Chapter III
Statement of Income and Expenditure

25. Statement of income expenditure

a) The purpose of the Statement of Income and Expenditure is to reflect the impact and correlation of events and transactions that result in changes in net assets; it will provide useful information about the use of resources for the various activities and services.

b) Statement of Income and Expenditure portrays an integrated result of the entire non-profit organizations as one unit of financial statements. But, depending on the nature and needs of the non-profit organization separate columns for each unique purpose operation and revenue divisions the Statement of Income & Expenditure can be prepared in a way that distributes the amounts of revenue and expenses for each column.

26. Standards of statement of income and expenditure

Statement of Income and Expenditure indicate the fair value accounting of all revenues and all costs and other net assets belonging to a corresponding increase or decrease during the period.

27. Business profits

a) Business Profits refers to the increase in net assets arising as a result of recurring revenue business and business-specific purposes incidental thereto.

b) Business revenues are displayed, separated by a unique purpose business revenues and business profits.

c) Unique business objectives earnings contribution revenues to reflect the characteristics of the non-profit sector organizations, grant revenue, fee income, tuition revenue, are shown separately.

d) Profit business revenue if it deems not required to reflect in more detailed classification, the non-profit organization may disclose information in notes.

e) Interest income and dividend income arising from investments should be shown separately.

28. Revenue recognition and measurement:

28.1 Restricted and unrestricted revenue:

NPOs should distinguish between (a) *restricted* revenue, and (b) *unrestricted* revenue and each should be measured at the fair value of the consideration received or receivable. Different approaches are used for the recognition of (a) restricted and (b) unrestricted revenue.

a. Restricted revenue

Restricted contributions are not gratuitous. They are based on agreements, contracts, or other understanding, where the conditions for receipt of the funds are linked to a performance, of a service or other process. The NPO earns the contribution through compliance with the conditions that have been laid down and meeting the envisaged obligations. Revenue should not therefore be recognized until there is reasonable assurance that the contribution will be received, and the conditions stipulated for its receipt have been complied with.

Subject to the above restricted contributions when recognized in the Statement of Income & Expenditure that must be matched against the related costs, which they are intended to compensate on a systematic basis. Effectively, such contributions should be recognized only to the extent that the NPO has provided the relevant services or performance.

On receiving any restricted contributions, e.g. as a bank deposit, the contribution should be recognized to the restricted fund account in the Statement of Financial Position and corresponding effect in the bank account. Thereafter, on a systematic basis, (e.g. at the end of each month), an amount equivalent to that which has been spent on agreed "restricted" activities during the month, should be taken to income, by debiting the restricted fund account in the Statement of Financial Position and crediting restricted Income account.

By following this procedure, the net result of restricted Income and direct project expenses of any particular transaction in the Statement of Income & Expenditure will normally be zero ("0"). Any amount in excess of or less than zero would therefore, reflect results from other captions, e.g. unrestricted income or expenses not linked to project activities, or any surplus remaining in a restricted fund, provided that the donor has permitted such surplus to be transferred as unrestricted revenue.

b. Unrestricted revenue

Revenue that arises from general unrestricted resources has characteristics similar to revenue in entities and should be treated accordingly. It should only be recognized when the amount of revenue can be measured reliably, or when it is probable that the economic benefits associated with the transaction will flow to the NPO. That is, at the time when no significant uncertainty exists with regard to the amount of the consideration that will be derived from, for example, membership fees, sundry donations, consultancy fees, sale of goods or other sources of unrestricted income.

The Statement of Income & Expenditure is designed to include all the gains and losses of an NPO, which would be found in the Statement of Income and Expenditure of an organization.

28.2 Donation/grant is recognized as revenue when the actual donation is received in cash or in kind.

28.3 Donation received in-kind should be measured at fair value.

28.4 Even if the actual fee to be paid is not received, force recognizes revenue when the recovery becomes certain.

28.5 Restricted grants are to be recognized as revenue when the defined conditionality is met. Such contributions shall be recognized as an increase in net assets that is not recognized as revenue unless the defined conditions are met.

29. Revenue recognition of government grants

If there is no restriction on the use of the government subsidies or grants, such grants/ subsidies are recognized as income on its receipt. If there are restrictions on the use of the government subsidies or grants it shall be recognized as an increase in net assets not as revenue till the conditions are met.

30. Business expenses

a) Business expenses refer to a reduction in net assets arising as a result of recurring revenue business and business-specific purposes incidental thereto.

b) Project costs will be identified separately as unique purpose business expenses and revenue.

c) Unique business functional cost shall be classified by nature.

d) Unique purpose of business functional expenses shall be classified as describes in the following subparagraphs:

  (i) Cost of doing business: The cost incurred to achieve the original purpose or mission of the non-profit organization. That is the cost of the activities that provide goods or services.

  (ii) General and Administrative Expenses: This cost include the costs and expenses incurred in raising overall management activities that include fundraising expenses incurred to organize fundraising event, donors list management etc.

  (iii) It should distinguish the unique purpose of project costs by nature from other General Administrative Costs like personnel cost, bonus, retirement benefit, training cost etc. Facility cost that include the cost of land used in the operation of non-profit organizations, building, structures, depreciation and amortization, costs associated with vehicles, rent, maintenance costs etc.

e) The purpose is to show the unique business expense costs separately and divide by nature for the cost of each segment as analytical information as a disclosure.

31. Common cost allocation

If any cost item is related to more than one activities and allocation of costs is required between the activities. In this case it should be applied consistently to establish a reasonable allocation basis according to the operating nature and method of operation of non-profit organizations as follows:

a) Personnel costs shall be allocated on the basis of their time by the relevant personnel committed to each activity.

b) Facility costs (if the facilities area and frequency of use associated with each activity can be distinguished) are allocated directly depending on the area and frequency of use basis. Otherwise it can be divided based on the other suitable distribution method.

c) Other cost items usually proportional to each activity by personnel costs and facility costs are allocated in accordance with those standards or shall apply other appropriate allocation criteria.

32. Business income

a) Business Income refers to a non-profit business profits.

b) Business Income includes interest income, dividend income, profits and gains from the disposal of investment, assets revaluation, reversal of impairment of intangible assets, gains from the disposal of intangible assets, etc.

33. Business expenses

Business expenses are interest expenses, loss on valuation of investments and loss on disposal of intangible assets, impairment loss, loss on disposal of intangible assets etc.

34. Income tax expense

a) Usually the not for profit organization are tax exempt. If not exempted, incidence of tax should be disclosed as current taxes for the income tax pertaining to the reporting period and wherever deferred tax implication may arise deferred tax assets/ liability and deferred tax income/expense should be recognized and disclosed.

b) Current tax should be charged directly to the relevant fund account, if the tax relates to items that are credited or charged, in the same or a different period, directly to such a fund account.

c) The tax expense (income) should be presented on the face of the Statement of Income & Expenditure.

d) Where an entity is entitled to tax exemption, the disclosure of such fact is to be made as explanatory notes appropriately. Where an exemption is available, deferred tax is not calculated and considered at all.

35. Foreign currency translation

Generally foreign currency monetary assets (cash, bank, investment, other assets and liabilities except PPE and reserves) would be translated initially at exchange rate prevalent on date of initially recognition and recording (the exchange rate to be applied will be banker buying rates). The transactional difference will be recognized as exchange difference arising on transaction date. At the end of reporting period, the monetary assets or liability held in foreign currency other than under reporting currency will be revalued by applying the exchange rate as considered (to be applied consistently the rate considered) and difference would be recognized as exchange difference revaluation gain or loss which is charged to the Statement of Income & Expenditure.