Chapter II
Statement of Financial Position

11. Financial Position

The elements directly related to the measurement of financial position are assets, liabilities and fund balance. These are defined as follows:

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

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

c) Fund Balance is the residual interest in the assets of the non-profit organization after deducting all its liabilities.

Financial Statement reflects the financial position of the entire non-profit organizations as one unit. It shall indicate the content and amount of the net assets. Depending on the nature and needs of the non-profit organization, separate columns for each unique purpose operations and revenue divisions and assets can be displayed in the statement of financial position to distribute the net asset value of each column.

12. Creating value of financial position

12.1 Recognition of assets and liabilities

An item that meets the definition of an element should be recognized if:

a) It is probable that any future economic benefit associated with the item will flow to or from the non-profit organization; and

b) The item has a cost or value that can be measured with reliability.

12.2 Current and non-current assets

Since the end of the last fiscal year if the assets is expected to be realized or liquidated within a year that will be classified as current assets; otherwise, it is classified as non-current assets. Current assets and non-current assets are then divided as follows:

a) Current Assets: Working Capital: Cash and Bank, Inventories, Receivables, Advance;

b) Non-Current Assets: Investments, Tangible Assets, Intangible Assets, Other Non-Current Assets;

c) Debt: Since the end of the last fiscal year if the debt is expected to be liquidated within a year that will be classified as current liabilities; otherwise, it is classified as non-current liabilities.

12.3 Assets and liabilities items are presented in Financial Statement ranking from liquidity or current and non-current classification.

12.4 Assets and liabilities are not presented net in the Financial Statement.

13. Current assets

An asset should be classified as a current asset when it is (a) expected to be realized in, or held for sale or consumption in, the normal course of the NPO's operating cycle; or (b) held primarily for trading purposes or for the short term, and is expected to be realized within 12 months after the reporting period; or (c) Cash or (d) where operating cycle cannot be calculated, the standard 12 months as generally accepted operating cycle will be used for classification of current assets. All other assets should be classified as non-current assets.

a) Current assets include cash and cash equivalents, short-term investments, accounts receivable, prepaid expenses, accrued income, receivables, and advances.

b) Accounts Receivable: Allowance for doubtful accounts for accounts receivable is displayed on the Statement of Financial Position as a deduction from the assets.

14. Inventories

Inventories are assets held for sale in the ordinary course of operation; assets in the process of production sale in ordinary course of operating (finished goods) and materials and supplies that are consumed in the production process or in the rendering of services.

14.1 Measurement of inventories

An entity shall measure inventories at the lower of cost or net realizable value. Net Realisable Value (NRV) is the estimated selling price in the ordinary course of operating, less the estimated cost of completion and necessary to make sales. Any write down to NRV should be recognised as expense in the period in which the reversal occurs.

14.2 Cost of inventories

An entity shall include the cost of inventories all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Costs of purchase

14.3 The costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities) and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.

14.4 An entity may purchase inventories on deferred settlement terms. In some cases, the arrangement effectively contains an unstated financing element, for example, a difference between the purchase price for normal credit terms and the deferred settlement amount. In these cases, the difference is recognised as interest expense over the period of the financing and is not added to the cost of the inventories.

14.5 An entity shall include other costs in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition.

14.6 An entity shall not include abnormal waste, storage cost, administrative overheads related to production, selling cost, foreign exchange differences arising directly on the recent acquisition of inventories invoiced in a foreign currency and interest cost when inventories are purchased with deferred settlement term.

Cost formulas

14.7 An entity shall measure the cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects by using specific identification of their individual costs.

14.8 An entity shall measure the cost of inventories by using the first-in, first-out (FIFO) or weighted average cost formula. An entity shall use the same cost formula for all inventories having a similar nature and use to the entity. For inventories with a different nature or use, different cost formulas may be justified. The last-in, first-out method (LIFO) is not permitted by this Standard.

Items are on occasion received as a donation by an NPO for distribution to beneficiaries or for sale with the proceeds being used for the benefit of such beneficiaries. Such items donated and held as at the Statement of Financial Position should be measured at fair value.

14.9 Cost of inventories of a service provider

To the extent that service providers have inventories, they measure them at the costs of their production. These costs consist primarily of the labour and other costs of personnel directly engaged in providing the service, including supervisory personnel and attributable overheads. Labour and other costs relating to sales and general administrative personnel are not included but are recognised as expenses in the period in which they are incurred. The cost of inventories of a service provider does not include profit margins or non-attributable overheads that are often factored into prices charged by service providers.

15. Investments

15.1 Investments in financial assets such as shares, government bonds; debenture etc. should be recorded initially at cost. Such assets should be re measured at lower of cost or net realizable value at the reporting date.

15.2 Investment in property are properties that are held to earn rentals or for capital appreciations. Investment in property should be measured initially at cost. For subsequent measurement an entity must adopt the cost model as its accounting policy for all investment properties.

Under the cost model, investment property is measured at cost less accumulated depreciation and any accumulated impairment losses. Fair value is disclosed.

Gains and losses on disposal are recognised in Income and Expenditure.

16. Property, plant & equipment

16.1 Land

The accounting treatment of land acquired through different modes will be as follows:

a. Land acquired through purchase

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

In the case of land acquired under a scheme of compulsory acquisition, in the event that there is a dispute between the NPO and the previous owner whose land has been acquired, with regard to the rate of compensation, in determining the cost of land for purpose of the financial statements, an appropriate allowance shall also be included for the additional compensation that may become payable, provided the following conditions are satisfied.

(i) The payment of additional compensation is probable, and

(ii) The amount so payable can be reasonably estimated.

b. Land acquired free of cost

Land is sometimes provided by the government to the NPO free of cost. Land may also be provided by individuals or institutions through an endowment for specific purposes like construction of schools, for construction of parks and similar common facilities, etc. The cost of such land to NPOs is zero. In substance, such land received is a non-monetary grant and, accordingly both grant and asset shall be accounted for at the fair value.

Any incidental cost of acquisition such as registration charges shall be added to the above.

c. Vested government land

Such land is neither owned by the NPO nor do the economic benefits from the use of such land flow to the NPO. The ownership remains with the government and the NPO merely acts as a trustee in respect of such land. Such land shall therefore not be considered as an asset of the NPO. However, disclosure relating to same is to be made clearly.

16.2 Property, plant and equipment

a. Property, plant and equipment that is received directly as donations or endowments should be recognized as property, plant and equipment at fair value and a corresponding amount should be recognized as deferred income account. Such items should thereafter be depreciated while a corresponding amount could be transferred from the deferred income to the Statement of Income & Expenditure.

b. Where property plant and equipment is purchased as a part of a project through restricted funds which initially written off as project cost with corresponding income, if on conclusion of the project, the asset is not handed over to the beneficiary or returned to the original donor, the asset is valued at fair value on the conclusion of the project and brought into the financial statements under property plant and equipment with corresponding credit to a deferred income. Depreciation provided on such assets will be charged against such deferred income. For the purpose of depreciation, the date of valuation for inclusion in the financial statements is considered the date of purchase.

c. An item of property, plant or equipment purchased should initially be measured at its cost. The cost of an item of property, plant or equipment comprises its purchase price, including import duties and non-refundable purchase taxes, and any directly attributable costs of bringing the asset to working condition for its intended use. Any trade discounts and rebates are deducted when arriving at the purchase price.

d. The depreciable amount (cost less expected proceeds from disposal) of an item of property, plant or equipment should be allocated on a systematic basis over its useful.

e. If an item of property, plant or equipment becomes impaired, in that it is unlikely to generate cash flows to absorb the carrying amount of the item over its useful life, its carrying value should be reduced to the cash flows to be recovered from the asset. Cash flows need not be discounted and could come from either the disposal value of the asset or from its continuing use. Indicators of impairment would include a significant decline in market values or obsolescence.

17. Tangible assets

a) Tangible assets are the assets which are used to produce goods or provide services, or an asset that has physical substance held for use or rent to others. It refers to assets that are expected to last for more than a year.

b) Tangible assets include land, building, structures, machinery, vehicles and include the assets under construction.

c) Accumulated depreciation and accumulated impairment of assets is shown in the statement of financial position as a deduction from the assets of each item.

d) In the case of disposal or disposition of assets, such assets are removed from the balance sheet (Statement of Financial Position) and recognize the difference between the disposal amount and the carrying amount of tangible assets as the gain or loss on disposal.

18. Intangible assets

a) Intangible assets are the assets used to produce goods or to provide services, and which are without physical substance held for use or are leased to others.

b) Intangible assets include intellectual property, development expenses, computer software, mining rights, and leases.

c) Intangible assets are shown in the statement of financial position as at the balance net of direct acquisition costs less accumulated amortization and accumulated impairment losses.

d) In case of the disposal of intangible assets, such assets are removed from the balance sheet (the statement of financial position) and recognize the difference between the disposal amount and the carrying amount of intangible assets as the gain or loss on disposal.

19. Other non-current assets

Other non-current assets include investments, tangible assets that do not belong to the intangible assets. Other non-current assets include leasehold properties, long-term prepaid expenses, and long-term receivables.

20. Floating debts and current liabilities

A liability should be classified as a current liability when it is: (a) expected to be settled in the normal course of the entity's operating cycle; or where operating cycle is not determination, standard 12 months would be considered as operating cycle and (b) Due to be settled within 12 months after the reporting period. All other liabilities should be classified as non-current liabilities.

Floating debt is the debt which is expected to terminate within one year. Current liabilities are short-term borrowings, trade payables, accrued expenses, accounts payable, advances, unearned revenue, deposit etc. It will also include current portion of long-term debt.

21. Non-current liabilities

Non-current liabilities refer to all liabilities except current liabilities. Non-current liabilities include long-term debt, security deposit; it will also include accrued severance benefits. With respect to defined benefit pension plan, NPO has to recognize the related plan assets and accrued severance benefits (plan liabilities) and should make necessary provision as per actuarial valuation to meet the liability of defined benefit plan as at the end of the relevant accounting period.

22. Accumulated fund and reserve

a. Unrestricted fund

Many NPOs have resources, which are available for the general purposes of the NPOs as set out in its governing document. This is the "unrestricted" or "general" fund of NPOs. Income generated from assets held in an unrestricted fund will be unrestricted income.

The NPOs governing body may earmark part of the NPOs unrestricted funds to be used for particular purposes in the future. Since the governing body has the power, at a future date, to re-designate such funds within unrestricted funds, they should be described as "designated funds" and, consequently, be accounted for as part of the NPOs unrestricted funds.

Unrestricted fund is equivalent to the NPOs own capital, and should be presented separately from restricted funds in the financial statements. However, in the case of projects that have been completed, any surplus remaining in restricted funds, if permitted by the relevant contract or agreement, may also be transferred for inclusion in the unrestricted fund.

b. Restricted fund

Nearly all NPOs hold funds that can be applied only for particular purposes within their overall objectives. These purposes are often imposed by donors (whether it be the Government or other donors) and contained in an agreement or may be self-imposed through announcements made during the course of a fund raising campaign, the media or other similar form of communication. Funds held for such specified usage are restricted funds and have to be separately accounted for in the financial statements. Income that is generated from assets held in a restricted fund will normally be subject to the same restriction as the original fund, unless the terms that imposed the original restriction specifically say otherwise.

A different form of a restricted fund is an "endowment", which is held on trust to be retained for the benefit of the organization as a capital fund. Such funds cannot normally be spent as if it were income to the organization. The income earned from such capital may, however, be utilized for restricted or other purposes of the organization. In some instances, the governing body may have a power of discretion to convert endowed capital into income within the acceptable legal framework. In such an event, and if such power be exercised, the relevant funds become restricted income or unrestricted income, dependent upon whether the governing body, within its discretion permits the funds to be expended for any of the purposes of the NPO, or only for the specific purpose. As a restricted fund, the endowment fund should, in any event, be separately accounted for in the financial statements.

*Restricted fund*s, also called "*Unspent Grant",* represent a part of Restricted Net Assets in NPOs.

c. Accumulated fund

This is the fund held by a nonprofit-making organization to which a surplus of income over expenditure is credited and to which any deficit is debited. The value of the accumulated funds can be calculated at any time by valuing the net assets (i.e. assets less liabilities) of the organization. The accumulated fund is the equivalent of the capital of a profit making organization".

However, although NPOs do not have ownership interests or profit in the same sense as commercial entities, they do nonetheless need a concept of capital maintenance, or its equivalent, to reflect "the relation between inflows and outflows of resources during a period". An organization may, during any period, draw upon resources received in past periods and still unutilized or set aside resources for use in future periods.

Maintenance of the accumulated fund of an NPO is based on the maintenance of its financial capital. An NPO's capital has been maintained if the financial value of its net assets at the end of a period equals or exceeds the financial value of its net assets at the beginning of the period.

If an NPO fails to maintain its accumulated fund, its ability to continue to provide services will dwindle and affect its ability to service future beneficiaries. Future resource providers may need to make up the deficiency, unless the organization has the ability to generate income, e.g. by fundraising, in order to avoid such decline.

Restricted funds constitute an important part of the accumulated fund of an NPO. It is therefore important to distinguish between the restricted accumulated fund and the general accumulated fund.

NPO is required to present the Statement of Change in Reserve covering all types of the reserves.

23. Net assets without restrictions

Net assets without restrictions from the donors include the assets created from unrestricted subsidy or grants from the donors.

24. Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When measuring fair value, an asset is acquired or a liability is assumed in an exchange transaction for that asset or liability, the transaction price is the price paid to acquire the asset or received to assume the liability (an entry price). In contrast, the fair value of the asset or liability is the price that would be received to sell the asset or paid to transfer the liability (an exit price). Entities do not necessarily sell assets at the prices paid to acquire them. Similarly, entities do not necessarily transfer liabilities at the prices received to assume them. As a result, an entity's intention to hold an asset or to settle or otherwise fulfill a liability is not relevant when measuring fair value.