter fund loans and advances would be presented in individual funds and eliminated in the totals column of the statement of financial position. When using a single column approach, the only disclosure of inter fund loans and amounts receivable would be made in notes to the financial statements.

Statement of Financial Position

4.15. For each financial statement item, the statement of financial position should present a total that includes all funds reported.

4.16. The statement of financial position should present the following:

a) net assets subject to restrictions requiring that they be maintained permanently as endowments;

b) designated net assets;
c) unrestricted net assets; and
d) total net assets.

4.17. The primary purpose of a statement of financial position is to present the organization's economic resources, obligations and net assets as at the reporting date. The statement of financial position, together with the other statements and the notes, provides useful information for assessing whether the organization will continue to be able to provide services, achieve its objectives and meet its obligations. This information is normally provided by grouping similar amounts not significant in themselves as financial statement items (for example, cash, capital assets, accounts payable, deferred contributions) and providing totals for all funds related to each of these financial statement items reported. The statement of financial position may also be referred to as the balance sheet.

4.18. Information about the organization's liquidity is presented by classifying current assets separately from non-current assets and current liabilities separately from non-current liabilities. Cash and other assets subject to external restrictions limiting their use to beyond one year from the date of the statement of financial position would be classified as non-current assets.

4.19. Net assets may also be referred to as fund balances or as accumulated surplus or deficit. It represents the organization's residual interest in its assets after deducting its liabilities. The net assets balance therefore provides information about the net resources the organization has available for carrying out its service delivery activities in the future. Restrictions on net assets may be imposed externally (restricted) or internally (designated). To fully understand the nature of the organization’s net assets balance, financial statement users require information about the portions of net assets attributable to endowments, and to other external restrictions, none of which can readily be used for other purposes. Financial statement users also require information about the portions of net assets that are subject to internal restrictions.

Disclosure of restrictions

4.20. Restrictions on resources may be external or internal. Externally restricted resources would be presented either as deferred contributions or as part of net assets, depending on the organization's policies for accounting for contributions. Externally restricted resources are not available for use at the organization's discretion. The existence of external restrictions can have a significant effect on the organization's financial flexibility and ability to provide certain services in the future. Therefore, it is important that users be made aware of the amounts of resources subject to external restrictions and of the nature of the restrictions.

4.21. Internal restrictions can be removed by the organization and the assets can be made available for other purposes, if necessary. Therefore, it is important that users be made aware of the amounts of resources subject to internal restrictions and the nature of the restrictions.

4.22. Under the deferral method of accounting for contributions, one common type of internal restriction is to present net assets invested in capital assets as a component of net assets separately from the unrestricted net assets balance. Organizations that adopt this form of internal restriction consider that the internally restricted amount represents net assets that are not available for other purposes because they have been invested in capital assets. When an organization segregates the amount of net assets invested in capital assets, the organization may either present the amount as a component of net assets in the statement of financial position or disclose the amount in a note to the financial statements. Net assets invested in capital assets are generally presented as the unamortized portion of capital assets purchased with unrestricted resources, less related debt, plus the carrying amount, less related debt, of capital assets that will not be amortized. Under the restricted fund method, net assets (fund balances) invested in capital assets may also be internally restricted and generally represent the net book value of all capital assets, less related debt.

4.23. Specific requirements related to the disclosure of restrictions for organizations following the deferral method of accounting for contributions appear in paragraphs 4.24 and 4.25. Organizations need not provide the disclosures set out below separately for each restriction. Judgment would be exercised in disclosing major categories of restrictions. In determining how to categorize restrictions, the organization would consider the intended use of the resources and the length of time that is likely to elapse before the restrictions are complied with.

Disclosure of restrictions — deferral method

4.24. The following should be disclosed:

a) the amounts of deferred contributions attributable to each major category of external restrictions with a description of the restrictions;
b) the amount of net assets subject to external restrictions requiring that they be maintained permanently as endowments; and
c) the amount of net assets subject to internal restrictions and, separately, external restrictions other than those in (b) above*.*

4.25. Under the deferral method of accounting for contributions, endowment contributions are accumulated in the net assets balance. Internally restricted balances are reflected as appropriations of unrestricted net assets in the net assets balance. Externally restricted contributions are accumulated in the statement of financial position as deferred contributions.

Disclosure of restrictions — restricted fund method

4.26. The following should be disclosed:

a) the amount of net assets (fund balances) subject to external restrictions requiring that they be maintained permanently as endowments;

b) the amounts of net assets (fund balances) attributable to each major category of internal restrictions and, separately, external restrictions other than those in (a) above, with a description of the restrictions; and

c) the amounts of deferred contributions attributable to each major category of external restrictions with a description of the restrictions.

4.27. Under the restricted fund method of accounting for contributions, endowment contributions are accumulated in the endowment fund balance. Other internally and externally restricted contributions are accumulated in the statement of financial position as part of the appropriate restricted fund balance. If there is no appropriate restricted fund, externally restricted contributions are accumulated as deferred contributions in the general fund.

Statement of Income and Expenditure

4.28. The primary purpose of a statement of income and expenditure is to communicate information about changes in the organization's economic resources and obligations for the period. Specifically, this statement provides information about the cost of the organization's service delivery activities for the period and the extent to which these expenses were financed or funded by contributions and other revenue. The information provided in the statement of income and expenditure is useful in evaluating the organization's performance during the period, including its ability to continue to provide services, and in assessing how the organization's management has discharged its responsibilities.

4.29. Not-for-profit organizations may classify expenses in the statement of income and expenditure by object (for example, salaries, rent, utilities), by function (for example, administrative, research, ancillary operations) or by program. Classification of expenses by function or program may be desirable when the organization operates several different programs or has different areas of interest. Classification of expenses by object can also be useful. An organization would classify its expenses in the manner that results in the most meaningful presentation in the circumstances. Whether the organization prepares its budgets by function or object would be a factor to consider in deciding which method of expense classification would be most appropriate for the organization's financial statements.

4.30. Specific requirements related to the statement of income and expenditure for organizations following the deferral method of accounting for contributions appear in paragraphs 4.31 – 4.32. Specific requirements for organizations following the restricted fund method appear in paragraphs 4.33 – 4.34.

Statement of Income and Expenditure — deferral method

4.31. The statement of Income and Expenditure should present

a) for each financial statement item, a total that includes all funds reported; and

b) total excess or deficiency of revenues and gains over expenses and losses for the period.

4.32. The statement of income and expenditure would present similar items of revenue and similar items of expense grouped together in meaningful categories as financial statement items. Under the deferral method of accounting for contributions, total excess of revenues over expenses for all funds reports the change in the organization's unrestricted resources in the period. When an organization following the deferral method reports using a method of fund accounting other than the restricted fund method, the total for all funds related to each financial statement item presented in the statement of income and expenditure would be reported together with the total excess of revenues over expenses for all funds.

Statement of Income and Expenditure — restricted fund method

4.33. The statement of Income and Expenditure should present the following for the period*:*

a) the total for each financial statement item recognized in the general fund;

b) the total for each financial statement item recognized in the restricted funds, other than the endowment fund;

c) the total for each financial statement item recognized in the endowment fund; and

d) excess or deficiency of revenues and gains over expenses and losses for each of the general fund, restricted funds other than the endowment fund and the endowment fund.

4.34. The statement of income and expenditure would present similar items of revenue and similar items of expense grouped together in meaningful categories as financial statement items. Under the restricted fund method of accounting for contributions, the general fund presents all revenues and expenses related to unrestricted resources. The total excess of revenues over expenses in the general fund reports the change in the organization's unrestricted resources in the period. The restricted funds present revenues and expenses related to restricted resources. Endowment contributions are presented in the endowment fund. In order to understand the impact of operations for the period on the organization's financial position, financial statement readers require information about operations related to each of the general fund, the restricted funds and the endowment fund. In addition, it may be desirable to present totals that include all the funds reported for each financial statement item in the statement of income and expenditure.

Presentation of revenues and expenses

4.35. Revenues and expenses should be recognized and presented at their gross amounts

4.36. Information about an organization's total gross revenues and expenses is necessary for users to understand fully the organization's operations. This information may be presented in the notes to the financial statements.

Statement of Changes in Net Assets

4.37. The statement of changes in net assets should present changes in the following for the period:

a) net assets subject to restrictions requiring that they be maintained permanently as endowments;
b) internally restricted net assets and, separately, externally restricted net assets other than those in (a);
c) unrestricted net assets; and
d) total net assets.

4.38. The statement of changes in net assets may be referred to as the statement of changes in fund balances when the organization uses fund accounting in its financial statements. Net assets represent the organization's residual interest in its assets after deducting its liabilities. The net assets balance therefore provides information about the net resources the organization has available for carrying out its service delivery activities in the future. To fully understand the nature of the organization's financial activities in the period, financial statement users require information about changes in the portions of net assets attributable to endowments and to other external and internal restrictions as well as those revenues, expenses, gains and losses that have not been included in the statement of income and expenditure. The statement of changes in net assets provides this information and shows the extent to which the organization's operations and other revenues, expenses, gains and losses that have not been included in the statement of income and expenditure have resulted in an accumulation or depletion of net assets.

Statement of Cash Flows

4.39. The information provided in the statement of cash flows helps financial statement users evaluate how management has discharged its stewardship responsibilities over the resources with which it has been entrusted.

4.40. Certain resource providers to a Not-for-Profit organization may be particularly interested in the statement of cash flows because it shows cash received in the period and how it was used. Resource providers may look to the statement of cash flows in determining whether the cash provided to the organization was used in the manner that the resource provider intended. This statement could form the basis for supplementary schedules or reports prepared to meet resource providers' needs.

4.41. Cash flows from operations include all cash receipts and disbursements resulting from the main, ongoing service delivery activities of an organization and exclude cash flows from financing and investing activities. Cash receipts from operations include unrestricted contributions, restricted contributions that are to be used for operations and other revenues arising from the organization's ordinary activities, such as fees for services, proceeds on the sale of goods and unrestricted investment income. Cash disbursements for operations would comprise expenditures made by the organization in carrying out its service delivery activities.

4.42. Components of cash flows from financing activities would include cash contributed that is restricted for the purpose of acquiring capital assets and cash contributed for endowment. Cash receipts and disbursements related to the assumption and repayment of debt would also be presented as components of cash flows from financing activities. Components of cash flows from investing activities would include the acquisition of capital assets, the purchase of investments, and the proceeds on disposal of major categories of assets, such as capital assets and investments.

4.43. An organization following the restricted fund method of accounting for contributions that presents its statement of cash flows using the indirect method, reconciles the excess of revenues over expenses for the general fund and any restricted funds of an operating nature to cash flows from operations.

Illustrative Examples

4.44. This material is illustrative only. These examples illustrate how the accounting treatment specified in this Section might be applied in particular situations. Matters of principle relating to particular situations should be decided in the context of this Section. Other disclosures and methods of presentation not illustrated may also comply with this Section.

Reporting revenues and expenses gross versus net

4.45. The following examples illustrate how revenues and expenses should be reported. The determination of whether to report the revenues and expenses on a gross or net basis depends on the relative facts and circumstances and requires significant judgment. The assessment in the following examples illustrate those judgments in the given fact pattern based on the assumed facts; however, judgments will vary in different fact patterns.

Example 1 — Funded development

4.46. A Not-for-Profit organization receives funding to undertake a specific research project. The organization contracts with a scientist to perform the research. The organization would not have undertaken the research project had the funds not been made available.

4.47. *Evaluation:* Although the organization would not have undertaken the research project without the availability of the funding, the organization acts as the principal in contracting with the scientist. It specifies the details of the research to be carried out by the scientist, and has discretion in selecting the scientist and in establishing the price to be paid. Thus, the organization concludes that the expenses incurred are obligations of the organization, the organization recognizes the expenses in the statement of income and expenditure, and the related funding is recognized as revenue.

4.48. The evaluation would be the same if the reporting organization has an employee who is seconded to a second organization to work under their direction and the reporting organization is reimbursed for all of the costs related to that employee. As the reporting organization is the employer, they would report their employee-related costs as expenses and would report the reimbursement of their costs as revenues.

Example 2 — Direct fundraising activities

4.49. A Not-for-Profit organization engages in a number of fundraising activities, including a fundraising telethon, a telephone campaign, a direct mail campaign, special events and a lottery. The organization uses an outside fundraising consultant to conduct the telethon and uses the organization's own staff and volunteers in the telethon and the other activities. Funds solicited in each of the activities are raised in the name of the organization.

4.50. Evaluation*:* Even though the organization uses an outside fundraising consultant to conduct the telethon, the organization is the principal in the relationship with the donors as the funds are raised in its name. The organization has discretion in selecting the outside fundraiser, in establishing the fees to be paid and in determining the specifications of the telethon. The organization also has the credit risk if donors to the telethon do not pay according to their pledge. Thus, the organization recognizes the gross amounts fundraised in each of the activities as revenue of the organization, and the total expenses of each activity, including the fees charged by any outside party, as expenses of the organization.

Example 3 — Fund raising conducted by others

4.51. A Not-for-Profit organization is given the net proceeds from an event held by others to benefit the organization without having any control over, or responsibility for, the gross amounts of revenues or expenses involved.

4.52. *Evaluation:* The organization is not the principal in the fundraising event as it was not involved in organizing the event and did not bear any risks in connection with it. The amount received by the organization is a donation from the organizers of the event. Neither the gross revenues nor the gross expenses of the event are recognized in the organization's financial statements. The net proceeds received are recognized as a contribution. Disclosure of gross revenues and expenses is not required.

Section – 5 Inventories

General

5.1. This Section prescribes the accounting treatment for inventories specific to a Not-for-Profit organization.

Recognition and Measurement

5.2. This section addresses the recognition and measurement of inventories that:

a) have been contributed;
b) are held for distribution at no charge or for a nominal charge; or
c) are held for consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Contributions of materials

5.3. When a Not-for-Profit organization recognizes contributions of materials and goods, the cost of inventories shall reflect the fair value at the date of contribution.

Inventories to be distributed at no charge or for a nominal charge

5.4. A Not-for-Profit organization shall measure inventories at the lower of cost and current replacement cost when they are held for:

a) distribution at no charge or for a nominal charge; or
b) consumption in the production process of goods to be distributed at no charge or for a nominal charge.

5.5. A Not-for-Profit organization may hold inventories whose future economic benefits or service potential are not directly related to their ability to generate net cash flows. These types of inventories may arise when a Not-for-Profit *organization* distributes certain goods at no charge or for a nominal charge. In these cases, the future economic benefits or service potential of the inventory for financial reporting purposes is reflected by the amount the organization would need to pay to acquire the economic benefits or service potential if this was necessary to achieve the objectives of the organization.

Section – 6 Contributions — Revenue Recognition

6.1 This Section establishes standards for the recognition, measurement, presentation and disclosure of contributions, and related investment income, received by Not-for-Profit organizations.

6.2 Contributions can come from many sources, including individuals, corporations, governments and other Not-for-Profit organizations. Contributions include contributions receivable that meet the criteria for recognition in the financial statements.

6.3 Certain types of government funding are calculated and paid as if they were fees for services. However, because the services being funded are provided to the Not-for-Profit organization's community of service, and not directly to the government funder, government funding is considered to be a contribution for purposes of this Section.

6.4 Many Not-for-Profit organizations receive membership fees. Such fees are considered fees for services when members receive services having a value commensurate with fees paid. In other cases, membership fees may be in substance contributions. An organization would decide whether its membership fees are contributions or fees for services and account for them accordingly on a consistent basis. Some membership fees have characteristics of both fees for services and contributions. Such fees would be divided into the portion that relates to fees for services and the portion that is in substance a contribution.

Restricted contributions

6.5 The distinction between restricted contributions and unrestricted contributions is important since different reporting principles apply. The fact that an organization does not expect or is unable to spend a contribution received in the current period, perhaps because the contribution was received late in the year, would not be sufficient grounds for presenting it as restricted. Most externally imposed restrictions will be explicitly stated by the contributor. However, external restrictions may also be clear from the purpose for which the contribution was solicited by the organization. Such implicit restrictions must bind the organization to use the resources contributed for the purposes specified. An organization would be considered to be bound by implicit restrictions as long as the contributor is aware of the purposes for which the contribution will be used and would have recourse if the contributed resources were not used in the ways specified. Implicit and explicit restrictions may be evident by a requirement to report to the contributor that the contribution was used in a way that fulfills the restrictions. Restricted contributions that will not be used in the manner stipulated may have to be returned, unless the contributor gives permission for another use.

6.6 Restrictions stipulate uses for the contributed resources that are more specific than broad limits resulting from the nature of the organization or the environment in which it operates. A restriction may stipulate an area of the organization's activities in which the contributed resources are to be used. Alternatively, an organization may receive a contribution subject to restrictions that the contribution be used for the organization's general operations in a future period. A contribution received with instructions that it be used for general operations and without any indication of the period in which it should be used or of the specific operating expenses it is intended to fund would not be considered restricted.

Restricted government funding — special considerations

6.7 Government funding is a significant component of many Not-for-Profit organizations' total contributions. The assessment of whether government funding in a particular situation represents a restricted or an unrestricted contribution depends on the characteristics of the contribution. Restrictions on government funding may be indicated by the fact that the funding is provided based on the organization's approved operating budget. Another indication that funding is restricted may be a requirement to report to the funder as to how the resources were actually used. Sometimes restricted government funding left over at the end of the period must be returned to the funder.

6.8 Some annual government funding arrangements relate more closely to time periods than to the incurring of specific expenses. For example, a funder may contribute funds for a particular period without specifically identifying the expenses towards which the contribution is to be applied. Such contributions, when received in advance of the period that is being funded, are in effect restricted contributions related to expenses of the future period being funded.

Revenue Recognition

6.9 An organization should recognize contributions in accordance with either:

a) the deferral method; or
b) the restricted fund method.

6.10 A unique characteristic of contributions is that they are often subject to externally imposed restrictions that specify how the resources contributed are to be used or, in some cases, that they be maintained permanently. Not-for-profit organizations have three types of contributions to report: endowment contributions, restricted contributions and unrestricted contributions. To show the extent to which the organization has been able to obtain resources to cover the expenses associated with service delivery for the period, it is necessary to report in a way that distinguishes the different types of contributions. This reporting is achieved by following either the deferral method or the restricted fund method of accounting for contributions.

6.11 An organization would select one of the methods for recognizing contributions set out in paragraph 6.10 and apply that method consistently to all contributions received. If an organization changes its method of accounting for contributions, the change would be treated as a change in accounting policy.

6.12 Under the deferral method, contributions for which externally imposed restrictions remain unfulfilled are accumulated as deferred contributions in the statement of financial position. Under this method, endowment contributions are not recognized as revenue at all since they must be maintained permanently.

6.13 The restricted fund method is a specialized use of fund accounting in which the organization presents total general funds and at least one restricted fund. Most restricted contributions and endowment contributions are reported separately from unrestricted resources by using restricted funds and an endowment fund. Contributions for which externally imposed restrictions remain unfulfilled, as well as endowment contributions, are presented in the appropriate fund balance.

6.14 Not all uses of fund accounting will meet the definition of the restricted fund method. An organization may present its financial statements on a fund accounting basis without following the restricted fund method. The restricted fund method is a specific use of fund accounting in which the various funds are used primarily to segregate restricted resources from unrestricted resources. Fund accounting may be used for purposes other than to report restrictions, for example to report on different programs in such a way that individual funds include both restricted and unrestricted resources. When fund accounting is not being used in a way that meets the definition of the restricted fund method, the organization would recognize contributions using the deferral method in the various funds reported.

Contributed materials and services

6.15 An organization may choose to recognize contributions of materials and services, but should do so only when a fair value can be reasonably estimated and when the materials and services are used in the normal course of the organization's operations and would otherwise have been purchased.

6.16 Organizations may receive substantial contributed materials and services. Often these contributions are not recorded because of record-keeping and valuation difficulties. For example, it may be impractical to record the receipt of contributed services where the organization depends heavily on the use of volunteers to provide services. Where contributed materials and services meet the criteria in paragraph 6.15, recording their value would provide useful information.

6.17 Contributed materials and services that are part of a constructed or developed capital asset would be recognized at fair value.

Measurement

6.18 Contributions should be measured at fair value at the date of contribution if fair value can be reasonably estimated.

6.19 A contribution of assets other than cash would be measured at fair value. Fair value would be estimated using market or appraisal values. For contributed materials and services that are normally purchased, fair value would be determined in relation to the purchase of similar materials and services.

Disclosure

6.20 An organization should disclose:

a) the policy followed in accounting for endowment contributions; and
b) the policies followed in accounting for restricted contributions.

6.21 An organization should disclose its contributions by major source.

6.22 An organization should disclose the policy followed in accounting for contributed materials and services.

6.23 An organization should disclose the nature and amount of contributed materials and services recognized in the financial statements.

6.24 Organizations will report contributions differently depending on whether they follow the deferral method or the restricted fund method. An organization would disclose its policies for accounting for each different type of contribution.

6.25 Information about the sources of contributions will help financial statement users to assess the organization's economic relationship with other organizations and to predict its ability to generate future cash flows. This information would be disclosed for each source of significant contributions to the organization. The sources would be grouped by major categories, such as different levels of government, foundations, corporate contributors, individuals and other Not-for-Profit organizations. It may be desirable to name individual organizations providing significant levels of support unless there is reason for them to remain anonymous.

6.26 The disclosures required by paragraphs 6.20 – 6.23 would be provided by all Not-for-Profit organizations. Specific presentation and disclosure requirements related to organizations following the deferral method and to those following the restricted fund method are discussed in the respective paragraphs below.

Deferral Method

6.27 Under the deferral method, restricted contributions for which the related restrictions remain unfulfilled are accumulated as deferred contributions. As a result, the organization's excess of revenue over expenses for the period represents the increase in resources that are not restricted to cover specific expenses of a future period. Organizations that choose to follow the restricted fund method would refer to relevant paragraphs coming ahead.

Recognition of endowment contributions

6.28 Endowment contributions should be recognized as direct increases in net assets in the current period.

6.29 Endowment contributions will never be available to meet expenses associated with the organization's service delivery activities. Therefore, an organization following the deferral method would exclude such contributions from revenue available for current expenses by recognizing them as direct increases in net assets. Net investment income earned on resources held for endowment would be accounted for in accordance with the relevant paragraph.

Recognition of restricted contributions for expenses of future periods

6.30 Restricted contributions for expenses of one or more future periods should be deferred and recognized as revenue in the same period or periods as the related expenses are recognized.

6.31 The deferral of restricted contributions related to expenses of future periods provides the organization with a means to segregate those contributions of resources that must be set aside to cover expenses in the future. The deferred contributions balances reported on the statement of financial position represent the amount of restricted contributions that are related to expenses of future periods. When these contributions are recognized as revenue, they will be matched with the expenses that they were intended to fund. When the only restriction on a contribution is that it cannot be used until a particular future period, the total amount of the contribution would be recognized as revenue in that future period, whether or not it has been spent.

Recognition of restricted contributions for the purchase of capital assets

6.32 Restricted contributions for the purchase of capital assets that will be depreciated should be deferred and recognized as revenue on the same basis as the amortization expense related to the acquired capital assets.

6.33 Restricted contributions for the purchase of capital assets that will not be amortized should be recognized as direct increases in net assets.

6.34 The deferral of contributions restricted for the purchase of capital assets that will be amortized provides a means to match such contributions with the benefits provided by the capital assets acquired. Such contributions will be recognized as revenue over the useful life of the acquired capital asset to reflect the fact that the contribution provides benefits in all the periods in which the organization has the use of the capital asset. When the acquired capital asset will not be subject to amortization because it has an unlimited useful life, it is not possible to match the contribution with the benefits provided since these benefits are unlimited. Therefore, contributions restricted for the purchase of capital assets that will not be amortized are recognized as direct increases in net assets.

6.35 A restricted contribution may be provided for a certain area of activity, for example research, without the contributor specifying which portion is to be used to acquire capital assets. In order for a contribution to be accounted for as a contribution restricted for the purchase of a capital asset, the contributor must specify the portion of the contribution that is to be used to purchase capital assets. If the contributor does not so specify, then the contribution would be recognized as revenue when spent for the particular purpose covered by the restriction, regardless of the fact that some of the expenditures may relate to the purchase of capital assets.

Recognition of restricted contributions for the repayment of debt

6.36 Restricted contributions for the repayment of debt that was incurred to fund expenses of one or more future periods should be deferred and recognized as revenue in the same period or periods as the related expenses are recognized.

6.37 Restricted contributions for the repayment of debt that was incurred to fund the purchase of a capital asset that will not be amortized should be recognized as direct increases in net assets.

6.38 Restricted contributions for the repayment of debt that was incurred for purposes other than those described in paragraph 6.36 or 6.37 should be recognized as revenue in the current period.

6.39 When an organization obtains debt financing for specific purposes, contributions restricted for the repayment of that debt would be recognized as if the contribution itself were restricted for the same purpose as the debt financing was used. For example, a restricted contribution for the repayment of the mortgage on an organization's building would be recognized as revenue in the same periods as the amortization expense associated with the building. (This treatment is consistent with the accounting for restricted contributions for the purchase of capital assets set out in paragraph 6.34.) When the restricted contribution to repay the mortgage is received as a lump sum, matching with the related amortization expense would be achieved by deferring the contribution and recognizing it as revenue over the remaining useful life of the building. When the restricted contributions for the repayment of the mortgage are received to fund the periodic mortgage repayments, matching with the related amortization expense may be achieved by recognizing the contributions as revenue when received.

6.40 In considering whether debt was incurred to fund specific expenses, the organization would consider the timing of the debt financing in relation to the incurring of the expenses. If debt financing is obtained to coincide with a particular project, then it may be linked with the expenses related to that project. Debt would likely be considered to be linked with a particular capital asset if the debt was used to finance the acquisition and the capital asset was pledged as security. Because of their current nature, most short-term operating loans would be considered to be related to expenses of the current period.

6.41 Debt financing may be incurred to fund the purchase of a capital asset that will not be amortized, such as land. Any contributions restricted for the repayment of such debt would be recognized as direct increases in net assets. This treatment is consistent with the accounting for restricted contributions for the purchase of capital assets that will not be amortized (see paragraph 6.35).

6.42 Restricted contributions for the repayment of debt that was incurred for purposes other than to fund expenses of future periods or the acquisition of capital assets that will not be amortized would be recognized as revenue in the current period. Such contributions are similar to unrestricted contributions since they effectively allow the organization the use of unrestricted resources that would otherwise have been used to repay its debt.

Recognition of restricted contributions for expenses of the current period

6.43 Restricted contributions for expenses of the current period should be recognized as revenue in the current period.

6.44 When a restricted contribution is received or recognized as a contribution receivable in the same period in which the related expenses are incurred, the restrictions have been complied with by the reporting date. Therefore, such restricted contributions would be recognized as revenue in the current period.

Recognition of unrestricted contributions

6.45 Unrestricted contributions should be recognized as revenue in the current period.

6.46 Since unrestricted contributions are for use at the organization's discretion, they are available to fund operations of current and future periods as required. This increase in economic resources is recognized when it occurs by reporting such contributions as revenue of the current period.

Recognition of net investment income

6.47 An organization should recognize:

a) net investment income that is not externally restricted in the statement of income and expenditure;
b) externally restricted net investment income that must be added to the principal amount of resources held for endowment as direct increases, or decreases, in net assets; and
c) other externally restricted net investment income in the statement of income and expenditure, in the appropriate deferred contributions balance or in net assets, depending on the nature of restrictions, on the same basis as described in relevant paragraphs above.

6.48 Net investment income may be subject to externally imposed restrictions. In order to ensure the appropriate reporting of restricted and unrestricted resources, an organization would account for net investment income in the manner appropriate to the nature of any external restrictions imposed.

6.49 For purposes of this Section, net investment income includes revenue, gains or losses on investments. Any gains or losses on investments would be considered to be restricted or unrestricted based on the restrictions imposed on the resources originally contributed. For example, if losses were recognized on investments purchased with contributions subject to externally imposed, if any, restrictions that the related income is to be used for a particular project, the losses would be recognized as decreases in the deferred contributions balance related to that project. If there were no deferred contributions balance related to that project, such losses would be recognized in the statement of income and expenditure.

Presentation and disclosure

Deferred contributions

6.50 Deferred contributions balances should be presented in the statement of financial position outside net assets.

6.51 An organization should disclose the nature and amount of changes in deferred contributions balances for the period.

6.52 The deferral method of reporting contributions is an alternative to the restricted fund method. Disclosure of changes in deferred contributions balances permits comparisons between organizations that follow the deferral method and those that follow the restricted fund method. Increases in deferred contributions balances normally result from the receipt of restricted contributions for which the related expenses will not be recognized until a later period. Decreases normally result from the recognition in revenue of previously deferred contributions. It may be desirable to present the changes in deferred contributions balances as a separate statement.

Net investment income earned on resources held for endowment

6.53 An organization should disclose the following related to net investment income earned on resources held for endowment:

a) the amounts recognized in the statement of income and expenditure in the period;

b) the amounts deferred in the period;

c) the amounts recognized as direct increases or decreases in net assets in the period; and

d) the total earned in the period.

6.54 Net investment income earned on resources held for endowment is in effect a contribution and would be reported based on the nature of any related externally imposed restrictions (see paragraphs. As a result, some portions of net investment income earned in the period may be recognized immediately as revenue, while other portions may be deferred or reported as direct increases in net assets. Disclosure of total net investment income will allow financial statement readers to assess the performance of investments held for endowment. This disclosure would be presented in a way that shows which portions of total net investment income appear in the financial statements as revenue, deferred contributions and direct increases in net assets. Similar disclosure may be useful for other externally restricted net investment income.

Restricted Fund Method

6.55 The restricted fund method is a specialized use of fund accounting. Organizations using fund accounting in ways that do not meet the definition of the restricted fund method would follow the deferral method in accordance with paragraphs 6.27 - 6.54. When an organization follows the restricted fund method, it presents a single general fund, or the total of all general funds, and one or more restricted funds. The purpose of a restricted fund is to record the receipt and use of resources that are subject to restrictions. An organization following the restricted fund method would also present a separate endowment fund if it receives endowment contributions. All revenue reported in a restricted fund is externally restricted. Resources transferred to a restricted or endowment fund as a result of the organization imposing internal restrictions would be recognized as inter-fund transfers in accordance with the general requirements on fund accounting. The restricted fund method requires that a general fund be used to report changes in unrestricted net assets. Organizations may choose to report more than one general fund as long as a total for all general funds is presented. Restricted contributions would be recognized in the general fund using the deferral method when an appropriate restricted fund does not exist. The excess or deficiency of revenues over expenses in the general fund represents the change in net assets that are not restricted to cover future periods' expenses.

6.56 An organization following the restricted fund method of accounting for contributions would choose which restricted funds to report. Because of this choice, two organizations following the restricted fund method may each report similar kinds of restricted contributions differently. For example, one organization may present contributions restricted for research in a separate restricted research fund. Another organization may not report a separate research fund. In this case, contributions that are restricted for research purposes would be reported in the general fund using the deferral method. What is important is that all similar contributions recognized by the organization be treated in a consistent manner.

Recognition of endowment contributions

6.57 Endowment contributions should be recognized as revenue of the endowment fund in the current period.

6.58 The only revenue reported in the endowment fund would be endowment contributions and net investment income subject to externally imposed restrictions stipulating that it be added to the endowment fund. Any allocations of internally restricted resources to the endowment fund would be accounted for as interfund transfers. The endowment fund balance represents the accumulation of resources subject to both externally and internally imposed restrictions specifying that they be maintained permanently. Net investment income earned on resources held for endowment would be recognized in the manner appropriate to whether it is restricted or unrestricted.

Recognition of restricted contributions reported in restricted funds

6.59 Restricted contributions for which a corresponding restricted fund is presented should be recognized as revenue of that fund in the current period.

6.60 Under the restricted fund method, an organization would report one or more restricted funds. Each restricted fund would accumulate resources that are restricted for similar purposes. Contributions subject to similar external restrictions would all be accounted for the same way on a consistent basis from year to year. For example, if an organization reports a restricted research fund, all contributions received subject to restrictions stipulating that they be used for research would be reported as revenue of the restricted research fund. A change in the restricted funds reported would be treated as a change in accounting policy.

6.61 The only revenue reported in a restricted fund would be restricted contributions and other revenue subject to externally imposed restrictions, such as income earned on resources held for endowment. Any allocations of internally restricted resources to a restricted fund would be accounted for as interfund transfers. The restricted fund balance at the reporting date represents the accumulation of resources subject to internal or external restrictions that have yet to be complied with.

Recognition of restricted contributions reported in the general fund

6.62 Restricted contributions for which no corresponding restricted fund is presented should be recognized in the general fund in accordance with the deferral method.

6.63 Organizations following the restricted fund method would present a general fund, the purpose of which is to account for both unrestricted revenues and restricted contributions for which there is not a corresponding restricted fund. For example, core operating funding that is provided to fund specifically identified expenses would be considered to be a restricted contribution. An organization may prefer to report core operating funding in the general fund. The same recognition principles that apply to an organization using the deferral method apply to the general fund.

6.64 When an organization receives a restricted contribution for which it does not present a corresponding restricted fund, it may decide to establish such a fund. All subsequent restricted contributions for similar purposes would be reported in the restricted fund established for that purpose. Since such a change represents a change in accounting policy, prior years' financial statements would be retroactively restated if similar contributions had been reported in the general fund in prior periods. Any resources allocated to the new fund based on internal restrictions would be recorded as inter-fund transfers.

Recognition of unrestricted contributions

6.65 Unrestricted contributions should be recognized as revenue of the general fund in the current period.

6.66 Unrestricted contributions are available for use at the organization's discretion. When all such contributions are reported as revenue of the general fund, the excess of revenues over expenses in the general fund represents the increase in unrestricted net assets after deducting the expenses of the current period. Unrestricted resources may be allocated to a restricted fund but this allocation would be reported as an inter-fund transfer.

Recognition of net investment income

6.67 An organization should recognize:

a) net investment income that is not externally restricted in the statement of income and expenditure in the general fund;
b) externally restricted net investment income that must be added to the principal amount of resources held for endowment in the statement of income and expenditure in the endowment fund; and
c) other externally restricted net investment income in the statement of income and expenditure in the appropriate restricted fund or, if there is no appropriate restricted fund, in the general fund on the same basis as that described in paragraph 6.64.

6.68 Net investment income may be subject to externally imposed restrictions. In order to ensure the appropriate reporting of restricted and unrestricted resources, an organization would account for net investment income in the manner appropriate to the nature of any external restrictions imposed.

6.69 For purposes of this Section, net investment income includes revenue, gains or losses on investments. Any gains or losses would be considered to be restricted or unrestricted based on the restrictions imposed on the resources originally contributed. For example, losses recognized on investments purchased with contributions subject to externally imposed, if any, restrictions that the related income be used for research would be recognized in the statement of income and expenditure in the research fund.

Presentation and disclosure

Deferred contributions

6.70 When restricted contributions are recognized in the general fund in accordance with paragraph 6.64, any deferred contributions balances should be presented in the statement of financial position outside net assets.

6.71 When restricted contributions are recognized in the general fund in accordance with paragraph 6.64, the nature and amount of changes in deferred contributions balances for the period should be disclosed.

6.72 Deferred contributions may be recognized in the general fund related to restricted contributions for which no corresponding restricted fund is reported. Increases in deferred contributions balances normally result from the receipt of restricted contributions for which the related expenses will not be recognized until a later period. Decreases normally result from the recognition in revenue of previously deferred contributions. It may be desirable to present the changes in deferred contributions balances as a separate statement.

Net investment income earned on resources held for endowment

6.73 An organization should disclose the following related to net investment income earned on resources held for endowment:

a) the amounts recognized in the general fund in the period;
b) the amounts recognized in each restricted fund in the period;
c) the amounts recognized in the endowment fund in the period;

d) any amounts deferred in the period; and

e) the total earned in the period.

6.74 Net investment income earned on resources held for endowment is to be reported based on the nature of any associated restrictions. As a result, some portions of net investment income earned in the period may be reported in the general fund while other portions would be reported in the appropriate restricted fund or in the endowment fund. Disclosure of total net investment income will allow financial statement readers to assess the performance of investments held for endowment. This disclosure would be presented in a way that shows which portions of total net investment income appear in the general, restricted and endowment funds. Similar disclosure may be useful for other externally restricted net investment income.

Section- 7 Contributions Receivable

7.1. This Section establishes standards for the recognition and disclosure of contributions receivable by Not-for-Profit organizations.

Recognition

7.2. A contribution receivable should be recognized as an asset when it meets the following criteria:

a) the amount to be received can be reasonably estimated; and

b) ultimate collection is reasonably assured.

7.3. An organization may have reason to expect that a particular contribution is forthcoming, such as when funding is provided under a contractual arrangement. A contribution receivable would be recognized as an asset only if the amount to be received can be reasonably estimated and ultimate collection is reasonably assured. Because of the non-reciprocal nature of contributions, there may be considerable uncertainty surrounding collectability. When this uncertainty exists, a contribution would not be recognized until the contributed assets have been received. Generally, the further in the future the contributed assets are expected to be received the greater is the uncertainty associated with collectability.

Pledges and bequests

7.4. A pledge is a promise to contribute cash or other assets to a Not-for-Profit organization. Similar to any other contribution receivable, an uncollected pledge would only be recognized;

a) If it meets the criteria in paragraph 7.3;

b) There is reasonable assurance that organization will comply with conditions, if any, attached to the contribution; and

c) Contribution is not dependant on any contingent event outside organization’s control.

7.5. Bequests are often subject to considerable uncertainty surrounding both the timing of the receipt and the amount that will actually be received. In many cases, the recognition criteria will not be satisfied and the bequest will not be recognized until it is received.

Disclosure

7.6. When a Not-for-Profit organization has recognized outstanding pledges and bequests in its financial statements, the following should be disclosed:

a) the amount recognized as assets at the reporting date; and

b) the amount recognized as revenue in the period.

7.7. In many cases, pledges will not be recognized until collected because the organization cannot make a reasonable estimate of the amount that will be collected and collection is not reasonably assured. The recognition of pledges outstanding involves a considerable degree of judgment on the part of the organization. Disclosure of outstanding pledges and bequests recognized in the financial statements will help financial statement users to understand the significance of these uncollected amounts to the organization's financial position.

Section- 8 Property, Plant & Equipment

This Section deals with accounting for tangible capital assets held by Not-for-Profit organizations.

8.1 All organizations are required to follow the requirements of this Section except for organizations covered under (d) of 1.11 of section 1.

Recognition and Measurement

8.2 Property, Plant and Equipment shall be recognized as an asset, if and only if:

a) It is probable that future economic benefits associated with the item will flow to the organization; and
b) the cost of the item can be measured reliably

8.3 For a contributed asset, cost is considered to be fair value at the date of contribution. In unusual circumstances when fair value cannot be reasonably determined, the asset should be recorded at nominal value to ensure monitoring and accountability.

8.4 Organizations may receive substantial contributions of Property, Plant and Equipment. Recognition of contributions of such assets helps provide an understanding of the resources available to the organization and enables users of the financial statements to make comparisons with other organizations. A contributed asset would be recognized at its fair value at the date of contribution. Fair value of a contributed asset may be estimated using market or appraisal values. When an estimate of fair value cannot reasonably be made, both the asset and the related contribution would be recognized at nominal value.

8.5 A tangible capital asset purchased by a Not-for-Profit organization at a value substantially below fair value would also be recognized at its fair value with the difference between the consideration paid for the tangible capital asset and fair value reported as a contribution.

8.6 A tangible moveable capital asset procured from a grant may be recognised at carrying amount deducting the grant. The grant is recognised in profit or loss over the life of the depreciable asset as a reduced depreciation expense. If it is a grant for a specified period and the asset has to be returned at the end of the grant period, asset shall be valued at fair value less present value of the estimated residual amount at the time of grant / contribution.

Construction or development over time

8.7 The cost of Property, Plant and Equipment includes direct construction or development costs (such as materials and labour) and overhead costs directly attributable to the construction or development activity. Property, Plant and Equipment which is developed or constructed by an organization might include contributed materials or labour, which would be recognized at fair value at the date of contribution.

Land and certain works of art and historical treasures

8.8 Land normally has an unlimited life and would not be depreciated. Certain works of art and historical treasures may have lives that are so long as to be virtually unlimited. Works of art and historical treasures in this category are those that have cultural, aesthetic, or historical value that is worth preserving perpetually. In addition, the organization must have the technological and financial ability to continue to protect and preserve them. Works of art and historical treasures of this type would not be depreciated. Collections of works of art and historical treasures are subject to specific organizational policies that demonstrate the organization's commitment to protect and preserve them. Because of the significant valuation problems associated with collections, they are dealt with in a separate Section.

Amortization when a fund accounting basis of reporting is used

8.9 When a fund accounting basis of reporting is used, the choice of the fund or funds to which depreciation expense would be charged would be based on providing the most meaningful presentation. Some organizations may wish to show depreciation as an expense of the operating fund. This presentation emphasizes that depreciation is part of the cost of service delivery. Other organizations may prefer to show depreciation as an expense of the Property, Plant and Equipment fund. This presentation shows all revenues and expenses associated with tangible capital assets in a single fund.

Review of depreciation & useful life

8.10 The depreciation method and the estimate of the useful life of an asset should be reviewed on a regular basis.

8.11 Significant events that may indicate a need to revise the depreciation method or the estimate of the useful life of a tangible capital asset include:

a) a change in the extent the Property, Plant and Equipment is used;
b) a change in the manner in which the asset is used;
c) removal of the asset from service for an extended period of time;
d) physical damage;
e) significant technological developments; and

f) a change in the law or environment affecting the period of time over which the asset can be used.

Treatment of unamortised deferred contributions

8.12 When Property, Plant and Equipment no longer contribute to the organization's ability to provide services, its carrying amount would be written down to residual value, if any. A write-down would be necessary, for example, when the organization no longer plans to use the asset because it has been damaged or rendered obsolete. When an asset's carrying amount is written down, a corresponding amount of any unamortized deferred contributions related to the asset would be recognized as revenue, provided that all restrictions have been complied with.

Presentation and Disclosure

8.13 For each major category of Property, Plant and Equipment there should be disclosure of*:*

a) cost;

b) accumulated depreciation, including the amount of any write-downs and impairment; and

c) the depreciation method used, including the depreciation period or rat*e.*

8.14 The net carrying amounts of major categories of Property, Plant and Equipment not being depreciated should be disclosed.

8.15 The amount of depreciation of assets recognized as an expense for the period should be disclosed.

8.16 The amount of any write-downs and reversals of write-downs, if any, of assets should be disclosed in the financial statements for the period in which the write-downs are made or reversed as the case may be.

8.17 Major categories of Property, Plant and Equipment are determined by reference to type (for example, land, buildings, office equipment, leasehold improvements, vehicles) and/or nature of operations or program (for example, operating, research).

8.18 Property, Plant and Equipment not being depreciated would include land, works of art and historical treasures, assets under construction or development, and may include assets removed from service for an extended period of time. The net carrying amounts of major categories of such assets would be disclosed in accordance with 8.25.

Contributed Property, Plant and Equipment

8.19 The nature and amount of contributed Property, Plant and Equipment received in the period and recognized in the financial statements should be disclosed*.*

8.20 Information should be disclosed about contributed assets recognized at nominal value.

8.21 A contributed asset is recognized at nominal value in the financial statements of a Not-for-Profit organization when its fair value at the date of contribution cannot be reasonably determined. Information about such assets helps provide an understanding of the organization's economic resources. This information would likely include any details about the assets that would affect their usefulness to the organization: their ages, locations, present or potential uses and estimated remaining useful lives.

8.22 Organizations referred in paragraph 8.1, not following the other requirements of this Section, should disclose the following:

a) the policy followed in accounting for tangible capital assets;

b) information about major categories of tangible capital assets not recorded in the statement of financial position, including a description of the assets; and

c) if tangible capital assets are expensed when acquired, the amount expensed in the current period*.*

Section- 9 Intangible Assets

This Section deals with accounting for intangible assets acquired or developed by a Not-for-Profit organization.

9.1 All organizations are encouraged to follow the requirements of this Section.

Recognition and Measurement

9.2 The organization shall recognize an ***intangible asset*** as an ***asset*** if, and only if:

a) It is probable that the expected future economic benefits that are attributable to the ***asset*** will flow to the organization; and

b) the ***cost*** or value of the ***asset*** can be measured reliably

9.3 Internally Generated research costs, goodwill, brands, training costs are always expensed out, however, development costs, which is the next step after research phase, can be capitalized if all of the following conditions are fulfilled: (a) the technical feasibility of completing the asset, (b) the intention to complete the asset exists, (c) the ability to use or sell the asset, d) how the asset will generate the future economic benefit and ability to demonstrate the existence of market, (e) the availability of adequate resources to complete and (f) the organization's ability to reliably measure the cost of development of the asset.

9.4 Website costs are categorized into five basic stages that are planning stage (stage 1), application and infrastructure development (stage 2), the graphical design development (stage3), content development (stage 4) and operations (stage5). Costs incurred in stage 1 and stage 5 are always expensed however costs incurred from stage 2 to 4 can be capitalized if it fulfills the criteria of development asset discussed in preceding paragraph, particularly (d) in 9.3 above.

9.5 Expenditure on intangible item that was initially recognized as an expense shall not subsequently be capitalized as part of the cost of an intangible asset.

Treatment of unamortised deferred contributions

9.6 When an intangible asset no longer contributes to the organization's ability to provide services, its carrying amount is written down to residual value, if any. A write-down is necessary, for example, when the organization no longer plans to use the intangible asset. When an intangible asset's carrying amount is written down, a corresponding amount of any unamortized deferred contributions related to the intangible asset is recognized as revenue, provided that all restrictions have been complied with.

Contributed intangible assets

9.7 Organizations may receive contributions of intangible assets. Recognition of contributions of intangible assets helps provide an understanding of the resources available to the organization and enables users of the financial statements to make comparisons with other organizations. A contributed intangible asset would be recognized at its fair value at the date of contribution. Fair value of a contributed intangible asset may be estimated using market or appraisal values. When an estimate of fair value cannot reasonably be made, both the intangible asset and the related contribution would be recognized at nominal value.

9.8 The nature and amount of contributed intangible assets received in the period and recognized in the financial statements should be disclosed.

9.9 Information should be disclosed about contributed intangible assets recognized at nominal value.

9.10 A contributed intangible asset is recognized at nominal value in the financial statements of a Not-for-Profit organization when its fair value at the date of contribution cannot be reasonably determined. Information about such intangible assets helps provide an understanding of the organization's economic resources. This information would likely include any details about the assets that would affect their usefulness to the organization: their ages, present or potential uses and estimated remaining useful lives.

Section – 10 Collections

10.1. This Section establishes disclosure standards for collections held by Not-for-Profit organizations.

Nature of Collections

10.2. Although items meeting the definition of a collection exhibit the characteristics of ‘assets’ they are excluded from the definition of Property, Plant & Equipment, and intangible assets. Collections are made up of items that are often rare and unique. They have cultural and historical significance. Although collections are usually held by museums or galleries, other organizations may also have items that meet the definition of a collection. For example, an organization's library may include rare books which would be considered to be a collection for purposes of this Section. The regular library materials, however, would not usually meet the definition of a collection.

10.3. Organizations holding collections act as custodians for the public interest. They undertake to protect and preserve the collection for public exhibition, education or research. The existence of a policy requiring that any proceeds on the sale of collection items be used to acquire additional items or for the direct care of the collection provides evidence of the organization's commitment to act as custodian of the collection.

10.4. The cost of capitalizing collections often would exceed the incremental benefit of the information gained, especially for organizations that have been in existence for several decades. Accordingly, although the capitalization of collections is not precluded, it is not required.

Disclosure

10.5. A Not-for-Profit organization should disclose the following:

a) a description of its collection;
b) the accounting policies followed with respect to the collection;
c) details of any significant changes to the collection in the period;
d) the amount of expenditures on collection items in the period; and
e) proceeds of any sales of collection items in the period and how the proceeds were used.

10.6. A description of the organization's collection may include the number and nature of items held or on display, including their relative significance. For large, diverse collections, such disclosure may take the form of a description by major categories, rather than by individual items.

10.7. Accounting policies related to collections may vary from organization to organization. Disclosure of the organization's accounting policies with respect to collections would include whether or not the collection is recognized in the statement of financial position and, if so, at what value. This disclosure would also state how contributed and purchased collection items are accounted for.

10.8. Changes in the collection resulting from acquisitions and disposals would also be disclosed. The disclosure would include a description of significant items acquired during the period and, where known, the fair values of contributed items. Also, the disclosure would include a description of significant items sold, given away, damaged, destroyed, lost or otherwise disposed of during the period. For larger collections with many changes to report, the disclosure may be provided by major category, rather than by individual item.

10.9. According to the definition of collections, proceeds from the sale of collection items would be used either to acquire new items for the collection or for the direct care of the collection. The organization would disclose how any proceeds on the sale of collection items were used. If not all of the proceeds on sales have been used either to acquire new items for the collection or for the direct care of the collection by the reporting date, the organization would disclose how it plans to use the proceeds.

11.1. Not-for-Profit organizations can have many different types of relationships with other organizations, both not for profit and profit oriented. An organization may have control over another organization. When the relationship falls short of control, the organization may instead have joint control or significant influence over the other organization. Economic interest is a concept unique to relationships among Not-for-Profit organizations. It may be an indicator of either control or significant influence. Alternatively, an economic interest may exist without control or significant influence.

11.2. In case of control, joint control, significant influence or investment of any other nature, Not-for-Profit organizations would follow the requirements of their relevant accounting standard i.e. IFRS, IFRS for SMEs or AFRS for MSEs.

Economic interest

11.3. The reporting organization has an economic interest in another Not-for-Profit organization when the other organization holds resources for the benefit of the reporting organization. An economic interest also exists when the reporting organization is responsible for the other organization's liabilities. The following are possible indicators of economic interest:

a) The other organization solicits funds in the name of and with the expressed or implied approval of the reporting organization, and substantially all of the funds solicited are intended by the contributor or are otherwise required to be transferred to the reporting organization or used at its discretion or direction;

b) The reporting organization transfers significant resources to the other organization, whose resources are held for the benefit of the reporting organization;

c) The other organization is required to perform significant functions on behalf of the reporting organization that are integral to the reporting organization's achieving its objectives; or

d) The reporting organization guarantees significant liabilities of the other organization.

11.4. In determining if an economic interest in another organization exists, the reporting organization would consider whether the other organization is required to transfer resources to or perform significant functions for the reporting organization. For example, externally imposed restrictions on the other organization's resources could create an economic interest. However, a funding relationship where the other organization is not obliged to provide resources to the reporting organization may not be considered to be an economic interest. Similarly, a situation where another organization holds fund raising events from time to time for the benefit of the reporting organization may not result in an economic interest.

Relationships with funding bodies

11.5. Government and other organizations that provide resources to Not-for-Profit organizations may have some influence over such organizations by virtue of the fact that funding may be withdrawn if the funder disagrees with the funded organization's strategic policies.

Disclosure of Economic Interest

11.6. When an organization has an economic interest in another Not-for-Profit organization the nature and extent of this interest should be disclosed.

11.7. Information about the nature and extent of an economic interest will help financial statement users assess the reporting organization's financial position by making them aware of resources from which that organization will benefit in the future and of the risks to which it may be exposed. If, for example, the economic interest takes the form of assets that will flow to the reporting organization, the amount of these assets and the purposes for which they are to be used would be disclosed. If the economic interest takes the form of an arrangement to solicit funds on behalf of the reporting organization, details of this arrangement would be disclosed. The extent to which the economic interest involves responsibility for the other organization's liabilities would also be disclosed.

11.8. Also to disclose the detail of parties who have decision making power and their economic interest in the transaction.

Section – 12 Related Parties Transactions

12.1. This Section establishes disclosure standards for related party transactions in the financial statements of Not-for-Profit Organizations. The measurement of related party transactions is not dealt with in this Section.

12.2. This Section does not apply to management compensation arrangements, including employee future benefits, expense allowances and other similar payments to individuals in the normal course of operations.

Identification of Related Parties

12.3. The most commonly encountered related parties of a reporting organization include the following:

a) an organization that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the reporting organization;
b) an individual who directly, or indirectly through one or more intermediaries, controls the reporting organization;
c) an organization that, directly or indirectly, is significantly influenced by the reporting organization or has significant influence over the reporting organization or is under common significant influence with the reporting organization;
d) the other organization when one organization has an economic interest in the other;
e) management: any person(s) having authority and responsibility for planning, directing and controlling the activities of the reporting organization. (Management would include the directors, officers and other persons fulfilling a senior management function.)
f) An individual that has either significant influence or joint control over the reporting organization;
g) members of the immediate family of individuals described in paragraphs (b), (e) and (f). (Immediate family comprises an individual's spouse and those dependent on either the individual or the individual's spouse.);
h) the other party, when a management contract or other management authority exists and the reporting organization is either the managing or managed party; and
i) any party that is subject to joint control by the reporting organization (In this instance a party subject to joint control is related to each of the venturers that share that joint control. However, the venturers themselves are not related to one another solely by virtue of sharing of joint control.).

12.4. The degree of influence which one party may exert on another is a major factor in determining whether they are related. In some cases, the degree of influence may be so remote that they need not be considered related. For example, two organizations may be unrelated even though one director serves on the Board of each; in such a case, the degree of influence exercised by the director over the strategic policies of each organization determines whether the organizations are related.

12.5. Management would make reasonable efforts to identify all related parties. Circumstances that might indicate the existence of related parties include abnormal terms of trade or transactions not normally entered into by the reporting organization. When management has identified circumstances indicating that the other party to a transaction may be related, management has a responsibility to ascertain whether that party is, indeed, related.

Disclosures

12.6. An organization should disclose the following information about its transactions with related parties:

a) a description of the relationship between the transacting parties;
b) a description of the transaction(s), including those for which no amount has been recorded;
c) the recorded amount of the transactions classified by financial statement category;
d) the measurement basis used for recognizing the transaction in the financial statements;
e) amounts due to or from related parties and the terms and conditions relating thereto;
f) contractual obligations with related parties, separate from other contractual obligations;
g) contingencies involving related parties, separate from other contingencies.
h) personal guarantees given by directors in respect of borrowings by the organization shall be disclosed in the notes to the financial statements
i) guarantees given by the organization on behalf of directors and other related parties should also be disclosed

12.7. Related party transactions may be entered into on the same terms as if the parties were unrelated, or they may be entered into on terms differing from those that might have prevailed if the parties had been unrelated to one another. Without disclosure of information about related party transactions, financial statement readers would be justified in assuming that the transactions reported in the financial statements took place at prices bargained with unrelated parties.

12.8. Information about related party transactions is often of more significance to a financial statement user than information about unrelated party transactions, regardless of the size of such transactions. When considering disclosure of related party transactions, the qualitative as well as the quantitative characteristics of materiality are considered.

Description of relationship

12.9. Terms such as affiliate, and related organization are insufficiently precise to describe relationships. With additional explanation, the effect of the related party relationship on the organization is more understandable. Terms such as controlled organization, significantly influenced organization, common control organization, organization in which the reporting organization has an economic interest, management, member of the immediate family of management, and director, describe the relationships better.

12.10. An explanation of how significant influence is exercised between the reporting organization and a related party clarifies the nature of their relationship. It is desirable for such an explanation to include, for example, the extent of representation on the board of directors of either party, or details of management contracts between the parties, depending upon the factor which establishes the relationship.

Description of transaction

12.11. A clear description of a related party transaction that sets out the significance of the transaction to the operations of the organization clarifies the effects of the transaction on the organization. Such a description includes information about the nature of the items exchanged.

12.12. A contribution or exchange of goods or services between related parties that has not been given accounting recognition, is also a related party transaction. For example, an organization may provide a related party with management services or the use of premises without receiving consideration in exchange. An explanation of the nature of such a transaction and the fact that no consideration has been received or paid is useful to explain the effect of the transaction on the organization.

Amount of transactions

12.13. To convey the extent of related party transactions, the recorded amounts of such transactions are disclosed. Disclosure of information aggregated by financial statement item (for example: contributions, purchases, administrative expenses, interest expense or income, and management fee income or expense) and nature of relationship is more useful than disclosure of individual transactions with related parties, except for individually significant transactions.

Measurement basis

12.14. Disclosure of the basis used to recognize related party transactions in the financial statements (for example, carrying amount, fair value at the date of contribution or nominal value) assists in evaluating the effect of related party transactions on the reporting organization.

Amounts due to or from related parties

12.15. When amounts are due to or from related parties, disclosure includes the relationship of the parties. It is desirable to disclose the nature of the transaction(s) giving rise to the balances.

Contractual obligations and contingencies

12.16. Contractual obligations and contingencies involving related parties may have different characteristics than those involving unrelated parties. Therefore, information about contractual obligations and contingencies involving related parties would be disclosed separately.

Disclosure of Chief Executive/Sponsors/Promoters Interests

12.17. The following shall be stated by way of a note, namely:__

(i) The aggregate amount charged in the financial statements in respect of the directors , chief executive, sponsors and promoters by the company as fees, remuneration, allowances, commission, perquisites or benefits or in any other form or manner and for any services rendered, and shall give full particulars of such aggregate amounts separately for the directors and chief executive together with the number of such directors, under appropriate heads, such as,
(a) fees;
(b) remuneration;
(c) commission or bonus, indicating the nature thereof;
(d) reimbursable expenses which are in the nature of a perquisite or benefit;
(e) pension, gratuities, company's contribution to provident, superannuation and other staff funds, compensation for loss of office and in connection with retirement from office;
(f) other perquisites and benefits in cash or in kind stating their nature and, where practicable, their approximate money values; and
(g) the amounts, if material, by which any items shown above are affected by any change in an accounting policy.

Section- 13 Disclosure of Allocated Expenses

This Section establishes disclosure standards for a Not-for-Profit organization that classifies its expenses by function and allocates its expenses to a number of functions to which the expenses relate.

13.1. This Section does not require organizations to classify their expenses by function or to undertake any allocations.

Attribution and allocation of expenses

13.2. Reporting expenses by function frequently requires an organization to attribute individual expenses among the functions to which they relate. Some expenses contribute to, or produce the output of, more than one function and are considered directly related to the output of each of those functions, for example, the remuneration of a staff person who works in more than one separately reported function. An organization also incurs expenses of a general support nature that, although necessary to perform its other functions, do not directly contribute to, or produce the output of, such functions.

13.3. When all of the expenses of a function have been accumulated within that function, an organization may wish to allocate some expenses from that function to another function when there is a clear relationship between those expenses and the other function. A common example is the allocation of certain specific fundraising and general support expenses to other functions to which they relate. As aggregate amounts reported for the fundraising and general support functions are often of particular significance to financial statement users, allocations involving these two functions are addressed by this Section.

13.4. Occasionally, fundraising expenses include amounts which are specifically directed at another function (for example, education). In determining whether any expenses included in the fundraising function might be allocated to another function, there must be a reasonable basis for making such an allocation, applied on a consistent basis.

13.5. General support expenses are incurred to support the variety of functions undertaken by the organization, including revenue generating functions, if any, such as fundraising. General support expenses include expenses of the administration or general office activities (for example, corporate governance, general management, payroll administration, budgeting and accounting, information technology, human resources, and financing).

13.6. General support expenses are either considered a function in their own right or are allocated on a reasonable and consistent basis to the relevant functions that they support.

Disclosure of allocated expenses

13.7. When allocations of fundraising and general support expenses have been made to other functions, the accounting policy disclosure should explain the policies adopted for the allocation of expenses among functions, the nature of the expenses being allocated and the basis on which such allocations have been made. In addition, the amounts allocated from each of these two functions, and the amounts and the functions to which they have been allocated, should be disclosed.

13.8. The results of operations of each function are important to users. However, additional scrutiny is often applied to the total cost of fundraising and the total cost of general support of Not-for-Profit organizations that receive funds from the public. Disclosure of allocations that have been made in the case of fundraising and general support expenses, including amounts, enhances a reader's ability to understand the effect of the allocations, and thus improves the ability to conduct comparisons among organizations' financial statements.

Attribution of expenses

13.9. When attributing an expense among various operating functions, an organization considers an approach such as the following:

a) An expense that contributes directly to the output of one function is applied directly to that function, for example, the cost of a staff member exclusively devoted to that function.
b) An expense that contributes directly to the output of more than one function is attributed on a reasonable and consistent basis to each function to which it applies (for example, the rent applicable to the space used for more than one separately reported function, and the remuneration expense of an executive director of a small health care organization who, in addition to managing the organization, provides direct health care services to clients of that organization).

Bases for attribution

13.10. The bases adopted for attribution are appropriate to the category of expense concerned and to the organization's particular circumstances.

13.11. There are a number of bases for attributing expenses that may be applied. Examples include:

a) time — on the basis of hours incurred directly in undertaking a function;
b) usage — on the basis of measured or estimated consumption attributable to the function;
c) per capita — on the basis of the number of people employed within a function; and
d) space — on the basis of floor area occupied by a function.

Section- 14 First time Adoption

Compliance Statement

14.1 An organization makes an unreserved and explicit statement of compliance with the Accounting standards for NPOs the first time when;

a) It did not present financial statements for previous periods, or
b) Presented its previous financial statements under requirements that are not consistent with Accounting Standards for NPOs, or
c) Presented its previous financial statements under full IRFS, IFRS for SMEs or Accounting Standards for SSEs, or
d) Presented its previous financial statements under Guidelines for NPO.

Disclosures

14.2 An organization shall in its opening balance sheet as of its date of transition (beginning of the earliest period presented in financial statements) to the Accounting Standards for NPOs:

a) Recognize all assets and liabilities whose recognition is required by the Accounting Standards for NPOs;
b) Not recognize items as assets or liabilities if the Accounting Standards for NPOs do not permit such recognition;
c) Reclassify items that it recognized under its previous financial reporting framework as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity under the Accounting Standards for NPOs; and
d) Apply the Accounting Standards for NPOs in measuring all recognized assets and liabilities.

The financial effect of above actions should be reflected in opening balance sheet by adjusting the amount of retained earnings as at the date of transition.

14.3 An organization shall disclose, in its financial statements using this Standard, comparative information in respect of the previous comparable period for all monetary amounts presented in the financial statements, as well as specified comparative narrative and descriptive information.

Reconciliation

14.4 A reconciliation to its surplus or deficit in accordance with Accounting Standards for NPOs for the latest period in the entity's most recent annual financial statements to the surplus or deficit that would have been in accordance with previous framework. The starting point for that reconciliation shall be surplus or deficit in accordance with previous framework for the same period.

DEFINITIONS

The following terms are used in this Section with the meanings specified:

- **Accounting policies** encompass the specific principles and the methods used in their application that are selected by an organization in preparing financial statements.
- A **contribution** is a non-reciprocal transfer to a Not-for-Profit organization of cash or other assets or a non-reciprocal settlement or cancellation of its liabilities. Government funding provided to a Not-for-Profit organization is considered to be a contribution.
- **Cost** is the amount of consideration given up to acquire, construct, develop, or better a tangible capital asset and includes all costs directly attributable to the acquisition, construction, development or betterment of the capital asset including installing it at the location and in the condition necessary for its intended use. For a contributed tangible capital asset, cost is considered to be fair value at the date of contribution.
- **Collections** are works of art, historical treasures or similar assets that are:
    - held for public exhibition, education or research;
    - protected, cared for and preserved; and
    - subject to an organizational policy that requires any proceeds from their sale to be used to acquire other items to be added to the collection or for the direct care of the existing collection.
- Under the **deferral method** of accounting for contributions, restricted contributions related to expenses of future periods are deferred and recognized as revenue in the period in which the related expenses are incurred. Endowment contributions are reported as direct increases in net assets. All other contributions are reported as revenue of the current period. Organizations that use fund accounting in their financial statements without following the restricted fund method would account for contributions under the deferral method.
- **Deemed cost** is an amount used as a surrogate for cost or depreciated cost at a given date.
- An **endowment fund** is a self-balancing set of accounts which reports the accumulation of endowment contributions. Only endowment contributions and investment income subject to restrictions stipulating that it be added to the principal amount of the endowment fund would be reported as revenue of the endowment fund. Allocations of resources to the endowment fund that result from the imposition of internal restrictions are recorded as interfund transfers.
- An **endowment contribution** is a type of restricted contribution subject to externally imposed stipulations specifying that the resources contributed be maintained permanently, although the constituent assets may change from time to time.
- An **economic interest** in another Not-for-Profit organization exists if:
    - the other organization holds resources that must be used to produce revenue or provide services for the reporting organization; or
    - the reporting organization is responsible for the liabilities of the other organization.
- **Fair value** is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties **in an arm's length transaction**
- **Fund accounting** comprises the collective accounting procedures resulting in a self-balancing set of accounts for each fund established by legal, contractual or voluntary actions of an organization. Elements of a fund can include assets, liabilities, net assets, revenues and expenses (and gains and losses, where appropriate). Fund accounting involves an accounting segregation, although not necessarily a physical segregation, of resources.
- A **general fund** is a self-balancing set of accounts which reports all unrestricted revenue and restricted contributions for which no corresponding restricted fund is presented. The fund balance represents net assets that are not subject to externally imposed restrictions.
- **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.
- **Net carrying amount** of a tangible capital asset is cost less both accumulated amortization and the amount of any write-downs.
- **Not-for-profit organizations** are organizations, normally without transferable ownership interests, organized and operated exclusively for social, educational, professional, religious, health, charitable or any other Not-for-Profit purpose. A Not-for-Profit organization's members, contributors and other resource providers do not, in such capacity, receive any financial return directly from the organization.
- An **opening statement of financial position** is an organization's statement of financial position at the date of transition to accounting guidelines for Not-for-profit organizations.
- **Restrictions** are stipulations imposed that specify how resources must be used. External restrictions are imposed from outside the organization, usually by the contributor of the resources. Internal restrictions are imposed in a

formal manner by the organization itself, usually by resolution of the Institute of directors. Restrictions on contributions may only be externally imposed. Net assets or fund balances may be internally or externally restricted. Internally restricted net assets or fund balances are often referred to as reserves or appropriations.

- A **restricted contribution** is a contribution subject to externally imposed stipulations that specify the purpose for which the contributed asset is to be used. A contribution restricted for the purchase of a capital asset or a contribution of the capital asset itself is a type of restricted contribution.
- A **restricted fund** is a self-balancing set of accounts the elements of which are restricted or relate to the use of restricted resources. Only restricted contributions, other than endowment contributions, and other externally restricted revenue would be reported as revenue in a restricted fund. Allocations of resources that result from the imposition of internal restrictions are recorded as interfund transfers to the restricted fund.
- The **restricted fund method** of accounting for contributions is a specialized type of fund accounting that involves the reporting of details of financial statement elements by fund in such a way that the organization reports total general funds, one or more restricted funds, and an endowment fund, if applicable. Reporting of financial statement elements segregated on a basis other than that of use restrictions (for example, by program or geographic location) does not constitute the restricted fund method.
- **Residual value** is the estimated net realizable value of a tangible capital asset at the end of its useful life to an organization.
- **Related parties** exist when one party has the ability to exercise, directly or indirectly, control, joint control or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or common significant influence. Two Not-for-Profit organizations are related parties if one has an economic interest in the other. Related parties also include management and immediate family members.
- A **related party transaction** is a transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party, regardless of whether any consideration is exchanged. The parties to the transaction are related prior to the transaction. When the relationship arises as a result of the transaction, the transaction is not one between related parties.
- **Service potential** is used to describe the service capacity or output of a tangible capital asset and is normally determined by reference to attributes such as useful life, associated operating costs, physical output capacity and quality of output.
- **Significant influence** over an organization is the ability to affect the strategic operating, and financing policies of the organization.
- **Subsequent depreciation** or amortization assumes that the organization had initially recognized the asset or liability at the given date and that its cost was equal to the deemed cost.
- **Tangible capital assets** are identifiable tangible assets that meet all of the following criteria:
- are held for use in the provision of services, for administrative purposes, for production of goods or for the maintenance, repair, development or construction of other tangible capital assets;
    - have been acquired, constructed or developed with the intention of being used on a continuing basis;
    - are not intended for sale in the ordinary course of operations; and
    - are not held as part of a collection.
- An **unrestricted contribution** is a contribution that is neither a restricted contribution nor an endowment contribution
- **Useful life** is the estimate of the period over which a tangible capital asset is expected to be used by an organization or the number of production or similar units that can be obtained from the capital asset by the organization. The life of a tangible capital asset may extend beyond its useful life to an organization. The life of a tangible capital asset is normally the shortest of the physical, technological and legal life.