GUIDELINE
FOR ACCOUNTING AND FINANCIAL REPORTING BY NON-GOVERNMENT ORGANISATIONS (NGOs)/ NON-PROFIT ORGANISATIONS (NPOs)

The Institute of Chartered Accountants of Pakistan

CONTENTS

	Sections	Page #
Executive Summary	-	1
Introduction	1	2
Framework for the Preparation and Presentation of Financial Statements	2	4
Objective	3	12
How to use this Guideline	4	13
Scope	5	14
Application of International Accounting Standards (IAS)/ International Financial Reporting Standards (IFRS)	6	15
Glossary of Terms	7	111

Executive Summary

Guidelines are recommendations to help and to promote sound financial systems and financial stability, locally as well as globally. They play an important role in strengthening financial development and in reducing vulnerability of financial statements to various creative accounting practices adopted in different industries. Guidelines vary in scope and range from broad principles to specific accounting and financial reporting methodologies.

The Guideline for Accounting and Financial Reporting by Non-Governmental/Not-for-Profit Organisations (NGOs/NPOs) has been developed in order to promote transparency, accountability and to develop, disseminate and promote implementation of better accounting standards and best practices for NGOs/NPOs. In developing this Guideline, the Institute has considered the '**SAFA Standard and Guideline for NPOs (including NGOs)**'.

The specific objectives of developing this Guideline also include:

- development of a high quality, understandable and enforceable Guideline suitable for NGOs/NPOs in Pakistan,
- reduction of the financial reporting burden on NGOs/NPOs meeting the needs of the various users of the NGOs/NPOs financial statements.

The following aspects have been considered in developing the Guideline:

- it shall be recommendatory for NGOs/NPOs particularly for those for whom no accounting framework has been prescribed;
- it shall not be applicable on NGOs/NPOs engaged in Microfinance;
- ensure that it is inline with the International Accounting Standards/ International Financial Reporting Standards;
- recognition of transactions in a manner that would be readily understood by the various user groups;
- corresponding to the understanding of the transaction provision of the least cumbersome method of achieving the desired accounting treatment or disclosure for a NGOs/NPOs that is not complex provision of guidance;
- that is expected to be widely relevant to the transactions of NGOs/NPOs which are written in terms that can be understood by such entities ensuring that the measurement methods prescribed in the Guideline are reasonably practical for NGOs/NPOs.

1. Introduction

A General

1.1 All over the world, Not-for-Profit Organisations (NPOs) play an important role in the socio-economic process of the countries in which they operate. This is true not only in developing countries, but also in developed countries.

1.2 NPOs in the South Asian Region are no exception. These organisations are important players in both the social and political spheres.

1.3 In recent years there has been a substantial expansion of NPO presence in the Region. A considerable sum of funds, received from both national and international sources is handled by these NPOs.

B Legal Framework

1.4 The magnitude of the funds channeled through these organisations creates considerable responsibility in terms of follow up, monitoring and accountability. Transparency thus becomes an important issue. It is claimed that the statutory and regulatory environment is vague in the countries in this Region. Clear guidelines need to be provided to these organisations on how to conduct their affairs, including accounting and reporting. It is also acknowledged however, that extensive regulation is not necessarily fruitful, and that "too much" regulation might turn out to be equally as bad as "too little", considering the important role that these organisations play within society at large. This Guideline for NGOs/NPOs has been designed within this broader framework.

C Research and Studies Performed within and outside the Region

1.5 Many research papers have been prepared across the world with regard to the accounting and reporting by NPOs. Information has been drawn from the following publications in Sri Lanka, India and the United Kingdom in formulating this Recommended Practice:

- a general study by Mr. Udan Fernando, of the Amsterdam Research Institute for Global Issues and Development Studies (2002/2003) on NGOs and their trends;
- "Technical Guide on Accounting and Auditing in Not-for-Profit Organisations" issued by the Research Committee of the Institute of Chartered Accountants of India (2003); and
- "Accounting and Reporting by Charities: Statement of Recommended Practice (Revised 2005)" applicable to all charities in the UK.

1.6 Although the International Accounting Standards Board (IASB) has not taken up the issue of improving the quality of financial statements and increased accountability of NPOs, attempts have been made in some countries towards harmonising accounting practices and presentation.

1.7 In the United Kingdom, the Charities Commission through the Accounting Standards Board has issued a Statement of Recommended Practice (Revised 2005) on "Accounting and Reporting by Charities". The Statement, applicable from 1st April 2005, sets out recommendations on the way in which a charity should report annually on resources entrusted to it and the activities that it undertakes.

1.8 In the United States of America an effort has been made to address these issues. The Financial Accounting Standards Board (FASB) has issued several Financial Accounting Standards (FAS) applicable to NPOs and the most relevant are the "Financial Statements of Not-for-Profit Organisations" (FAS 117) and "Contributions" (FAS 116).

1.9 More relevant to the Region is the work carried out by the Institute of Chartered Accountants of India (ICAI). Their Research Committee issued in 2003 a *"Technical Guide on Accounting and Auditing in Not-for-Profit Organizations" (NPOs),* published by Dr. Avinash Chander, Technical Director, ICAI (referred to hereafter as the "technical guide").

1.10 The technical guide recognises NPOs as one of the major players in the socio-economic progress of the country. It identifies voluntary organisations as the “independent sector” or the “third sector”; the first sector being the “Government” and the second sector being the “market” or “private business”.

1.11 The Foreword refers to the large amounts of funds received by NPOs from various national and international donor agencies, and points out that many of these amounts are required to be utilised for specified purposes. It is therefore imperative that NPOs are made more accountable for their actions, since the funds received are for the purpose of public welfare. It further states that many NPOs follow non-accrual basis of accounting and that their accounting practices are generally driven by the requirements of tax and other laws.

1.12 The technical guide focuses on a need for the accounting and financial reporting framework for presentation of true and fair view of the state of affairs and the operating result of the activities in the financial statements. The framework presents existing accounting practices which lack uniformity in presentation of financial statements, a lack of awareness on the applicability of accounting standards, the adoption of different bases of accounting and the influence of tax and other laws. It further presents objectives for financial reporting and lists their users and the information needs of such users.

1.13 It also discusses salient features and principal requirements of various accounting standards issued by the Institute of Chartered Accountants of India, and the applicability of each of those accounting standards to NPOs. It is concluded that although the Accounting Standards were meant only for activities of commercial, industrial or business nature, the Accounting Standards contain wholesome principles of accounting. Therefore, these principles provide the most appropriate guidance even in case of those organizations to which Accounting Standards do not apply. Thus, it is recommended that all NPOs, irrespective of the fact that no part of the activities is commercial, industrial or business in nature, should follow accounting standards issued by the Institute. It is added that certain terms, however, may need to be modified in the context of the corresponding appropriate terms for NPOs. “Profit”, for example, needs to be modified, since the term is not suitable in the NPO context.

1.14 The guide further presents the prevailing Indian legal framework, and discusses the problems relating to the measuring of performance in an NPO. Due to the absence of a measurement of profit, performance measurement in NPOs is relatively difficult. Some advice on how to address these problems is also presented. It further discusses issues like organisational objectives, diversity in activities and sizes, voluntarism, funding, various types of funds, donor requirements, long-term sustainability and non-transferable ownership.

2. Framework for the Preparation and Presentation of Financial Statements Key NPO Elements and Concepts Definition of an NPO (Not-for-Profit Organisations)

2.1 Not-for-Profit Organisations (NPOs) are also often referred to as “Development Organisations”, “Private Voluntary Organisations”, “Civil Society Organisations” “Non Governmental Organisations”, “Non-Profit Organisations”, “Charities” and other similar terms. The requirement to register under a statute may apply to all charities and humanitarian agencies. They can also be registered under section 42 of the Companies Ordinance 1984.

2.2 This Guideline has drawn on the following definition provided by the World Bank for the phrase Civil Society, for the application of its contents:

“The World Bank uses the term Civil Society to refer to the wide array of non-governmental and non-profit organisations that have a presence in public life, expressing the interests and values of their members or others, based on ethical, cultural, political, scientific, religious or philanthropic considerations. Civil Society Organisations (CSOs) therefore refer to a wide array of organisations: community groups, non-governmental organisations (NGOs), labour unions, indigenous groups, charitable organisation, faith-based organisations, professional associations, and foundations”.

2.3 The common salient features of the vast variety of NPOs to which this Guideline would apply are:

- They are voluntary organisations, either local (to a particular area), national or international;
- They have formulated specific objective(s) to the benefit of the general society, a particular vulnerable group of the society, or to particular identified interest or target groups;
- Their objectives are not profit oriented, unlike that of business entities;
- Profit may be generated in an NPO, but since there are no ownership interests, it is not distributed to those providing the resources;
- They solicit and receive financial support for promotion of the organisation’s objective(s) or purpose, either from individuals (or groups of individuals) in society, corporate entities, governmental entities, international organisations or agencies of sovereign states;
- Financial dispositions are made for the purpose of promoting the objective(s) of the organization.

B. Donations/Contributions, Grants

2.4 Donations and/or contributions from donor organisations or individuals, and government grants constitute an important part of NPO resources. An obligation, for example to deliver or perform specified service or work, is often attached to these contributions, and in such an event should be regarded as part of “restricted funds”.

Donations/contributions from individuals or institutions create:

- a moral obligation, by which ever way it is received;
- a legal obligation to use the funds for what it was solicited; and
- Restricted Funds, where usage is specified.

2.5 An obligating event is a legal obligation, which for example derives from a contract that results in an enterprise having no alternative but to settle or meet that obligation.

2.6 A contribution (donation or grant) should not be recognised as an incoming resource, until there is reasonable assurance that the contribution will be received, and where relevant that

the organisation has or will comply with the condition(s) attached to it. Receipt of the funds does not by itself provide conclusive evidence that the conditions attached to the contribution have been or will be fulfilled. Until the conditions have been fulfilled, the contribution should be regarded as part of Restricted Funds.

Donor Agreements

2.7 Most NPOs enter into formal agreements or contracts with donors, thereby committing themselves to deliver/perform service/work to be financed by the respective donors. The agreement or contract will provide a detailed description of what, where and when specified activities are to take place. A corresponding budget and a list of terms and conditions, including for example reporting requirements, almost always constitute an essential part of the agreement entered into. In addition to audited Financial Statements, a Variance Report, comparing actual expenditure with the approved budget, together with a corresponding narrative Progress Report, covering the same activity and period as the Variance Report, are also often demanded. These reports, therefore, often constitute an essential part of the requirements spelled out in the agreement between a donor and the NPO. These reports when read in conjunction with the financial statements often provide a useful tool to the donor in assessing the degree of completion of the activity, and to determine whether or not agreed objectives and conditions are being achieved.

2.8 Restrictions, or obligations, are attached not only to those funds provided by large donor agencies, but also in many cases to contributions from individuals. In a fundraising campaign, for example, where the NPO may look to the public to raise funds for a specific cause, even while there may be no written agreements, there is a clear understanding between the parties. There is, consequently, a moral obligation to utilise the funds as announced during the campaign, and the funds raised should, therefore, be regarded as restricted.

2.9 Funds received as donations without any direct request being made, or without any defined terms and conditions being laid down with regard to utilisation, are unrestricted. In such circumstances, there will be an unwritten agreement, that the funds will be utilised within the objectives of the NPO.

2.10 In this same context, there must also be clear transparency in how much of the funds received are being used to meet the general administrative and other central office costs of the NPO.

Restricted Funds

2.11 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 fundraising 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.

2.12 A different form of a restricted fund is an "endowment", which is held on trust to be retained for the benefit of the organisation as a capital fund. Such funds cannot normally be spent as if it were income to the organisation. The income earned from such capital may, however, be utilised for restricted or other purposes of the organisation. In some instances the governing body may have a power of discretion to convert endowed capital into income. 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.

Unrestricted Funds

2.13 Many NPOs have resources, which are available for the general purposes of the NPOs as set

out in its governing document. This is the NPOs "unrestricted" or "general" fund. Income generated from assets held in an unrestricted fund will be unrestricted income.

2.14 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.

C. Accumulated Fund

2.15 The Oxford Dictionary of Accounting defines Accumulated Fund as "A fund held by a non-profit-making organisation 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 organisation. The accumulated fund is the equivalent of the capital of a profit making organisation".

2.16 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 organisation may, during any period, draw upon resources received in past periods and still unutilised, or set aside resources for use in future periods.

2.17 Maintenance of the accumulated fund of an NPO is based on the maintenance of its financial capital.

An NPO's capital has been 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.

2.18 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 organisation has the ability to generate income, e.g. by fundraising, in order to avoid such decline.

2.19 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.

D. Governing Body

2.20 The governing body of an NPO is similar to the board of directors of a company. However, in the case of an NPO this may be referred to as the Board of Governors or Council of Members or some other suitable name.

E. Users and their Information Need

2.21 Financial statements of NPOs are used by different persons (statutory or corporate bodies, other NPOs or individuals) for different purposes, and their information requirements vary considerably. Unlike in the corporate sector, NPOs have neither owners nor investors. The most common groups of users of NPO financial statement are the resource providers or contributors (i.e. the different categories of donors), beneficiaries (different target groups), suppliers/creditors, employees and the authorities. Some NPOs have members who represent an essential group of users. Others might have partner organisations with whom they co-operate, and who will be important users of the financial statements.

2.22 Some examples of Information required by different users are listed below:

Members

- Are the funds utilised in conformity with given guidelines?
- Is the NPO run according to given governing rules (By-laws or similar)?
- What is the underlying statute or regulation and are such regulations being met?

Resource Provider

- Is the NPO qualified to achieve agreed beneficiary objectives? Does the NPO demonstrate sound stewardship?
- Is the NPO run efficiently and effectively?
- Is the NPO accountable – should support be extended or continued?
- Are the funds utilised as agreed and within the identified mandate of the NPO?
- Does the NPO adhere to agreed restrictions/requirements?
- Does the NPO have the structure and/or the capacity to implement the projects as agreed?

Beneficiaries

- Does the NPO provide support/services according to given guidelines?
- Does the NPO possess the ability to provide future support/services?
- Do the systems work as expected?

Suppliers/Creditors

- Is the NPO credible?
- Is it able to settle its debts by the due date?

Employees

- Is the NPO a safe, secure working place?
- Is the NPO able to pay timely salary and other agreed benefits?
- Is the NPO financially able to carry out its objectives and provide the service as has been indicated.

Authorities

- Do the NPOs comply with applicable statutory and legal requirements? (registration /tax/ report requirements etc.)?
- Should NPO activities be made subject to further regulation?
- Is there transparency in its activities and in the utilisation of resources?

Partners

- Are available funds utilised as agreed, in conformity with applicable ` objectives/guidelines?

F. Qualitative Characteristics of Financial Statements

2.23 Qualitative characteristics are the attributes that make the information provided in the financial statements useful to users. The four principal qualitative characteristics are understandability, relevance, reliability and comparability. These are discussed more fully in the following paragraphs.

Understandability

2.24 Information provided by the financial statements should be easily understandable. However, information that might be complex but relevant should not be excluded merely on the grounds that it may be too difficult for some users to understand.

Relevance

2.25 Information must be relevant to the decision-making needs of users. Information has the quality of relevance when it influences, in normal circumstances the economic decisions and

in the case of NPO's the socio economic decision of users, by helping them evaluate past, present or future events or confirming or correcting their past evaluations. The relevance of information is judged by its nature and materiality.

Materiality

2.26 In some cases, the nature of information alone is sufficient to determine its relevance. Information is material, if its omission or misstatement could influence any economic or socio economic decisions taken on the basis of the financial statements.

Reliability

2.27 Information must be reliable if it is to be useful. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent or could reasonably be expected to represent.

Completeness

2.28 If information is to be reliable it 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.

Prudence

2.29 Events and circumstances are inevitably surrounded by uncertainties, which should be recognised in the disclosure of their nature and extent, and by the exercise of prudence in the preparation of the financial statements. Prudence is exercised by the inclusion of a degree of caution when a judgment is needed in making the estimates required under conditions of uncertainty, such that assets or income and liabilities or expenses are not overstated or understated.

Neutrality

2.30 Information provided in financial statements must be neutral, (that is, free from bias), if it is to be reliable. Financial statements are not neutral, if the information presented, seeks to unduly influence the decision or judgment to be made, in order to achieve a predetermined result or outcome. An example would be the manipulation of information for the purpose of convincing donors to provide funds.

Faithful Representation

2.31 Information provided must also portray faithfully the transactions and other events that it either purports to represent or could reasonably be expected to represent. Most financial information is subject to some risk of being less than a faithful representation of that which it purports to portray. This is due to inherent difficulties either in identifying the transactions and other events to be measured, or in devising and applying measurement and presentation techniques that can convey correctly the messages that correspond with those transactions and events.

Substance over Form

2.32 If information provided is to correctly portray the transactions and other events that it purports to represent, it is necessary that they are accounted for and presented in accordance with their substance and economic reality and not merely their legal form.

Comparability

2.33 The measurement and display of the financial effect of similar transactions and other events must be consistent throughout any accounting period and over the tenure of the NPO,

2.34 Accounting policies employed in the preparation of the financial statements, any changes in those policies and the effects of such changes must be disclosed in the financial statements.

2.35 It is not appropriate for an enterprise to continue to account for a transaction or other event in the same manner, if the policy adopted is not keeping with the qualitative characteristics of relevance and reliability. It is also inappropriate to continue, without change, existing accounting policies when more relevant and reliable alternatives exist.

2.36 Users may wish to compare the financial position, performance and changes in financial position of the NPO over time. It is therefore important that the financial statements show corresponding information for the preceding periods.

Constraints on Relevant and Reliable Information

Timeliness

2.37 Management needs to balance the relative merits of timely reporting and the provision of reliable information. Any undue delay in the reporting of information could cause it to lose its relevance. In achieving a balance between relevance and reliability, the overriding consideration is how best to satisfy the economic decision-making needs of users.

Balance between Benefit and Cost

2.38 The benefits derived from information should exceed the cost of providing it. The evaluation of benefits against costs is, however, substantially a judgmental process. Furthermore, particularly in the case of NPOs the costs do not usually fall to the account of those users who directly enjoy the benefits.

Balance between Qualitative Characteristics

2.39 An appropriate balance should be achieved between the qualitative characteristics in order to meet the ultimate objective of the financial statements.

True and Fair View

2.40 The financial statements should present a true and fair view of the results for the period and of the state of affairs at the end of the period. Where there is doubt that the application of any of the provisions of the Guideline would give a true and fair view, adequate explanation should be given in the notes to the accounts of the transaction or arrangement concerned, and the treatment adopted.

2.41 In extremely rare circumstances, if management should conclude that compliance with a requirement in this Guideline would be misleading, and that departure from a requirement is therefore necessary to achieve a fair presentation of the financial statements, the NPO should include in the notes to the accounts, a statement, explaining why the treatment prescribed would not give a true and fair view, and disclose a description of the alternative treatment actually adopted.

G. Underlying Assumptions Going Concern

2.42 Financial statements are normally prepared on the assumption that an enterprise is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the NPO has neither the intention nor the need to liquidate or curtail materially the scale of its operations. In the event that such an intention or need exists, or for example, the NPO was formed solely to carry out a specific objective and on the conclusion of such activity will be liquidated, the financial statements may have to be prepared on a different basis and, if so, the basis used must be disclosed.

Accrual Basis

2.43 Financial statements are prepared on the accrual basis of accounting in order to meet their objectives. On this basis, the effects of transactions and other events are recognised as and when they occur (and not at the point that cash or its equivalent is received or paid). The transaction is entered in the accounting records and reported in the financial statements for

the periods to which they relate. Financial statements prepared on the accrual basis provide information to users, not only of past transactions involving the payment and receipt of cash, but also of obligations to pay cash in the future and of resources that represent cash to be received in the future. This type of information would be of relevance to users in making socio economic decisions.

H. Financial Position

2.44 The financial position of an entity is its assets, liabilities and equity at a point in time. The elements of financial statements directly related to the measurement of financial position are assets, liabilities and equity. These are defined as follows:

(a) An asset is a resource controlled by the entity 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 entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

(c) Equity is the residual interest in the assets of the entity after deducting all its liabilities.

I. Recognition of the elements of financial statements

2.45 Recognition is the process of incorporating in the balance sheet or income statement an item that meets the definition of an element and satisfies the following criteria:

(a) it is probable that any future economic benefit associated with the item will flow to or from the entity; and

(b) the item has a cost or value that can be measured reliably.

2.46 The failure to recognise an item that satisfies these criteria is not rectified by disclosure of the accounting policies used or by notes or explanatory material.

J. Recognition in financial statements

Assets

2.47 An entity shall recognise an asset in the balance sheet when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably. An asset is not recognised in the balance sheet when expenditure has been incurred for which it is considered improbable that economic benefits will flow to the entity beyond the current reporting period. Instead such a transaction results in the recognition of an expense in the income statement.

Liabilities

2.48 An entity shall recognise a liability in the balance sheet when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the settlement amount can be measured reliably.

Income

2.49 The recognition of income results directly from the recognition of assets and liabilities. An entity shall recognise income in the income statement when an increase in future economic benefits related to an increase in an asset or a decrease of a liability has arisen that can be measured reliably.

Expenses

2.50 The recognition of expenses results directly from the recognition and measurement of assets and liabilities. An entity shall recognise expenses in the income statement when a decrease in

future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.

Profit or loss

2.51 Profit or loss is the arithmetical difference between income and expenses. It is not a separate element of financial statements, and a separate recognition principle is not needed for it.

2.52 This Guideline does not allow the recognition of items in the balance sheet that do not meet the definition of assets or of liabilities regardless of whether they result from applying the notion commonly referred to as the 'matching concept'.

3. Objective

3.1 The objective in publishing this Guideline is to assist those who are responsible for the preparation of the financial statements, to improve the quality of financial reporting by NPOs, thereby providing adequate information to the users of the financial statements. The intention is also to reduce the diversity that currently exists as among NPOs in accounting practice and presentation. In all but exceptional circumstances, NPOs should follow this Guideline in order that their accounts provide a true and fair view of the state of affairs of their organisations.

3.2 Financial statements also show the results of the stewardship of management, and/or the accountability for resources entrusted to the management. Those users who wish to assess the stewardship or accountability of management do so in order that they may make economic decisions on, for example, whether or not to finance activities to be carried out by the NPO.

3.3 Financial statements meet common needs of most users. However, since the statements do not necessarily provide non-financial information, they do not contain all the information that users may need to make economic decisions.

4. How to use this Guideline for NGOs

4.1 All parts of this Guideline will apply to all or nearly all NPOs, which prepare accrual-based accounts. However, NPOs do not have to comply with those sections, which do not apply to them. For example, the recommendations on how to account for gifts in kind and the proceeds of trading activities will not apply to all NPOs. NPOs that do not receive any income from those sources may safely ignore the sections dealing with such matters and any other sections, which do not apply to the activities of their own NPO.

4.2 The main text of the Guideline 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. Sections 6.18, 6.19 and 6.20 respectively attempt to explain the additional or optional requirements for:

- Consolidated and Separate Financial Statements Investments in Associates
- Interests in Joint Ventures

4.3 The disclosure requirements have been separately identified throughout the Guideline for NGOs. Generally, NPOs are excused from a particular disclosure requirement only where the item in question is not relevant.

4.4 The main obligation of the management of NPOs in the preparation of accruals based accounts is to give a true and fair view of the incoming resources and application of resources of the NPO during the year and of its state of affairs as at the end of the year. To achieve this, the management may decide to disclose more information than is specifically listed in this Guideline for NGOs. Similarly, the management may occasionally find that compliance with a particular section of the Guideline would be incompatible with the obligation to present a true and fair view. They should then use the alternative accounting treatment, which provides a true and fair view and provide particulars of any material departure from this Guideline within the notes on accounting policy. A departure from the Guideline is not justified simply because it provides the reader with a more appealing picture of the financial position or results of the NPO.

5. Scope

5.1 This Guideline is intended to apply to all NPOs, regardless of their size, constitution or complexity except for those NGOs/NPOs engaged in Microfinance. It provides the basis for the preparation of accrual accounts to give a true and fair view.

5.2 Each standard included in this Guideline should be considered in the context of its relevance and what is material to any particular NPO.

5.3 Where necessary, this Guideline should be adapted to meet:

- Any statutory requirements relating to the form and content of accounts; and
- To the extent that the following exceed statutory requirements:
    - any requirements imposed by the NPOs own governing documents (e.g. By-laws or similar); and/or
    - any requirements imposed by agreements or contracts that may have been entered into, (e.g. donor agreements/contracts).

5.4 This Guideline recognises the requirements of the International Accounting Standards/IFRS with regard to recognition and measurement, while adapting them to meet with the accounting and reporting needs of the NPO sector.

5.5 Certain Accounting Standards have not been considered in the compiling of this Guideline as not being relevant to this sector. These include those relating to: Revenue Recognition and Disclosures in the Financial Statements of Banks, Business Combinations, Earnings per share, Financial Instruments and Impairment of Assets.

5.6 Since IAS 36: Impairment of Assets and IFRS 3: Business Combinations have not been considered in this document. Provisions in these two standards that require consequential changes in IAS 38: Intangible Assets have not been incorporated herein. The provisions in this Guideline are based on IAS: 38 (July 1999 version).

5.7 The new IAS 39: Financial Instruments: Recognition and Measurement, IAS 32: Financial Instruments: Presentation and IFRS 7: Financial Instruments: Disclosure together introduce provisions relating to derivatives and hedging, while also replacing IAS 25: Accounting for Investments. For purpose of clarity and for simplicity in application this Guideline has been based solely on IAS 25 with regard to the Accounting for investments.

6. Application of International Accounting Standards (IASs)/International Financial Reporting Standards (IFRSs)

The following International Accounting Standards (IASs)/International Financial Reporting Standards (IFRSs) have been identified as being relevant to Non-for-Profit Organisations. The requirements of these IASs have been considered and amended to suit the operations and transactions of these organisations. The relevant International Accounting Standards are as indicated in the following table.

6.1	Presentation of Financial Statements	IAS 1
6.2	Inventories	IAS 2
6.3	Cash flow Statement	IAS 7
6.4	Accounting Policies, Changes in Accounting Estimates & Errors	IAS 8
6.5	Events after the Balance Sheet Date	IAS 10
6.6	Construction Contracts	IAS 11
6.7	Income Taxes	IAS 12
6.8	Segment Reporting	IAS 14
6.9	Property, Plant & Equipment	IAS 16
6.10	Leases	IAS 17
6.11	Revenue	IAS 18
6.12	Employee Benefits	IAS 19
6.13	Accounting for Government Grants and Disclosure of Government Assistance	IAS 20
6.14	The Effects of Changes in Foreign Exchange Rates	IAS 21
6.15	Borrowing Costs	IAS 23
6.16	Related Party Disclosures	IAS 24
6.17	Accounting for Investments	IAS 25
6.18	Consolidated and Separate Financial Statements	IAS 27
6.19	Investments in Associates	IAS 28
6.20	Interests in Joint Ventures	IAS 31
6.21	Interim Financial Reporting	IAS 34
6.22	Provisions, Contingent Liabilities and Contingent Assets	IAS 37
6.23	Intangible Assets	IAS 38
6.24	Non-current Assets held for Sale and Discontinued Operations	IFRS 5
6.25	Investment Property	IAS 40

6.1 Presentation of Financial Statements

Definitions

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

Impracticable Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.

Material Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

Notes contain information in addition to that presented in the balance sheet, statement of financial activities, statement of changes in accumulated fund and cash flow statement. Notes provide narrative descriptions or desegregations of items disclosed in those statements and information about items that do not qualify for recognition in those statements.

Fair Presentation and Compliance with International Accounting/Financial Reporting Standards

6.1.2 Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. The application of IASs/ IFRSs, or this Standard for NGOs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.

6.1.3 An entity whose financial statements comply with this Guideline as relevant shall make an explicit and unreserved statement of such compliance in the notes. Financial statements shall not be described as complying with IASs/ IFRSs, or this Standard for NGOs, unless they comply with all the requirements of International Accounting Standards or this Guideline as relevant.

Materiality and Aggregation

6.1.4 Each material class of similar items shall be presented separately in the financial statements. Items of a dissimilar nature or function shall be presented separately unless they are immaterial.

6.1.5 Financial statements result from processing large numbers of transactions or other events that are aggregated into classes according to their nature or function. The final stage in the process of aggregation and classification is the presentation of condensed and classified data, which form line items on the face of the balance sheet, statement of financial activities, statement of changes in accumulated fund and cash flow statement, or in the notes. If a line item is not individually material, it is aggregated with other items either on the face of those statements or in the notes. An item that is not sufficiently material to warrant separate presentation on the face of those statements may nevertheless be sufficiently material for it to be presented separately in the notes.

6.1.6 Applying the concept of materiality means that a specific disclosure requirement in this Guideline need not be satisfied if the information is not material.

Offsetting

6.1.7 Assets and liabilities, and income and expenses, shall not be offset unless required or permitted by this Guideline for NGOs.

6.1.8 It is important that assets and liabilities, and income and expenses, are reported separately. Offsetting in the statement of financial activities or the balance sheet, except when offsetting

reflects the substance of the transaction or other event, detracts from the ability of users both to understand the transactions, other events and conditions that have occurred and to assess the entity's future cash flows. Measuring assets net of valuation allowances - e.g., obsolescence allowances on inventories and doubtful debts allowances on receivables is not offsetting.

Comparative Information

6.1.9 Except when Guideline permits or requires otherwise, comparative information shall be disclosed in respect of the previous period for all amounts reported in the financial statements. Comparative information shall be included for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.

6.1.10 In some cases, narrative information provided in the financial statements for the previous period(s) continues to be relevant in the current period. For example, details of a legal dispute, the outcome of which was uncertain at the last balance sheet date and is yet to be resolved, are disclosed in the current period. Users benefit from information that the uncertainty existed at the last balance sheet date, and about the steps that have been taken during the current period to resolve the uncertainty.

6.1.11 When the presentation or classification of items in the financial statements is amended, comparative amounts shall be reclassified unless the reclassification is impracticable. When comparative amounts are reclassified, an entity shall disclose:

- the nature of the reclassification;
- the amount of each item or class of items that is reclassified; and
- the reason for the reclassification.

6.1.12 When it is impracticable to reclassify comparative amounts, an entity shall disclose:

- the reason for not reclassifying the amounts; and
- the nature of the adjustments that would have been made if the amounts had been reclassified.
- Identification of the Financial Statements

6.1.13 The financial statements shall be identified clearly and distinguished from other information in the same published document.

6.1.14 IASs/ IFRSs and this Guideline apply to financial statements and to other information presented in an annual report or other document. Therefore, it is important that users be able to distinguish information that is prepared using IASs/IFRSs or this Guideline from other information that may be useful to users but is not the subject of those requirements.

6.1.15 Each component of the financial statements shall be identified clearly. In addition, the following information shall be displayed prominently, and repeated when it is necessary for a proper understanding of the information presented:

- the name of the reporting entity or other means of identification, and any change in that information from the preceding balance sheet date;
- whether the financial statements cover the individual entity or a group of entities;
- the balance sheet date or the period covered by the financial statements, whichever is appropriate to that component of the financial statements;
- the presentation currency, as defined in section 6.14 - The Effects of Changes in Foreign Exchange Rates; and
- the level of rounding used in presenting amounts in the financial statements.

6.1.16 The requirements in paragraph 6.1.13 are normally met by presenting page headings and abbreviated column headings on each page of the financial statements. Judgment is required in determining the best way of presenting such information. For example, when the financial statements are presented electronically, separate pages are not always used; the above

items are then presented frequently enough to ensure a proper understanding of the information included in the financial statements.

6.1.17 Financial statements are often made more understandable by presenting information in thousands or millions of units of the presentation currency. This is acceptable as long as the level of rounding in presentation is disclosed and material information is not omitted.

Reporting Period

6.1.18 Financial statements shall be presented at least annually. When an entity's balance sheet date changes and the annual financial statements are presented for a period longer or shorter than one year, an entity shall disclose, in addition to the period covered by the financial statements:

- the reason for using a longer or shorter period; and
- the fact that comparative amounts for the statement of financial activities, statement of changes in accumulated fund, cash flow statement and related notes are not entirely comparable.

6.1.19 Normally, financial statements are consistently prepared covering a one-year period. However, for practical reasons, some entities prefer to report, for example, for a 52-week period. This Guideline does not preclude this practice, because the resulting financial statements are unlikely to be materially different from those that would be presented for one year.

The Elements of Financial Statements

Components of the Financial Statements

6.1.20 A complete set of financial statements of an NPO will include:

a) statement of financial activities (consolidated)/ income and expenditure account
b) balance sheet / statement of affairs
c) statement of changes in accumulated fund
d) cash flow statement; and
e) accounting policies and explanatory notes.

6.1.21 As part of the explanatory notes to the financial statements, NPOs may also include supplementary schedules and information based on or derived from, and expected to be read with, such statements. Financial statements would not, however, normally include such items as reports by the governing body/management, statements by the chairman, discussion and analysis by management and similar items that may be included in a financial or annual report of a corporate entity, unless required by the relevant Donor Agreements (re paragraph 2.8).

Balance Sheet

General

6.1.22 The objectives of the balance sheet is to show the resources available to the NPO, whether these are freely available or whether they have to be used for specific purposes because of legal restrictions on their use. It may also show which of these resources, if any, the governing body has designated for specific future use.

6.1.23 The balance sheet should also reflect the status of affairs of the NPO as at the balance sheet date.

Assets and Liabilities

6.1.24 The balance sheet provides a snapshot of the organisation's assets and liabilities as at the end of its accounting year (fiscal year), and how the assets are split between the different types of funds.

6.1.25 The assets and liabilities of an NPO have characteristics that are similar to those of a business entity. The elements of assets and liabilities are defined as follows:

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

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

Measurement and Recognition

6.1.26 Donated assets, including non-monetary contributions at fair value, should be presented in the balance sheet either by setting up the grant as deferred income, or by deducting the grant in arriving at the carrying value of the assets.

Disclosure

6.1.27 The following should be disclosed:

a) Accounting policy adopted for assets, and, if material, liabilities.

b) If there exists an asset, which is not included in the balance sheet, details must be provided in the notes to the accounts. As a minimum, the explanatory notes must contain information about the type of the asset and its location, whether the asset has been donated, year of acquisition, cost and estimated value and depreciation provided from year of purchase.

c) Where any asset has been contributed or acquired from resources provided by a donor for and in the course of a specific project, and ownership is transferred on the conclusion of the project, these assets must be disclosed as a note to the accounts with the same information as if it had been purchased by the NPO in the normal course of business and depreciated as per the policy of the organisation.

d) For assets acquired more than 5 years prior to the introduction of this Guideline, an estimated value needs to be brought in.

e) Contingent liabilities are not included in the balance sheet. Details must be provided in the notes to the accounts. As a minimum, explanatory notes must contain information about the nature and obligations pertaining to the liability.

Accumulated Fund

Unrestricted Fund (Capital)

6.1.28 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.

Restricted Fund

6.1.29 Restricted funds, also called "Unspent Grant", represent a part of Restricted Net Assets in NPOs.

Measurement and Recognition

6.1.30 Restricted funds should be presented in the balance sheet at the time of receipt, - that is, when received as cash or deposited to the bank account - or at the time when there is reasonable assurance that it will be received.

Disclosure

6.1.31 The following should be disclosed:

- the accounting policy adopted for restricted funds and unrestricted funds, including the methods of presentation in the financial statements;
- the nature and extent of restricted contributions recognised in the financial statements, and an indication of other forms of assistance from which the organisation has directly benefited; and
- unfulfilled conditions and contingencies attaching to assistance that has been recognised.

Current/Non-current Distinction

6.1.32 An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its balance sheet in accordance with paragraphs 6.1.34 – 6.1.44 except when a presentation based on liquidity, provides information that is reliable and is more relevant. When that exception applies, all assets and liabilities shall be presented broadly in order of liquidity.

6.1.33 Whichever method of presentation is adopted, for each asset and liability line item that combines amounts expected to be recovered or settled (a) no more than twelve months after the balance sheet date and (b) more than twelve months after the balance sheet date, an entity shall disclose the amount expected to be recovered or settled after more than twelve months.

Current and Non Current Assets

6.1.34 An asset shall be classified as current when it satisfies any of the following criteria:

a) it is expected to be realised in, or is intended for sale or consumption in, the entity's normal activity cycle; or
b) it is expected to be realised within twelve months after the balance sheet date; or
c) it is cash or a cash equivalent (as defined in section 6.3 of this Guideline for NGOs) unless it is restricted from being exchanged for goods or services or from being used to settle a liability for at least twelve months after the balance sheet date.

All other assets shall be classified as non-current.

6.1.35 This Guideline uses the term 'non-current' to include tangible, intangible and financial assets of a long-term nature. It does not prohibit the use of alternative descriptions as long as the meaning is clear.

6.1.36 The activity cycle of an entity is the time between the commencement of an activity in the normal course of operations of the entity and its conclusion. When the entity's normal activity cycle is not clearly identifiable, its duration is assumed to be twelve months. Current assets include assets (such as inventories and trade receivables) that are consumed or realised as part of the normal activity cycle even when they are not expected to be consumed within twelve months after the balance sheet date. Current assets also include the current portion of non-current financial assets.

Current and Non Current Liabilities

6.1.37 A liability shall be classified as current when it satisfies any of the following criteria:

a) it is expected to be settled in the entity's normal activity cycle;
b) it is due to be settled within twelve months after the balance sheet date; or
c) the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

All other liabilities shall be classified as non-current.

6.1.38 Some current liabilities, such as trade payables and some accruals for employee and other operating costs, are part of the working capital used in the entity's normal activity cycle. Such operating items are classified as current liabilities even if they are due to be settled more than twelve months after the balance sheet date. The same normal operating cycle applies to the classification of an entity's assets and liabilities. When the entity's normal activity cycle is not clearly identifiable, its duration is assumed to be twelve months.

6.1.39 Other current liabilities are not settled as part of the normal activity cycle, but are due for settlement within twelve months after the balance sheet date or held primarily for the purpose of being traded. Examples are financial liabilities classified as held for trading, bank overdrafts, and the current portion of non-current financial liabilities, income taxes and other non-trade payables. Financial liabilities that provide financing on a long-term basis (i.e. are not part of the working capital used in the entity's normal operating cycle) and are not due for settlement within twelve months after the balance sheet date are non-current liabilities, subject to paragraphs 6.1.42 and 6.1.43.

6.1.40 An entity classifies its financial liabilities as current when they are due to be settled within twelve months after the balance sheet date, even if:

a) the original term was for a period longer than twelve months; and
b) an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the balance sheet date and before the financial statements are authorised for issue.

6.1.41 If an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the balance sheet date under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period.

6.1.42 When an entity breaches an undertaking under a loan or grant agreement on or before the balance sheet date with the effect that the loan or grant needs to be repaid on demand the liability is classified as current, unless the donor has agreed, after the balance sheet date and before the authorisation of the financial statements for issue, not to demand payment as a consequence of the breach. The liability is classified as current because, at the balance sheet date, the entity does not have an unconditional right to defer its settlement for at least twelve months after that date.

6.1.43 However, the liability is classified as non-current if the lender agreed by the balance sheet date to provide a period of grace ending at least twelve months after the balance sheet date, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.

6.1.44 In respect of loans classified as current liabilities, if the following events occur between the balance sheet date and the date the financial statements are authorised for issue, those events qualify for disclosure as non-adjusting events in accordance with section 6.5 of this Guideline - Events after the Balance Sheet Date:

a) refinancing on a long-term basis;
b) rectification of a breach of a long-term loan agreement; and
c) the receipt from the lender of a period of grace to rectify a breach of a long-term loan agreement ending at least twelve months after the balance sheet date.

Information to be presented on the face of the Balance Sheet

6.1.45 As a minimum, the face of the balance sheet shall include line items that present the following:

(i) property, plant and equipment;
(ii) investment property;
(iii) intangible assets;
(iv) financial assets (excluding amounts shown under (v), (viii) and (ix)); investments accounted for using the equity method;
(v) biological assets;

(vi) inventories;
(vii) trade and other receivables;
(viii) cash and cash equivalents;
(ix) trade and other payables;
(x) provisions;
(xi) financial liabilities (excluding amounts shown under (x) and (xi));
(xii) liabilities and assets for current tax, as defined in section 6.7 of this Guideline - Income Taxes;
(xiii) deferred tax liabilities and deferred tax assets, as defined in section 6.7 of this Guideline;
(xiv) the balances lying in the accumulated fund attributable to both restricted and unrestricted funds.

6.1.46 The face of the balance sheet shall also include line items that present the following amounts:

a) the total of assets classified as held for sale and assets included in disposal groups classified as held for sale in accordance with section 6.24 of this Guideline - Non-current Assets Held for Sale and Discontinued Operations; and

b) liabilities included in disposal groups classified as held for sale in accordance with section 6.24 of this Guideline.

6.1.47 Additional line items, headings and subtotals shall be presented on the face of the balance sheet when such presentation is relevant to an understanding of the entity's financial position.

6.1.48 When an entity presents current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its balance sheet, it shall not classify deferred tax assets (liabilities) as current assets (liabilities).

6.1.49 This Guideline does not prescribe the order or format in which items are to be presented. Paragraph 6.1.45 simply provides a list of items that are sufficiently different in nature or function to warrant separate presentation on the face of the balance sheet. In addition line items are included when the size, nature or function of an item or aggregation of similar items is such that separate presentation is relevant to an understanding of the entity's financial position.

6.1.50 The judgment on whether additional items are presented separately is based on an assessment of:

- the nature and liquidity of assets;
- the function of assets within the entity; and
- the amounts, nature and timing of liabilities.

Information to be presented either on the face of the Balance Sheet or in the Notes

6.1.51 An entity shall disclose, either on the face of the balance sheet or in the notes, further sub-classifications of the line items presented, classified in a manner appropriate to the entity's operations.

6.1.52 The details provided in sub classifications depend on the requirements of this Guideline and on the size, nature and function of the amounts involved. The factors set out in paragraph 6.1.50 also are used to decide the basis of sub-classification. The disclosures vary for each item. For example:

a) items of property, plant and equipment are disaggregated into classes in accordance with section 6.9 - Property, Plant and Equipment;
b) a separate note will provide the same information for property, plant and equipment received for or acquired through funding received as a grant for a specific project and not recognised in the balance sheet;
c) receivables are disaggregated into amounts receivable from related parties, prepayments and other amounts;
d) provisions are disaggregated into provisions for employee benefits and other items; and

e) accumulated fund is disaggregated into various classes, such as restricted funds, unrestricted funds and other surpluses.

6.1.53 An entity shall disclose for each category of accumulated fund available:

- the balance at the commencement of the period;
- changes during the period in each category of fund;
- the balance at the end of the period; and
- in respect of each of the restricted funds, any rights or restrictions attaching to the usage of each category of fund.

Statement of Financial Activities

General

6.1.54 The statement of financial activities is a single accounting statement with the objective of presenting all incoming resources and resources expended by the organisation during the year in respect of all of its funds.

6.1.55 It is designed to show how the NPO has used its resources during the relevant period, in furtherance of its objectives for the provision of benefit to its beneficiaries. It should show whether there has been a net inflow or outflow of resources, and provide a reconciliation of all movements in the organisation's funds. It should also provide an analysis of the NPOs incoming resources and resources expended during the year.

6.1.56 As a minimum requirement, the statement must distinguish between restricted and unrestricted income and between general administrative expenses, direct project expenses (including project related administrative expenses); and expenses incurred on the generation of funds.

Income and Expenses

6.1.57 Income and Expenses of an NPO have characteristics that are similar to those of business entities. The elements of Income and Expenses are defined as follows:

Income

Income comprises the increases in economic benefits during an accounting period in the form of inflows or enhancements in the value of assets or in a decrease in liabilities that results in an increase in the accumulated fund, other than those relating to contributions from donors or contributions to restricted funds that are unutilised at the end of the period.

Expenses

Expenses comprise the decrease in economic benefits during the accounting period in the form of outflows or depletions in the value of assets or incurrence of liabilities that result in a decrease in the accumulated fund.

6.1.58 Income and Expenses may be presented in the statement of financial activities/income and expenditure account in different ways so as to provide information that is relevant for socio-economic decision-making. For example, it is common practice to distinguish between those items of income and expenses that arise in the course of the ordinary activities of the NPO and those that do not. This distinction is made on the basis that the source of an item is relevant in evaluating the ability of the NPO to generate cash and cash equivalents for future disbursement. For example, incidental activities such as the disposal of a long-term investment are unlikely to recur on a regular basis. When distinguishing between items in this way consideration must also be given to the nature of the NPO and its operations.

Recognition of Revenue /Grants

6.1.59 NPOs should distinguish between *restricted* revenue and *unrestricted* revenue and each should be measured at the fair value of the consideration received or receivable.

6.1.60 Different approaches are used for the recognition of (a) restricted and (b) unrestricted revenue.

Restricted Revenue

6.1.61 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 recognised in the statement of financial activities, until there is reasonable assurance that the contribution will be received, and the conditions stipulated for its receipt have been complied with.

6.1.62 Subject to the above restricted contributions when recognised in the statement of financial activities must be matched against the related costs, which they are intended to compensate on a systematic basis. Effectively, such contributions should be recognised only to the extent that the NPO has provided the relevant services or performance.

6.1.63 On receiving any restricted contributions, e.g. as a bank deposit, the contribution should be credited to the restricted fund account in the balance sheet and debited to 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 balance sheet and crediting restricted Income account.

6.1.64 By following this procedure, the net result of restricted Income and direct project expenses of any particular transaction in the statement of financial activities 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.

Unrestricted Revenue

6.1.65 Revenue that arises from general unrestricted resources has characteristics similar to revenue in business entities and should be treated accordingly. It should only be recognised 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.

6.1.66 The statement of financial activities is designed to include all the gains and losses of an NPO, which would be found in the profit and loss account of a business organisation.

Disclosure

6.1.67 The following should be disclosed in the financial statements with regard to revenue/income and expenditure:

a) the accounting policy adopted for the recognition of restricted income, including the methodology used for presentation in the financial statements;
b) the nature and extent of restricted contributions recognised in the financial statements, and an indication of other forms of assistance from which the organisation has directly benefited; and
c) unfulfilled conditions and other contingencies attached to assistance that has been recognised in the financial statements/revenue statements.

Recognition of Costs/Expenditure

6.1.68 Costs and expenditure should be recognised as an expense, at historical cost, during the

period in which they are incurred, and not in a subsequent period.

6.1.69 Expenditure of an NPO is often linked to performance-based (restricted) contributions. Such expenditure should be recognised to the extent that the NPO or any other nominated recipient of the contribution has provided the specified service or work or incurred the specified expenditure.

Disclosure

6.1.70 As a minimum, the NPO should disclose:

a) the accounting policy adopted for recognition of expenditure; and

b) the nature of the expenses, distinguishing between general administrative expenses (i.e., expenses that are not project related) - and direct project expenses. If material, cost of generating funds should also be disclosed separately.

Income and Expenses for the Period

6.1.71 All items of income and expense recognised in a period shall be included in the statement of financial activities unless the Guideline permits or requires otherwise.

6.1.72 Normally, all items of income and expense recognised in a period are included in the statement of financial activities. This includes the effects of changes in accounting estimates. However, circumstances may exist when particular items may be excluded from the statement of financial activities for the current period. Section 6.4 of this Guideline deals with two such circumstances: the correction of errors and the effect of changes in accounting policies.

6.1.73 Other sections within this Guideline deal with items that may meet the Framework definitions of income or expense but are usually excluded from the statement of financial activities. Examples include revaluation surpluses (see section 6.9 of this Guideline), particular gains and losses arising on translating the financial statements of a foreign activity (see section 6.12 of this Guideline).

Information to be presented on the face of the Statement of Financial Activities

6.1.74 As a minimum, the face of the statement of financial activities shall include line items that present the following amounts for the period:

- incoming resources (funds received);
- project expenditure (categorised under specified headings)
- revenue general costs (categorised under specified headings) finance costs;
- share of the income from associates being the dividend received or the share of profit, or loss of associates accounted for using the equity method;
- tax expense;
- a single amount comprising the total of (a) the post-tax surplus or deficit of discontinued operations and (b) the post-tax gain or loss recognized on the proceeds of sale less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operations; and
- the net surplus or deficit for the period.

6.1.75 Additional line items, headings and subtotals shall be presented on the face of the statement of financial activities when such presentation is relevant to an understanding of the entity's financial performance.

6.1.76 An entity shall not present any items of income and expense as extraordinary items, either on the face of the statement of financial activities or in the notes.

Information to be presented either on the face of the Statement of Financial Activities or in the Notes

6.1.77 When items of income and expense are material, their nature and amount shall be disclosed separately.

6.1.78 Circumstances that would give rise to the separate disclosure of items of income and expense include:

- gain or loss on disposals of items of property, plant and equipment;
- gain or loss on disposals of investments;
- discontinuing operations;
- litigation settlements; and
- other reversals of provisions.

6.1.79 An entity shall present an analysis of expenses using a classification based on either the nature of expenses or their function within the entity, whichever provides information that is reliable and more relevant. The functions based method is recommended to NPOs as being the more reliable and relevant method.

6.1.80 Entities are encouraged to present the analysis in paragraph 6.1.79 on the face of the statement of financial activities.

6.1.81 The first form of analysis is the nature of expense method. Expenses are aggregated in the statement of financial activities according to their nature (e.g., depreciation, purchases of materials, transport costs, employee benefits and advertising costs), and are not reallocated among various functions within the entity. This method may be simple to apply because no allocations of expenses to functional classifications are necessary.

6.1.82 The second form of analysis is the function of expense or "cost of sales" method and classifies expenses according to their function as part of cost of sales or for activities. At a minimum an entity discloses its cost of sales under this method separately from other activities. This method can provide the relevant information to users but may require arbitrary allocation and considered judgment.

Statement of Changes in Accumulated Fund

6.1.83 An entity shall present a statement of changes in the accumulated fund showing on the face of the statement for each category of resources comprising restricted funds and unrestricted funds and the total thereof:

a) the opening and closing balance of the funding received;
b) additional funds received during the year and the total amount received;
c) the amounts transferred from the respective funds and charged to the statement of financial activities to meet expenses incurred during the period;
d) any surplus or deficit transferred from the statement of financial activities at the end of the period; and
e) the movements in any reserve or other account during the period that, for any item that as required by this Guideline are recognised directly in the accumulated fund.

6.1.84 Changes in the unrestricted funds in the accumulated fund between two balance sheet dates reflect the increase or decrease in its net assets during the period. The overall change in these funds during a period represents the total amount of income and expenses, including gains and losses, generated by the entity's restricted and unrestricted activities during that period (whether those items of income and expenses are recognised in the statement of financial activities or directly in the accumulated fund).

6.1.85 This section 6.1 of the Guideline requires all items of income and expense recognised in a period to be included in the statement of financial activities unless any another section in this Guideline requires otherwise. For example some gains and losses (such as revaluation

increases and decreases, and particular foreign exchange differences, are required to be recognised directly as changes in the accumulated fund. Because it is important to consider all items of income and expense in assessing changes in an entity's financial position between two balance sheet dates, this section 6.1 requires the presentation of a statement of changes in the accumulated fund that highlights an entity's total income and expenses, including those that are recognised directly in the accumulated fund.

Cash Flow Statement

6.1.86 The information presented in a cash flow statement is useful for socio economic decision-making. NPOs should therefore present a cash flow statement as a part of their financial statements. The cash flow statement should be presented in accordance with section 6.3 of this Guideline, using the indirect method (please refer paragraph 6.1.87). For full benefit, the analysis of cash movements should harmonize with the NPOs' operations as reported in their statement of activities, and be presented with appropriate detail.

6.1.87 The indirect method commences with the "Net incoming/outgoing resources" as per the statement of financial activities. This would normally comprise net incoming/outgoing resources before the disposal of investment and/or assets. Adjustments would be made for non-cash charges and credits in order to arrive at cash *generated from operations.* The NPO should also adjust for credits ("restricted Income") and expenditure related to restricted funds, since no cash is involved at this point.

6.1.88 Restricted Income (equivalent to direct project expenses during the period) reflects a reclassification or change in restricted funds and should be shown in the "financial" section of the cash flow statement. Thus, movements in restricted fund should be treated as increases or decreases in this particular section of the statement.

6.1.89 Cash flow information provides users of financial statements with a basis to assess the ability of the entity to access cash and cash equivalents and the needs of the entity, which utilises those cash flows. Section 6.3 Cash Flow Statements sets out requirements for the presentation of the cash flow statement and related disclosures.

Notes

Structure

6.1.90 The notes shall:

a) present information about the basis of preparation of the financial statements and the specific accounting policies used in accordance with paragraphs 6.1.93 - 6.1.95;
b) disclose the information required by the Guideline that is not presented on the face of the balance sheet, statement of financial activities, statement of changes in accumulated fund or cash flow statement; and
c) provide additional information that is not presented on the face of the balance sheet, statement of financial activities, statement of changes in accumulated fund or cash flow statement, but is relevant to an understanding of any of them.

6.1.91 Each item on the face of the balance sheet, statement of financial activities, statement of changes in accumulated fund and cash flow statement shall be cross-referenced to any related information in the notes.

6.1.92 Notes are normally presented in the following order, which assists users in understanding the financial statements and comparing them with financial statements of other entities:

a) a statement of compliance with this Guideline;
b) a summary of significant accounting policies applied (see paragraph 6.1.93);
c) supporting information for items presented on the face of the balance sheet, statement of financial activities, statement of changes in accumulated fund and cash flow statement, in the order in which each statement and each line item is presented; and
d) other disclosures, including:

- contingent liabilities (see section 6.22 of this Guideline) and unrecognized contractual commitments; and
- non-financial disclosures, e.g. the entity's financial risk management objectives and policies.

Disclosure of Accounting Policies

6.1.93 An entity shall disclose in the summary of significant accounting policies:

- the measurement basis (or bases) used in preparing the financial statements; and
- the other accounting policies used that are relevant to an understanding of the financial statements.

6.1.94 It is important for users to be informed of the measurement basis or bases used in the financial statements (e.g., historical cost, current cost, net realisable value, fair value or recoverable amount) because the basis on which the financial statements are prepared significantly affects their analysis. When more than one measurement basis is used in the financial statements, for example when particular classes of assets are revalued, it is sufficient to provide an indication of the categories of assets and liabilities to which each measurement basis is applied.

6.1.95 In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events and conditions are reflected in the reported financial performance and financial position. Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in this Guideline. Some sections within this Guideline specifically require disclosure of particular accounting policies, including choices made by management between different policies that are allowed. For example, section 6.9 requires disclosure of the measurement bases used for classes of property, plant and equipment. Section 6.15 requires disclosure of whether borrowing costs are recognised immediately as an expense or capitalised as part of the cost of qualifying assets.

Other Disclosures

6.1.96 An entity shall disclose the following, if not disclosed elsewhere in information published with the financial statements:

- the domicile and legal form of the entity, its country of incorporation and the address of its registered office (or principal place of business, if different from the registered office);
- a description of the nature of the entity's operations and its principal activities; and
- the name of the parent and the ultimate parent of the group.

Applicability of this Guideline for NGOs

6.1.97 This section 6.1 prescribes the principles to be followed in the presentation of financial statements by NPOs, inclusive of disclosures and should be followed in its entirety by NPOs to be in compliance with this Guideline.

6.2 Inventories

Definitions

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

Inventories are assets:

- held for sale in the ordinary course of business;
- in the production for such sale; or
- in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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.

Measurement of Inventories

6.2.2 The amount at which inventories are stated in the financial statements shall be the total [sum] of the lower of cost and net realisable value of the separate items of inventories or of groups of similar items.

Cost of Inventories

6.2.3 The cost of inventories shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Cost of Agricultural Produce Harvested from Biological Assets

6.2.4 Agricultural produce that is harvested by an NPO from its biological assets and included in Inventory, are measured on initial recognition, at their fair value less the estimated point-of sale costs at the point of harvest.

Cost Formulas

6.2.5 Subject only to paragraph 6.2.2, the cost of inventories, shall be assigned by using the first-in, first-out (FIFO) or weighted average cost formulas. 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.

Recognition as an Expense

6.2.6 When inventories are sold subsequent to balance sheet date, the carrying amount of those shall be recognised as an expense in the period in which the related revenue is recognised. Any write-down of inventories to net realisable value and all losses of inventories shall be recognised as an expense in the period in which the write-down or loss occurs.

Inventory Purchased or Donated on Account of Beneficiaries

6.2.7 NPOs may manufacture or purchase items for the purpose of distributing them to beneficiaries either free of cost or at a nominal amount. Although such items are not held for the purpose of sale, or for consumption in a production process, or in the rendering of services or other purpose of a commercial, industrial or business nature, such items shall be considered to be inventory for the purpose of this Guideline.

6.2.8 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. In such an instance, it may not be possible to apply a valuation to the items received. Items donated and held as at

the balance sheet date should therefore be listed and quantified.

Disclosures

6.2.9 The following disclosures shall be made:

a) The accounting policies adopted in measuring inventories, including the cost formula used.

b) The carrying amount of inventories in total and under classifications appropriate to the entity.

c) The fair value of inventories carried as at balance sheet date, less the costs incurred in sale of such inventories, the amount recognised as an expense during the period, the amount of any write-down in value recognised as an expense, the amount of any reversal of inventory written-down that is recognised as income, and a reduction in the amount of inventories recognised as expense in the period, and the circumstances or events that led to the write down or a reversal of a write-down of inventories.

d) The carrying amount of inventories pledged as security for liabilities.

e) detailed listing, with quantities, as appropriate, of items received as donation and held as at the balance sheet date. In the event that a value may reasonably be attributed to such items, then such value should also be included.

The Applicability of this Guideline

6.2.10 This section 6.2 refers to the recognition, measurement and disclosures required for Inventory.

6.2.11 In certain cases, NPOs may receive items not being Property, Plant and Equipment from donor agencies either free of cost or at a nominal charge either for distribution to beneficiaries, or for proceeds from sale of such items to be used for the purpose of the NPO. Some part of these items may remain undistributed at the year-end. The provisions of this section 6.2 would also apply to such items.

6.3 Cash Flow Statements

Definitions

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

Cash comprises cash on hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash flows are inflows and outflows of cash and cash equivalents.

Operating activities are the principal revenue-producing activities of the enterprise and other activities that are not investing or financing activities.

Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Financing activities are activities that result in changes in the size and composition of the accumulated fund and borrowings of the enterprise.

Cash and Cash Equivalents

6.3.2 Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value.

Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents, for example as in the case of preferred shares acquired within a short period of their maturity and with a specified redemption date.

Presentation of a Cash Flow Statement

6.3.3 The cash flow statement should report cash flows during the period classified by operating, investing and financing activities.

6.3.4 An enterprise presents its cash flows from operating, investing and financing activities in a manner, which is most appropriate to its activities. Classification by activity provides information that allows users to assess the impact of those activities on the financial position of the enterprise and the amount of its cash and cash equivalents. This information may also be used to evaluate the relationships among those activities.

Operating Activities

6.3.5 The amount of cash flows arising from operating activities is a key indicator of the extent to which the enterprise has generated sufficient cash flows to complete and maintain the activity capability of the enterprise, and repay any borrowings without recourse to external sources of financing. Information about the specific components of historical operating cash flows may be useful, in conjunction with other information, in forecasting future operating cash flows.

6.3.6 Cash flows of an NPO are primarily derived from the principal donors of the enterprise. Other examples of cash flows are:

(a) direct cash payment to, on behalf of or for benefit of beneficiaries;
(b) cash receipts from the sale of goods and the rendering of services;
(c) cash receipts from interest, dividends, fees, commissions and other revenue;
(d) cash payments to suppliers for goods and services;
(e) cash payments to and on behalf of employees;

(f) cash payments or refunds of income taxes unless they can be specifically identified with financing and investing activities.

Some transactions, such as the sale of an item of plant, may give rise to a gain or loss, which is included in the determination of net surplus or deficit. However, the cash flows relating to such transactions are cash flows from investing activities.

Investing Activities

6.3.7 The separate disclosure of cash flows arising from investing activities is important because the cash flows represent the extent to which expenditures have been made for resources intended to generate future income and cash flows. Examples of cash flows arising from investing activities are:

a) cash payments to acquire property, plant and equipment, intangibles and other long-term assets. These payments include those relating to self-constructed property, plant and equipment;
b) cash receipts from sales of property, plant and equipment, intangibles and other long-term assets;
c) cash payments to acquire equity or debt instruments of other enterprises and interests in joint ventures (other than payments for those instruments considered to be cash equivalents or those held for dealing or trading purposes);
d) cash receipts from sales of equity or debt instruments of other enterprises and interests in joint ventures (other than receipts for those instruments considered to be cash equivalents and those held for dealing or trading purposes);
e) cash advances and loans made to other parties; and
f) cash receipts from the repayment of advances and loans made to other parties.

Financing Activities

6.3.8 The separate disclosure of cash flows arising from financing activities is important because it is useful in predicting claims on future cash flows by providers of capital to the enterprise. Examples of cash flows arising from financing activities are:

a) cash proceeds from donors providing restricted funds not utilised during the year;
b) cash repayments of amounts borrowed; and
c) cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease.

Reporting Cash Flows from Operating Activities

6.3.9 An enterprise should report cash flows from operating activities using either:

a) the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed; or
b) the indirect method, whereby net surplus or deficit is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

6.3.10 Enterprises are encouraged to report cash flows from operating activities using the direct method. The direct method provides information which may be useful in estimating future cash flows and which is not available under the indirect method. Under the direct method, information about major classes of gross cash receipts and gross cash payments may be obtained either:

(a) from the accounting records of the enterprise; or
(b) by adjusting sales, cost of sales and other items in the statement of financial activities for:
    (i) changes during the period in inventories and operating receivables and payables;
    (ii) other non-cash items; and
    (iii) other items for which the cash effects are investing or financing cash flows.

6.3.11 Under the indirect method, the net cash flow from operating activities is determined by adjusting the surplus or deficit for the effects of:

a) changes during the period in inventories and operating receivables and payables;
b) non-cash items such as depreciation, provisions, deferred taxes, unrealised foreign currency gains and losses; and
c) all other items for which the cash effects are investing or financing cash flows.

Alternatively, the net cash flow from operating activities may be presented under the indirect method by showing the revenues and expenses disclosed in the statement of financial activities and the changes during the period in inventories and operating receivables and payables.

Reporting Cash Flows from Investing and Financing Activities

6.3.12 An enterprise should report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities.

Foreign Currency Cash Flows

6.3.13 Cash flows arising from transactions in a foreign currency should be recorded in an enterprise's reporting currency by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the cash flow.

6.3.14 The cash flows of a foreign activity should be translated at the exchange rates between the reporting currency and the foreign currency at the dates of the cash flows.

6.3.15 Cash flows denominated in a foreign currency are reported in a manner consistent with section 6.14 of this Guideline: The Effects of Changes in Foreign Exchange Rates.

6.3.16 Unrealised gains and losses arising from changes in foreign currency exchange rates are not cash flows. However, the effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency is reported in the cash flow statement in order to reconcile cash and cash equivalents at the beginning and the end of the period. This amount is presented separately from cash flows from operating, investing and financing activities and includes the differences, if any, had those cash flows been reported at end of period exchange rates.

Interest and Dividends

6.3.17 Cash flows from interest and dividends received and interest paid should each be disclosed separately. Each should be classified in a consistent manner from period to period as either investing or financing activities.

6.3.18 The total amount of interest paid during a period is disclosed in the cash flow statement whether it has been recognised as an expense in the statement of financial activities or capitalised in accordance with the allowed alternative treatment in section 6.11 of this Guideline: Borrowing Costs.

6.3.19 Interest paid and interest and dividends received may be classified as financing cash flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments.

Taxes on Income

6.3.20 Cash flows arising from taxes on income should be separately disclosed and should be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities.

Investments in Subsidiaries, Associates and Joint Ventures

6.3.21 When accounting for an investment in an associate or a subsidiary, an investor restricts its reporting in the cash flow statement to the cash flows between itself and the investee, for

example, to dividends and advances.

6.3.22 An enterprise which reports its interest in a jointly controlled entity (see section 6.20 Interests in Joint Ventures) using proportionate consolidation, includes in its consolidated cash flow statement its proportionate share of the jointly controlled entity's cash flows.

Non-cash Transactions

6.3.23 Investing and financing transactions that do not require the use of cash or cash equivalents should be excluded from a cash flow statement. Such transactions should be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities.

Components of Cash and Cash Equivalents

6.3.24 An enterprise should disclose the components of cash and cash equivalents and should present a reconciliation of the amounts in its cash flow statement with the equivalent items reported in the balance sheet.

Other Disclosures

6.3.25 An enterprise should disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the enterprise that are not available for use by the enterprise at its discretion.

6.3.26 Additional information may be relevant to users in understanding the financial position and liquidity of an enterprise. Disclosure of this information, together with a commentary by management, is encouraged and may include:

a) the amount committed by but not drawn from donors for current and future operating activities and to meet capital commitments, indicating any restrictions on the use of these facilities;
b) the aggregate amounts of the cash flows from each of operating, investing and financing activities related to interests in joint ventures reported using proportionate consolidation;
c) the amount of the cash flows arising from the operating, investing and financing activities of each reported activity and geographical segment (see section 6.8 of this Guideline: Segment Reporting).

Applicability of this Guideline

6.3.27 This section 6.3 prescribes the requirements for the preparation and presentation of a cash flow statement and NPOs are required to follow the provisions contained in this paragraph to be in compliance with this Guideline.

6.4 Accounting Policies, Changes in Accounting Estimates and Errors

Definitions

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

Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

A change in accounting estimate is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.

Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of reliable information that:

a) was available when financial statements for those periods were authorised for issue; and
b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements. Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Retrospective application is applying a new accounting policy to transactions, other events and conditions as if that policy had always been applied.

Retrospective restatement is correcting the recognition, measurement and disclosure of amounts of elements of financial statements as if a prior period error had never occurred.

Impracticable: The application of a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. For a particular prior period, it is impracticable to apply a change in an accounting policy retrospectively or to make a retrospective restatement to correct an error, if:

a) the effects of the retrospective application or retrospective restatement are not determinable;
b) the retrospective application or retrospective restatement requires assumptions about what management's intent would have been in that period; or
c) the retrospective application or retrospective restatement requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that:
d) provides evidence of circumstances that existed on the date(s) as at which those amounts are to be recognised, measured or disclosed; and
e) would have been available when the financial statements for that prior period were authorised for issue from other information.

Prospective application of a change in accounting policy and of recognising the effect of a change in an accounting estimate, respectively are:

(a) applying the new accounting policy to transactions, other events and conditions occurring after the date as at which the policy is changed; and

(b) recognising the effect of the change in the accounting estimate in the current and future periods affected by the change.

Accounting Policies

Selection and Application of Accounting Policies

6.4.2 The accounting policy or policies applicable to any transaction shall be determined by the application of the sections of this Guideline that are specifically relevant to such transaction, event or other related condition.

6.4.3 In the absence of a recommended practice that is specifically applicable to a transaction, other event or condition, management shall use its judgment in developing and applying an accounting policy that results in information that is:

- relevant to the economic decision-making needs of users; and
- reliable, in that the financial statements:
- represent faithfully the financial position, financial performance and cash flows of the entity;
- reflect the economic substance of transactions, other events and conditions, and not merely the legal form;
- are neutral, i.e. free from bias;
- are prudent; and
- are complete in all material respects.

6.4.4 In making the judgment described in paragraph 6.4.3, management shall refer to, and consider the applicability of, the following sources in descending order:

- the requirements and guidance in Guideline dealing with similar and related issues; and
- the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the Framework.

Consistency of Accounting Policies

6.4.5 An entity shall select and apply its accounting policies consistently for similar transactions, other events and conditions, unless a provision within this Guideline specifically requires or permits categorisation of items for which different policies may be appropriate. If such provision requires or permits such categorisation, an appropriate accounting policy shall be selected and applied consistently to each category.

Changes in Accounting Policies

6.4.6 An entity shall change an accounting policy only if the change:

- is required by this Guideline; or
- results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows.

6.4.7 The following are not changes in accounting policies:

- the application of an accounting policy for transactions, other events or conditions that differ in substance from those previously occurring; and
- the application of a new accounting policy for transactions, other events or conditions that did not occur previously or were immaterial.

Applying Changes in Accounting Policies

6.4.8 Subject to paragraph 6.4.10:

- an entity shall account for a change in accounting policy resulting from the initial application of a provision within Guideline in accordance with any specific transitional provisions in this Guideline; and

- when an entity changes an accounting policy upon initial application of any provision that does not include specific transitional provisions which would apply to that change, or changes an accounting policy voluntarily, then it shall apply the change retrospectively.

Retrospective application

6.4.9 Subject to paragraph 6.4.10, when a change in accounting policy is applied retrospectively in accordance with paragraph 6.4.8(a) or (b), the entity shall adjust the opening balance of each affected component of fund balances for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.

Limitations on retrospective application

6.4.10 When retrospective application is required by paragraph 6.4.8(a) or (b), a change in accounting policy shall be applied retrospectively except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the change.

6.4.11 When it is impracticable to determine the period-specific effects of changing an accounting policy on comparative information for one or more prior periods presented, the entity shall apply the new accounting policy to the carrying amounts of assets and liabilities as at the beginning of the earliest period for which retrospective application is practicable, which may be the current period, and shall make a corresponding adjustment to the opening balance of each affected component of fund balances for that period.

6.4.12 When, at the beginning of the current period, it is impracticable to determine the cumulative effect, of applying a new accounting policy to all prior periods, the entity shall adjust the comparative information to apply the new accounting policy prospectively from the earliest day practicable.

Disclosure

6.4.13 When the initial application of an accounting policy as prescribed by this Guideline has an effect on the current period or any prior period, or would have such an effect except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:

i. the title of the paragraph in chapter 6;
ii. when applicable, that the change in accounting policy is made in accordance with its transitional provisions;
iii. the nature of the change in accounting policy;
iv. when applicable, a description of the transitional provisions;
v. when applicable, the transitional provisions that might have an effect on future periods;
vi. for the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item that is affected.
vii. the amount of the adjustment relating to periods prior to those presented, to the extent practicable; and
viii. if retrospective application required by paragraph 6.4.8 (a) or (b) is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

These disclosures need not be repeated in financial statements of subsequent periods.

6.4.14 When a voluntary change in accounting policy has an effect on the current period or any prior period, or would have an effect on that period except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:

a) the nature of the change in accounting policy;
b) the reasons why applying the new accounting policy provide reliable and more relevant information;
c) for the current period and each prior period presented, to the extent practicable,

the amount of the adjustment for each financial statement line item that is affected.

d) the amount of the adjustment relating to periods prior to those presented, to the extent practicable; and

e) if retrospective application is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

These disclosures need not be repeated in financial statements of subsequent periods.

Changes in Accounting Estimates

6.4.15 The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.

6.4.16 An estimate may need revision if changes occur in the circumstances on which the estimate was based, or as a result of new information or more experience. By its nature, the revision of an estimate does not relate to prior periods and is not the correction of an error.

6.4.17 A change in the basis of measurement applied is a change in an accounting policy, and is not a change in an accounting estimate. When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate.

6.4.18 The effect of a change in an accounting estimate, other than a change to which paragraph 6.4.22 applies, shall be recognised prospectively by including it in the statement of financial activities during:

- the period of the change, if the change affects that period only; or
- the period of the change and future periods, if the change affects both.

6.4.19 To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to a fund, it shall be recognised by adjusting the carrying amount of the related asset, liability or fund in the period of the change.

Disclosure

6.4.20 An entity shall disclose the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in future periods.

6.4.21 If the effect of a change in accounting estimate in future periods is not disclosed because it is impractical to estimate, an entity shall disclose that fact.

Errors

6.4.22 Financial statements do not comply with the Guideline if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows. Errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Potential current period errors discovered in that period are corrected before the financial statements are authorised for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information for that prior period presented in the financial statements for that subsequent period (see paragraphs 6.4.23 - 6.4.27).

6.4.23 Subject to paragraph 6.4.24, an entity shall correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by:

a) restating the comparative amounts presented in respect of the prior period(s) in which the error occurred; or

b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and fund balances for the earliest prior period presented.

Limitations on Retrospective Restatement

6.4.24 A prior period error shall be corrected by retrospective restatement except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error.

6.4.25 When it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods presented, the entity shall restate the opening balances of assets, liabilities and fund balances for the earliest period for which retrospective restatement is practicable (which may be the current period).

6.4.26 When it is impracticable to determine the cumulative effect, at the beginning of the current period, of an error that has occurred over all prior periods, the entity shall restate the comparative information to correct the error prospectively from the earliest date practicable.

Disclosure of Prior Period Errors

6.4.27 In applying paragraph 6.4.23, an entity shall disclose the following:

- the nature of the prior period error;
- for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected;
- the amount of the correction at the beginning of the earliest prior period presented; and
- if retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.

These disclosures need not be repeated in financial statements of subsequent periods.

Applicability of this Guideline

6.4.28 This section 6.4 prescribes the principles and procedures to be followed in the determination and disclosures of accounting policies and changes thereof, and for the accounting for changes in accounting estimates & errors in the financial statements in order that users may make meaningful comparisons of performance of the enterprise over time and with other enterprises. NPOs are required to follow the provisions contained in this paragraph to be in compliance with this Guideline.

6.5 Events after the Balance Sheet Date

Definitions

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

Events after the balance sheet date are those events, favorable and unfavorable, that occur between the balance sheet date and the date when the financial statements are authorised for issue. Two such types of events can be identified:

- those that provide further or additional evidence of conditions that already existed as at the balance sheet date: i.e. adjusting events after the balance sheet date; and
- those that are indicative of conditions that arose after the balance sheet date: i.e. non-adjusting events after the balance sheet date.

6.5.2 Examples of Events after the Balance Sheet Date adjusting events after the balance sheet date e.g.

The determination after the balance sheet date of the cost of assets purchased before the balance sheet date non-adjusting events after the balance sheet date e.g. A decline in market value of investments between the balance sheet date and the date when the financial statements are authorised for issue.

Recognition, Measurement and Disclosure

6.5.3 A material event occurring after the balance sheet date requires changes to the amounts to be included in the financial statements where:

- it is an adjusting event; or
- it indicates that the application of the going concern concept to the whole or a material part of the entity is not appropriate.

6.5.4 Amounts recognised in the financial statements shall not be adjusted to reflect non-adjusting events that occur after the balance sheet date.

6.5.5 A material event occurring after the balance sheet date shall be disclosed where:

- it is a non-adjusting event of such materiality that non-disclosure would or could influence the economic decisions taken by users on the basis of the financial statements; or
- it is the reversal or maturity after the year-end of a transaction entered into before the year-end, the substance of which was primarily to alter the appearance of the entity's balance sheet.

6.5.6 In respect of each event occurring after the balance sheet date that is required to be disclosed, the following information shall be stated by way of notes to the financial statements:

(a) the nature of the event; and
(b) an estimate of the financial effect of the event on the financial statements, or in the alternate a statement that it is not practicable to make such an estimate.

6.5.7 The financial effect of the following non-adjusting events shall be disclosed for a proper understanding of the financial position abnormally large changes in foreign exchange rates after the balance sheet date changes in tax rates or tax laws, which would have a significant effect. entering into significant commitments or the creation or coming into being of any contingent liabilities announcing a plan to discontinue an operation.

6.5.8 The date on which the financial statements were authorised for issue by the board of governors or other authority shall be disclosed in the financial statements.

The Applicability of this Guideline

6.5.9 The principles prescribed by this section 6.5 are applicable to all entities irrespective of the type or size of organisation. NPOs are required to follow the provisions contained in this paragraph to be in compliance with this Guideline.

6.6 Construction Contracts

Definitions

6. 6.1 The following terms are used in this Guideline with the meanings specified:

A **construction contract** is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

A **fixed price contract** is a construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses.

A **cost plus contract** is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs, plus a percentage of these costs or a fixed fee.

Recognition and Measurement

6.6.2 Construction contracts should be assessed on a contract-by-contract basis and reflected in the statement of financial activities by recording related costs as contract activity progresses. Cost is ascertained in a manner appropriate to the stage of completion of the contract.

6.6.3 Where it is considered that the outcome of a construction contract can be assessed with reasonable certainty before its conclusion, the prudently calculated attributable cost should be recognised in the statement of financial activities.

6.6.4 Contract costs should comprise of costs that relate directly to the specific contract; costs that are attributable to contract activity in general and can be allocated to the contract and such other costs as are specifically chargeable to the project under the terms of the contract, inclusive of variations in contract work, claims, and incentive payments.

Disclosures

6.6.5 The following disclosures shall be made.

a) The amount of contract cost recognized during the period.

b) The method used to determine the contract cost.

c) The method used to determine the stage of completion.

d) In respect of any contract in progress, the aggregate amount of costs incurred the amount of any grants received and any additional amounts to be paid or shortfalls to be recovered.

e) An enterprise should present the gross amount due from donors for contract work as an asset and the gross amount due to the contractor for contract work as a liability.

Applicability of this Guideline

6.6.6 The IAS applies primarily to contractors. This section 6.6 is applicable to NPOs as a contractee, and would be limited to the recognition of expenditure incurred on activities that are based on the stage of completion of the project. Thus, where in the case of a NPO, a building or other such asset is under construction either directly or on behalf of the NPO, capital work-in-progress would be recognised based on the stage of completion method.

6.6.7 The principles and procedures that are set out in this section 6.6 should be followed in their entirety by all NPOs.

6.7 Income Taxes

Definitions

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

6.7.2 **Accounting profit** is net profit or loss for a period before deducting tax expense.

Taxable profit (tax loss) is the profit (loss) for a period, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable (recoverable).

Tax expense (tax income) is the aggregate amount included in the determination of net profit or loss for the period in respect of current tax and deferred tax.

Current tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period.

Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of taxable temporary differences.

Deferred tax assets are the amounts of income taxes recoverable in future periods in respect of:

(a) deductible temporary differences;
(b) the carry forward of unused tax losses;
(c) the carry forward of unused tax credits.

Temporary differences are differences between the carrying amount of an asset or liability in the balance sheet and its tax base. Temporary differences may be either:

(a) taxable temporary differences, which are temporary differences that will result in taxable amounts in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled; or

(b) deductible temporary differences, which are temporary differences that will result in amounts that are deductible in determining taxable profit(tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled.

The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

Recognition of Current Tax Liabilities and Current Tax Assets

6.7.2 Current tax for current and prior periods should, to the extent unpaid, be recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess should be recognised as an asset.

Measurement

6.7.3 Current tax liabilities (assets) for the current and prior periods should be measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

Statement of Financial Activities

6.7.4 Current tax should be recognised as income or an expense and included in the statement of financial activities for the period, except to the extent that the tax arises from a transaction or event which is recognised, in the same or a different period, directly through the accumulated fund. (see paragraphs 6.7.5 - 6.7.8).

Items Credited or Charged Directly to the Accumulated Fund

6.7.5 Current tax should be charged or credited 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.

6.7.6 IASs/IFRSs require or permit certain items to be credited or charged directly to equity or accumulate fund. Examples of such items are:

- a change in carrying amount arising from the revaluation of property, plant and equipment (re section of this Guideline: Property, Plant and Equipment);
- an adjustment to the opening balance of the accumulated fund resulting from either a change in accounting policy that is applied retrospectively or the correction of a error (re section 6.4 of this Guideline: Accounting Policies, Changes in Accounting Estimates and Errors);
- exchange differences arising on the translation of the financial statements of a foreign operation (re section 6.12 of this Guideline: The Effects of Changes in Foreign Exchange Rates).

6.7.7 Section 6.9 of this Guideline: Property, Plant and Equipment, does not specify whether an enterprise should transfer each year from revaluation surplus to retained earnings an amount equal to the difference between the depreciation or amortisation on a revalued asset and the depreciation or amortisation based on the cost of that asset. If an enterprise makes such a transfer, the amount transferred is net of any related deferred tax. Similar considerations apply to transfers made on disposal of an item of property, plant or equipment.

6.7.8 When an asset is revalued for tax purposes and that revaluation is related to an accounting revaluation of an earlier period, or to one that is expected to be carried out in a future period, the tax effects of both the asset revaluation and the adjustment of the tax base are credited or charged to the accumulated fund in the periods in which they occur. However, if the revaluation for tax purposes is not related to an accounting revaluation of an earlier period, or to one that is expected to be carried out in a future period, the tax effects of the adjustment of the tax base are recognised in the statement of financial activities.

Tax Expense

Tax Expense (Income) related to Surplus or Deficit from Ordinary Activities

6.7.9 The tax expense (income) related to surplus or deficit from ordinary activities should be presented on the face of the statement of financial activities.

Disclosure

6.7.10 The major components of tax expense (income) should be disclosed separately.

6.7.11 Components of tax expense (income) may include:

a) current tax expense (income);
b) any adjustments recognised in the period for current tax of prior periods;
c) the amount of the benefit arising from a previously unrecognised tax loss or tax credit that is used to reduce current tax expense;
d) the amount of tax expense (income) relating to those changes in accounting policies and errors which are included in the determination of net surplus or deficit for the period in accordance with the allowed alternative treatment in section 6.4 of this Guideline: Accounting Policies, Changes in Accounting Estimates and Errors.

6.7.12 The following should also be disclosed separately:

a) the aggregate current tax relating to items that are charged or credited to the accumulated fund;
b) any amount that would have normally been liable to a tax if not specifically exempted under the relevant tax laws;

c) any interest or other items which has been subject to withholding tax would be disclosed net of such deduction;
d) an explanation of changes in the applicable tax rate(s) compared to the previous accounting period;

Applicability of this Guideline

6.7.13 An NPO's liability to pay taxes is as prescribed by the relevant statutes. This section 6.7 deals with this aspect and NPOs are required to follow the provisions contained in this section in their entirety to be in compliance with this Guideline.

6.7.14 In the event that an NPO does become liable to deferred tax, reference must be made to the relevant Accounting Standard on Income Tax for the methodology to compute and report this tax.

6.8 Operating segments

6.8.1 Definitions

An **operating segment** is a component of an entity:

(a) that engages in activities for which it receives specific inflows (donations, grants, service charges etc) and incurs corresponding expenses,
(b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources related to the segment and assess its performance, and
(c) for which discrete financial information is available.

The term **'chief operating decision maker'** identifies a function, not necessarily a manager with a specific title. That function is to allocate resources to and assess the performance of the operating segments of an entity. Often the chief operating decision maker of an entity is its chief executive officer or chief operating officer but, for example, it may be a group of executive directors or others.

Generally, an operating segment has a segment manager who is directly accountable to and maintains regular contact with the chief operating decision maker to discuss operating activities, financial results, forecasts, or plans for the segment.

The term **'segment manager'** identifies a function, not necessarily a manager with a specific title. The chief operating decision maker also may be the segment manager for some operating segments. A single manager may be the segment manager for more than one operating segment. If the characteristics in paragraph 5 apply to more than one set of components of an organisation but there is only one set for which segment managers are held responsible, that set of components constitutes the operating segments.

Reportable segments

6.8.2 An entity shall report separately information about each operating segment that:

(a) has been identified in accordance with paragraphs 6.8.1 or results from aggregating two or more of those segments in accordance with paragraph 6.8.3,
(b) exceeds the quantitative thresholds in paragraph 6.8.4.

Aggregation criteria

6.8.3 Operating segments often exhibit similar long-term financial performance if they have similar economic characteristics. Two or more operating segments may be aggregated into a single operating segment if aggregation is consistent with the core principle of this standard, the segments have similar economic characteristics, and the segments are similar in each of the following respects:

(a) the nature of the products and services;
(b) the type or class of customer for their products and services;
(d) the methods used to distribute their products or provide their services; and
(e) if applicable, the nature of the regulatory environment.

Quantitative thresholds

6.8.4 An entity shall report separately information about an operating segment that meets any of the following quantitative thresholds:

(a) Its reported inflows is 10 per cent or more of the combined inflows of all operating segments.
(b) Its assets are 10 per cent or more of the combined assets of all operating segments.

6.8.5 Operating segments that do not meet any of the quantitative thresholds may be considered reportable, and separately disclosed, if management believes that information about the

segment would be useful to users of the financial statements.

6.8.6 Information about activities and operating segments that are not reportable shall be combined and disclosed in an 'all other segments' category separately from other reconciling items in the reconciliations required by paragraph 6.8.18. The sources of the inflows included in the 'all other segments' category shall be described.

6.8.8 If management judges that an operating segment identified as a reportable segment in the immediately preceding period is of continuing significance, information about that segment shall continue to be reported separately in the current period even if it no longer meets the criteria for reportability in paragraph 6.8.4

6.8.9 If an operating segment is identified as a reportable segment in the current period in accordance with the quantitative thresholds, segment data for a prior period presented for comparative purposes shall be restated to reflect the newly reportable segment as a separate segment, even if that segment did not satisfy the criteria for reportability in paragraph 6.8.4 in the prior period, unless the necessary information is not available and the cost to develop it would be excessive.

6.8.10 There may be a practical limit to the number of reportable segments that an entity separately discloses beyond which segment information may become too detailed. Although no precise limit has been determined, as the number of segments that is reportable in accordance with above paragraphs increases above ten, the entity should consider whether a practical limit has been reached.

Disclosure

6.8.11 An entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the activities in which it engages and the economic environments in which it operates.

6.8.12 To give effect to the principle in paragraph 6.8.11 an entity shall disclose the following for each period for which an income statement is presented:

(a) general information as described in paragraph 6.8.13;
(b) information about reported segment surplus or deficit including specified inflows and expenses included in reported segment surplus or deficit, segment assets, segment liabilities and the basis of measurement, as described in paragraphs 6.8.14-6.8.15; and
(c) reconciliations of the totals of segment inflows, reported segment surplus or deficit, segment assets, segment liabilities and other material segment items to corresponding entity amounts as described in paragraph 6.8.18.

General information

6.8.13 An entity shall disclose the following general information:

(a) factors used to identify the entity's reportable segments, including the basis of organisation (for example, whether management has chosen to organise the entity around differences in products and services, geographical areas, regulatory environments, or a combination of factors and whether operating segments have been aggregated), and

(b) types of contributors, products and services from which each reportable segment derives its inflows.

Information about surplus or deficit, assets and liabilities

6.8.14 An entity shall report a measure of surplus or deficit and total assets for each reportable segment. An entity shall report a measure of liabilities for each reportable segment if such an amount is regularly provided to the chief operating decision maker. An entity shall also disclose the following about each reportable segment if the specified amounts are included in

the measure of segment surplus or deficit reviewed by the chief operating decision maker, or are otherwise regularly provided to the chief operating decision maker, even if not included in that measure of segment surplus or deficit:

(a) inflows from customers;
(b) interest income;
(d) interest expense;
(e) depreciation and amortisation;
(f) material items of inflows/income and expense disclosed in accordance with paragraph 6.1.77 of section 1 *Presentation of Financial Statements*;
(g) income tax; and
(i) material non-cash items other than depreciation and amortisation.

Measurement

6.8.15 The amount of each segment item reported shall be the measure reported to the chief operating decision maker for the purposes of making decisions about allocating resources to the segment and assessing its performance. Adjustments and eliminations made in preparing an entity's financial statements and allocations of inflows, expenses, and gains or losses shall be included in determining reported segment surplus or deficit only if they are included in the measure of the segment's surplus or deficit that is used by the chief operating decision maker. Similarly, only those assets and liabilities that are included in the measures of the segment's assets and segment's liabilities that are used by the chief operating decision maker shall be reported for that segment. If amounts are allocated to reported segment surplus or deficit, assets or liabilities, those amounts shall be allocated on a reasonable basis.

6.8.16 If the chief operating decision maker uses only one measure of an operating segment's surplus or deficit, the segment's assets or the segment's liabilities in assessing segment performance and deciding how to allocate resources, segment surplus or deficit, assets and liabilities shall be reported at those measures. If the chief operating decision maker uses more than one measure of an operating segment's surplus or deficit, the segment's assets or the segment's liabilities, the reported measures shall be those that management believes are determined in accordance with the measurement principles most consistent with those used in measuring the corresponding amounts in the entity's financial statements.

6.8.17 An entity shall provide an explanation of the measurements of segment surplus or deficit, segment assets and segment liabilities for each reportable segment. At a minimum, an entity shall disclose the following:

(a) the basis of accounting for any transactions between reportable segments.

(b) the nature of any differences between the measurements of the reportable segments' surpluses or deficits and the entity's surplus or deficit before income tax and discontinued operations (if not apparent from the reconciliations described in paragraph 6.8.18). Those differences could include accounting policies and policies for allocation of centrally incurred costs that are necessary for an understanding of the reported segment information.

(c) the nature of any differences between the measurements of the reportable segments' assets and the entity's assets (if not apparent from the reconciliations described in paragraph 6.8.18). Those differences could include accounting policies and policies for allocation of jointly used assets that are necessary for an understanding of the reported segment information.

(d) the nature of any differences between the measurements of the reportable segments' liabilities and the entity's liabilities (if not apparent from the reconciliations described in paragraph 6.8.18). Those differences could include accounting policies and policies for allocation of jointly utilised liabilities that are necessary for an understanding of the reported segment information.

(e) the nature of any changes from prior periods in the measurement methods used to determine reported segment surplus or deficit and the effect, if any, of those changes

on the measure of segment surplus or deficit.

(f) the nature and effect of any asymmetrical allocations to reportable segments. For example, an entity might allocate depreciation expense to a segment without allocating the related depreciable assets to that segment.

Reconciliations

6.8.18 An entity shall provide reconciliations of all of the following:

(a) the total of the reportable segments' inflows to the entity's inflows.
(b) the total of the reportable segments' measures of surplus or deficit to the entity's surplus or deficit before tax expense and discontinued operations.
However, if an entity allocates to reportable segments items such as tax expense, the entity may reconcile the total of the segments' measures of surplus or deficit to the entity's surplus or deficit after those items.
(c) the total of the reportable segments' assets to the entity's assets.
(d) the total of the reportable segments' liabilities to the entity's liabilities if segment liabilities are reported in accordance with paragraph 6.8.14.
(e) the total of the reportable segments' amounts for every other material item of information disclosed to the corresponding amount for the entity.
Information about products and services

6.8.19 An entity shall report the inflows from each group of contributors, product and service, or each group of similar products and services, unless the necessary information is not available and the cost to develop it would be excessive, in which case that fact shall be disclosed. The amounts of inflows reported shall be based on the financial information used to produce the entity's financial statements.

Information about geographical areas

6.8.20 An entity shall report the following geographical information, unless the necessary information is not available and the cost to develop it would be excessive:

(a) inflows from external customers (i) attributed to the entity's country of domicile and (ii) attributed to all foreign countries in total from which the entity derives inflows. If inflows from external sources attributed to an individual foreign country are material, those inflows shall be disclosed separately. An entity shall disclose the basis for attributing inflows from external sources to individual countries.

(b) non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts (i) located in the entity's country of domicile and (ii) located in all foreign countries in total in which the entity holds assets. If assets in an individual foreign country are material, those assets shall be disclosed separately.

The amounts reported shall be based on the financial information that is used to produce the entity's financial statements. If the necessary information is not available and the cost to develop it would be excessive, that fact shall be disclosed.

An entity may provide, in addition to the information required by this paragraph, subtotals of geographical information about groups of countries.

Information about major contributors

6.8.21 An entity shall provide information about the extent of its reliance on its major contributors. If inflows from transactions with a single contributor amount to 10 per cent or more of an entity's inflows, the entity shall disclose that fact, the total amount of inflows from each such contributor, and the identity of the segment or segments reporting the inflows. The entity need not disclose the identity of a major contributor or the amount of inflows that each segment reports from that contributor. For the purposes of section 6.8, a group of entities known to a reporting entity to be under common control shall be considered a single contributor, and a

government (national, state, provincial, territorial, local or foreign) and entities known to the reporting entity to be under the control of that government shall be considered a single contributor.

Applicability of this Guideline

6.8.22 This section 6.8 deals with the identification of operating and reportable segments and the information that needs to be provided for such segments for meaningful representation of an entity's operations and financial position.

NPOs that operate in different geographical locations or are involved in different areas of service delivery programmes/projects, which meet the definitions of 'geographical segment' and 'business (or activity based) segment', should disclose segmental information in compliance with this section 6.8, to be in compliance with this Guideline.

6.9 Property, Plant and Equipment

Definitions

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

Carrying amount is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Sections.

Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Entity-specific value is the present value of the cash flows an entity expects to arise from the continuing use of an asset and from its disposal at the end of its useful life or expects to incur when settling a liability.

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

An **impairment loss** is the amount by which the carrying amount of an asset exceeds its recoverable amount.

Property, plant and equipment are tangible items that:

a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
b) are expected to be used during more than one period. Recoverable amount is the higher of an asset's net selling price and its value in use.

The **Residual value** of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life.

Useful life is:

a) the period over which an asset is expected to be available for use by an entity; or
b) the number of production or similar units expected to be obtained from the asset by an entity.

Recognition

6.9.2 The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

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

6.9.3 An entity evaluates under this recognition principle all its property, plant and equipment costs at the time they are incurred. These costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it.

6.9.4 The costs of day-to-day servicing are not recognized in the carrying amount of an item of property, plant and equipment. These costs are recognised in the statement of financial

activities as incurred.

Measurement at Recognition

6.9.5 An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost.

6.9.6 The cost of an item of property, plant and equipment comprises:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Measurement of Cost

6.9.7 The cost of an item of property, plant and equipment is the cash price equivalent at the recognition date.

6.9.8 One or more items of property, plant and equipment may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The cost of such an item of property, plant and equipment is measured at fair value unless:

(a) the exchange transaction lacks commercial substance or

(b) the fair value of neither the asset received nor the asset given up is reliably measurable.

6.9.9 An entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows are expected to change as a result of the transaction.

6.9.10 If an entity is able to determine reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure the cost of the asset received unless the fair value of the asset received is more clearly evident.

Measurement after Recognition

6.9.11 An entity shall choose either the cost model or the revaluation model as its accounting policy and shall apply that policy to an entire class of property, plant and equipment.

Cost Model

6.9.12 After recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Revaluation Model

6.9.13 After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

6.9.14 If there is no market-based evidence of fair value because of the specialised nature of the item of property, plant and equipment and the item is rarely sold, except as part of a continuing business, an entity may need to estimate fair value using an income or a depreciated replacement cost approach.

6.9.15 The frequency of revaluations depends upon the changes in fair values of the items of property, plant and equipment being revalued at any time. The revaluation may be necessary to be done after five years.

6.9.16 When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is treated in one of the following ways:

- restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.
- eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset. This method is often used for buildings.

6.9.17 If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued.

6.9.18 A class of property, plant and equipment is a grouping of assets of a similar nature and use in an entity's operations. The following are examples of separate classes:

i. land;
ii. land and buildings;
iii. machinery;
iv. motor vehicles;
v. furniture and fixtures; and
vi. office equipment.

6.9.19 If an asset's carrying amount is increased as a result of a revaluation, the increase shall be credited directly to the accumulated fund under the heading of revaluation surplus. However, the increase shall be recognised in the statement of financial activities to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of financial activities.

6.9.20 If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in the statement of financial activities. However, the decrease shall be debited directly to the accumulated fund under the heading of revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

6.9.21 The effects of taxes on income, if any, resulting from revaluation of property, plants and equipment are recognised and disclosed in accordance with 6.7 Income Taxes.

Depreciation

6.9.21 Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

6.9.22 The depreciation charge for each period shall be recognised in the statement of financial activities.

Depreciable Amount and Depreciation Period

6.9.23 The depreciable amount of an asset shall be allocated on a systematic basis over its useful life.

69.24 The depreciable amount of an asset is determined after deducting its residual value. In practice, the residual value of an asset is often insignificant and therefore immaterial in the calculation of the depreciable amount.

6.9.25 Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with

6.24 and the date that the asset is derecognised. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated. However, under usage methods of depreciation the depreciation charge can be zero while there is no production.

6.9.26 The future economic benefits embodied in an asset are consumed by an entity principally through its use. However, other factors, such as technical or commercial obsolescence and wear and tear while an asset remains idle, often result in the diminution of the economic benefits that might have been obtained from the asset. Consequently, all the following factors are considered in determining the useful life of an asset:

a) expected usage of the asset. Usage is assessed by reference to the asset's expected capacity or physical output;
b) expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used, the repair and maintenance programme, and the care and maintenance of the asset while idle;
c) technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset;
d) legal or similar limits on the use of the asset, such as the expiry dates of related leases.

6.9.27 Land and buildings are separable assets and are accounted for separately, even when they are acquired together. With some exceptions, land has an unlimited useful life and therefore is not depreciated. Buildings have a limited useful life and therefore are depreciable assets. An increase in the value of the land on which a building stands does not affect the determination of the depreciable amount of the building.

Depreciation Method

6.9.28 The depreciation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity.

6.9.29 The depreciation method applied to an asset shall be reviewed at least at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in an accounting estimate in accordance with section 6.4.

6.9.30 A variety of depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include:

- the straight-line method - resulting in a constant charge over the useful life if the asset's residual value does not change
- the diminishing balance method - resulting in a decreasing charge over the useful life.
- the units of production method - resulting in a charge based on the expected use or output.

The entity selects the method that most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. That method is applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits.

Impairment

6.9.31 The carrying amount of an item or a group if identical items of property, plant and equipment should be reviewed periodically in order to assess whether the recoverable amount has declined below the carrying mount. When such a decline has occurred, the carrying amount should be reduced to the recoverable amount. The amount of the reduction should be recognised as an expense immediately, unless it reverses a previous revaluation in which case it should be charged to the relevant accumulated fund.

Derecognition

6.9.32 The carrying amount of an item of property, plant and equipment shall be derecognised:

(I) on disposal; or
(II) when no future economic benefits are expected from its use or disposal.

6.9.33 The gain or loss arising from the derecognition of an item of property, plant and equipment shall be included in the statement of financial activities when the item is derecognised. Gains shall not be classified as revenue.

6.9.34 The gain or loss arising from the derecognition of an item of property, plant and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Recognition of cost of acquisition

Land

6.9.35 An NPO may acquire land in a variety of ways such as the following:

- By way of purchase from the landowners, including through a scheme of compulsory acquisition formulated by the government;
- Land gifted to NPOs by institutions or individuals, whether with or without any conditions as to their use;
- Land provided to NPOs by government free of cost, whether with or without any conditions as to their use;
- Land may also be vested in NPOs where such an NPO acts merely as a trustee and has no ownership rights.

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

a. Land Acquired through Purchase

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

- 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

1. 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, shall be accounted for at a nominal value. However in order to maintain proper control, such land must be recorded in the Fixed Asset Register and details disclosed in the notes to the financial statements, including any conditions laid down for its use.

2. 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.

Land Improvements

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

Buildings

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

Plant and Machinery

6.9.39 The cost of plant and machinery would in addition to purchase price include costs of items such as site preparation, installation and professional fees.

Other Items of Property, Plant and Equipment

6.9.40 The cost of other items of property, plant and equipment such as vehicles, furniture and fittings, office equipment, etc., would comprise purchase price and incidental costs such as freight, installation charges, etc.

Composite Items of Property, Plant and Equipment

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

Opening Balance at the Time of Shifting to the Accrual Basis of Accounting

6.9.42 An entity that has not recorded all of its property plant and equipment may be faced with a problem in accounting for such items at the time the NPOs switches over to the accrual basis of accounting in accordance with this Guideline. For example, property, plant and equipment received by way of donations or endowments may not have been recorded at the time they were acquired. Also, items acquired as part of project expenditure through restricted funds may have been written off to the statement of financial activities. It would be necessary to identify such assets, and account for them appropriately. In accounting for such assets, factors such as adverse possession, defects in title, etc., would also need to be considered.

Property, Plant and Equipment received as Donations or Endowments or through Grants

6.9.43 Property, plant and equipment that is received directly as donations or endowments should be debited to the property, plant and equipment account at fair value and a corresponding amount credited to a deferred income account. Such items should thereafter be depreciated in accordance with this Guideline, while a corresponding amount could be transferred from

the deferred income to the statement of financial activities in the balance sheet. In the balance sheet, deferred Income would be deducted from the net book value of the assets so that the carrying amount of the asset would be zero.

6.9.44 Where any item has been purchased for use by the NPO in a project being funded through a grant and the value of such item has been charged to the relevant project account, such items shall be disclosed as a note to the financial statement with the same categorisation as would be provided in respect of any item included under property, plant and equipment in the balance sheet.

6.9.45 Where project assets are held and disclosed in accordance with paragraph 6.9.43, on conclusion of the project, those items of property, plant and equipment that are to be retained by the organisation may be brought into the books of accounts of the organisation at fair value through a capital reserve. Depreciation provided on such assets would then be charged against the capital reserve. Where items are handed over to the relevant beneficiaries or revert back to the donor at the end of the project appropriate disclosure must be made in the financial statements.

Disclosure

6.9.46 The financial statements shall disclose, for each class of property, plant and equipment:

1) the measurement bases used for determining the gross carrying amount;
2) the depreciation methods used;
3) the useful lives or the depreciation rates used;
4) the gross carrying amount and the accumulated depreciation (with accumulated impairment losses) at the beginning and end of the period; and
5) a reconciliation of the carrying amount at the beginning and end of the period showing:
   a) additions;
   b) increases or decreases resulting from revaluations under paragraphs 6.9.13, 6.9.19 and 6.9.20.
   c) impairment losses recognized or reversed;
   d) depreciation;
   e) the net exchange differences, if any, arising on the translation of the financial statements from the functional currency into a different presentation currency, including the translation of a foreign operation into the presentation currency of the reporting entity; and
   f) other changes.

6.9.47 The financial statements shall also disclose:

a) the existence and amounts of restrictions on title, and property, plant and equipment pledged as security for liabilities;
b) the amount of expenditures recognised in the carrying amount of an item of property, plant and equipment in the course of its construction;
c) the amount of contractual commitments for the acquisition of property, plant and equipment; and
d) if it is not disclosed separately on the face of the statement of financial activities, the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in the statement of financial activities.

6.9.48 If items of property, plant and equipment are stated at revalued amounts, the following shall be disclosed:

a) the effective date of the revaluation;
b) whether an independent valuer was involved;
c) the methods and significant assumptions applied in estimating the fair values of the items;
d) the extent to which the fair values of the items were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms, or were estimated using other valuation techniques;

e) for each revalued class of property, plant and equipment, the carrying amount that would have been recognised had the assets been carried under the cost model;
f) the revaluation surplus, indicating the change for the period

6.9.49 Where items are received as donations or endowments or through project grants the following shall be disclosed:

a) The type and value of items received as a donation or endowment during the year and the depreciation charged thereon;
b) the amount received as project grants and used for purchase of property plant and equipment under the heading of project expenditure;
c) the amount transferred to be capitalised under property, plant and equipment.

Applicability of this Guideline

6.9.50 Due to the very nature of the structure and form of their operations, NPOs have certain peculiar features, which have accounting implications, while some aspects that apply to larger commercial operation are not applicable to them. This section 6.9 deals with the recognition, measurement and disclosure aspect of property, plant and equipment, and also takes into consideration these peculiar features. This section needs to be followed in its entirety to be in compliance with this Guideline.

6.10 Leases

Definitions

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

A **lease i**s an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

A **finance lease** is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

An **operating lease** is a lease other than a finance lease.

The **inception of the lease** is the earlier of the date of the agreement and the date of commitment by the parties to the principal provisions of the lease. As at this date:

- lease is classified as either an operating or a finance lease; and
- in the case of a finance lease, the amounts to be recognised at the commencement of the lease term are determined.

The **commencement of the lease term** is the date from which the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease (i.e. the recognition of the assets, liabilities, income or expenses resulting from the lease, as appropriate).

Minimum lease payments are the payments over the lease term that the lessee is or can be required to make, excluding contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor, together with:

(a) for a lessee, any amounts guaranteed by the lessee or by a party related to the lessee;
(b) for a lessor, any residual value guaranteed to the lessor by:
  (i) the lessee;
  (ii) a party related to the lessee; or
  (iii) a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee. However, if the lessee has an option to purchase the asset at a price that is expected to be sufficiently lower than fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised, the minimum lease payments comprise the minimum payments payable over the lease term to the expected date of exercise of this purchase option and the payment required to exercise it.

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.

Useful life is the estimated remaining period, from the commencement of the lease term, without limitation by the lease term, over which the economic benefits embodied in the asset are expected to be consumed by the entity.

The **interest rate implicit in the lease** is the discount rate that, at the inception of the lease, causes the aggregate present value of

(a) the minimum lease payments and
(b) the unguaranteed residual value to be equal to the sum of
  (i) the fair value of the leased asset and
  (ii) any initial direct costs of the lessor.

The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably

certain that the lessee will exercise the option.

Accounting by Lessees

6.10.2 A finance lease shall be recorded in the balance sheet of a lessee as an asset and as an obligation to pay future rentals. At the inception of the lease the sum to be recorded both as an asset and as a liability shall normally be the fair value of the asset.

6.10.3 At the commencement of the lease term, lessees shall recognise finance leases as assets and liabilities in their balance sheets at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, the lessee's incremental borrowing rate shall be used. Any initial direct costs of the lessee are added to the amount recognised as an asset.

6.10.4 The total finance charge under a finance lease shall be allocated to accounting periods over the lease term to enable a constant periodic charge rate of the remaining balance of the obligation for each accounting period, or a reasonable approximation thereto. The straight-line method may provide such a reasonable approximation.

6.10.5 An asset leased under a finance lease shall be depreciated over the shorter of the lease term or its useful life.

6.10.6 The charge to income under an operating lease shall be the rental expense for the accounting period, recognised on a systematic basis that is representative of the time pattern of the user's benefit.

Accounting by Lessors

6.10.7 Rental income from an operating lease shall be recognised on a straight-line basis over the period of the lease, even if the payments are not made on such a basis, unless another systematic and rational basis is more representative of the time pattern in which the benefit from the leased asset is receivable.

6.10.8 An asset held for use in operating leases by a lessor shall be recorded as a fixed asset and depreciated over its useful life.

Sale and Lease Back Transactions

6.10.9 In a sale and lease back transaction that results in an operating lease:

a) any profit or loss shall be recognised immediately, provided it is clear that the transaction is established at fair value;

b) if the sale price is below fair value any profit or loss shall be recognised immediately, except that if the apparent loss is compensated for by future rentals that are below market prices, it shall to that extent be deferred and amortised over the remainder of the lease term (or, if shorter, the period during which the reduced rentals are chargeable); and

c) if the sale price is above fair value, the excess over fair value shall be deferred and amortised over the shorter of the remainder of the lease term and the period to the next rent review (if any).

If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount shall not be immediately recognised as income by a seller-lessee. Instead, it shall be deferred and amortised over the lease term.

Disclosure by Lessees

Finance Lease

6.10.10 Lessees shall make the following disclosures for finance leases:

- for each class of asset, the net carrying amount at the balance sheet date.
- a reconciliation between the total of future minimum lease payments at the balance sheet date, and their present value. In addition, an entity shall disclose the total of future minimum lease payments at the balance sheet date, and their present value, for each of the following periods:
  (i) not later than one year;
  (ii) later than one year and not later than five years;
  (iii) later than five years.
- contingent rents recognised as an expense in the period.
- a general description of the lessee's material leasing arrangements including, but not limited to, the following:
  - the basis on which contingent rent payable is determined;
  - the existence and terms of renewal or purchase options and escalation clauses; and
  - restrictions imposed by lease arrangements, such as those concerning dividends, additional debt, and further leasing.

Operating Lease

6.10.11 A lessee shall disclose, in respect of operating leases, the payments that it is committed to make during the next year and subsequent years.

Disclosure by Lessors

Finance Lease

6.10.12 Disclosure shall be made of the gross amounts of assets held that are being rented out to other NPOS through operating leases and the related accumulated depreciation charges.

6.10.13 Lessors shall disclose the following for finance leases:

(a) a reconciliation between the gross investments in the lease at the balance sheet date, and the present value of minimum lease payments receivable at the balance sheet date. In addition, an entity shall disclose the gross investment in the lease and the present value of minimum lease payments receivable at the balance sheet date, for each of the following periods:
  (i) not later than one year;
  (ii) later than one year and not later than five years;
  (iii) later than five years.
(b) unearned finance income.
(c) the unguaranteed residual values accruing to the benefit of the lessor.
(d) the accumulated allowance for uncollectible minimum lease payments receivable.
(e) contingent rents recognised as income in the period.
(f) a general description of the lessor's material leasing arrangements.

Operating Lease

6.10.14 Lessors shall disclose the following for operating leases:

(a) the future minimum lease payments under non-cancellable operating leases in the aggregate and for each of the following periods:
  (i) not later than one year;
  (ii) later than one year and not later than five years;
  (iii) later than five years.

(b) total contingent rents recognised as income in the period.

(c) a general description of the lessor's leasing arrangements.

Applicability of this Guideline

6.10.15 While it is unlikely that NPOs would be involved in financial leases, they may enter into operational leases to meet equipment requirements. In addition, a decision may be taken to lease out assets owned, to other NPOs during a period when they have no immediate use for such assets. This section 6.10 prescribes the procedure for the accounting for and reporting of such leases should be followed in their entirety by NPOs to be in compliance with this Guideline.

6.11 Revenue

Definitions

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

- Revenue is the gross inflow of economic benefits during the period, arising in the course of the ordinary activities of an enterprise when those inflows result in increases in accumulated fund, other than increases dealt with in standard 6.13 - "Accounting for Grants and other Assistance ".
- 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.

Scope

6.11.2 This section 6.11 should be applied in accounting for revenue arising from the following transactions and events:

- the sale of goods
- the rendering of services; and
- the use by others of enterprise assets yielding interest, royalties and dividends
- Income from donation

Measurement

6.11.3 Revenue should be measured at the fair value of the consideration received or receivable.

Recognition

6.11.4 Revenue from the sale of goods should be recognised when all the following conditions have been satisfied:

- the enterprise has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the enterprise retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the enterprise; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

6.11.5 When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction should be recognised by reference to the stage of completion of the transaction at the balance sheet date.

Revenue should be recognised when:

- it is probable that the economic benefits associated with the transaction will flow to the enterprise; and
- the amount of the revenue can be measured reliably; and
- the stage of completion of the transaction at the balance sheet date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

6.11.6 Revenue arising from the use by others of enterprise assets that yield interest, royalties or dividends should be recognised when:

- it is probable that the economic benefits associated with the transaction will flow to the enterprise; and
- the amount of the revenue can be measured reliably.

Revenue should be recognised on the following bases:

- Interest- on a time proportion basis that takes into account the effective yield on the asset;
- Royalties- on an accrual basis in accordance with the substance of the relevant agreement;
- Dividends- when the shareholder's right to receive payment is established; and
- any other income – on an earned/accrued basis.

Disclosures

6.11.7 The following disclosures should be made:

- the accounting policies adopted for the recognition of revenue including the methods adopted to determine the stage of completion of transactions that involve the rendering of services;
- the amount of each significant category of revenue recognised during the period including revenue arising from;

  (i) the sale of goods;
  (ii) the rendering of services;
  (iii) interest;
  (iv) royalties; and
  (v) dividends.

- the amount of revenue arising from the exchange of goods and/or services included in each significant category of revenue.

- income from donations

The Applicability of this Guideline

6.11.8 Accounting Standards would normally provide for revenue, which forms the primary source of income of a commercial entity, while the areas identified therein would not normally form the primary source of an NPO's income. However, any NPO that is in receipt of any such revenue item should follow the requirements of this section 6.11 for the recognition of revenue arising from sale of goods, rendering of services, and the use of enterprise resources by others yielding interest, royalties and dividends, to be in compliance with this Guideline.

6.11.9 In this context, it may be noted that section 6.13 of this Guideline deals with the accounting for Grants and other Assistance, and is applicable with regard to both government grants and other areas of funding received by an NPO.

6.11.10 The following table provides an illustrative guide of the applicability of sections 6.11 and 6.13 of this Guideline to NPOs.

Type of Revenue	Applicable paragraph of the Guideline
Sale of non-mission related products for income generation.	6.11
Grants receivable from Government/Foundations/donor agencies on the basis of duly approved grant letters, specifying the timeframe/Guideline for grant accrual.	6.13
Allocation from Headquarters	6.13

Donations	6.13
Revenue from fundraising appeals, events, collections, etc.	6.13
Research and Development Grants	6.13
Interest	6.11
Dividend from Investments	6.11
Royalties	6.11

6.12 Retirement Benefit Costs

Definitions

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

Retirement benefit plans are arrangements whereby an enterprise provides benefits for its employees on or after termination of service (either in the form of an annual income or as a lump sum) when such benefits, or the employer's contributions towards them, can be determined or estimated in advance of retirement from the provisions of a document or from the enterprise's practices.

Defined benefit plans are retirement benefit plans under which amounts to be paid as retirement benefits are determined by reference to a formula usually based on employees' remuneration and/or years of service.

Defined contribution plans are retirement benefit plans under which amounts to be paid as retirement benefits are determined by reference to contributions to a fund together with investment earnings thereon.

Funding is the transfer of assets to an entity (the fund) separate from the enterprise to meet future obligations for the payment of retirement benefits.

6.12.2 Employee benefits among others include:

(a) short-term employee benefits such as wages, salaries and social security contributions, paid annual leave and paid sick leave, profit sharing and bonuses and non monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees: and

(b) Post-employment benefits such as pensions, other retirement benefits, etc.

The above two benefits are considered most common therefore this section establishes requirement for these.

Short-term Employee Benefits

6.12.3 When an employee has rendered service to an entity during an accounting period, the entity shall recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

(a) as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, an entity shall recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and

(b) as an expense, unless another section requires or permits the inclusion of the benefits in the cost of an asset (for example, cost of production of inventories to be included in cost of inventories and cost incurred on acquisition of Property, Plant and Equipment).

6.12.4 The cost of short-term employee benefits in the form of compensated absences shall be recognised as follows:

(a) in the case of accumulating compensated absences, when the employees render service that increases their entitlement to future compensated absences; and

(b) in the case of non-accumulating compensated absences, when the absences occur.

6.12.5 An entity shall measure the expected *cost* of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the balance sheet date.

6.12.6 An entity shall recognise the expected cost of profit sharing and bonus payments when and only when:

(a) the entity has a present legal or constructive obligation to make such payments as a result of past events; and

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

A present obligation exists when, and only when, the entity has no realistic alternative but to make the payments.

Post–employment Benefits: Defined Contribution Plans

6.12.7 In respect of retirement benefits in the form of provident fund and other defined contribution schemes, the contribution payable by the employer for a year shall be charged to profit or loss for the year. Thus, besides the amount of contribution paid, a shortfall of the amount of contribution paid compared to the amount payable for the year shall also be charged to profit or loss for the year. On the other hand, if contribution paid is in excess of the amount payable for the year, the excess shall be treated as a prepayment.

6.12.8 When an employee has rendered service to an entity during a period, the entity shall recognise the contribution payable to a defined contribution plan in exchange for that service:

(a) as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the balance sheet date, an entity shall recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and

(b) as an expense, unless another section requires or permits the inclusion of the contribution in the cost of an asset (see, for example, Section 3 Property, Plant and Equipment).

Post–employment Benefits: Defined Benefit Plans

6.12.9. In respect of gratuity benefit and other defined benefit schemes, the accounting treatment will depend on the type of arrangement which the employer has chosen to make.

(a) If the employer has chosen to make payment for retirement benefits out of his own funds, an appropriate charge to the statement of profit and loss for the year shall be made through a provision for the accruing liability. The accruing liability shall be calculated according to actuarial valuation.

However, entities may opt to calculate the accrued liability by reference to any other rational method e.g. a method based on the assumption that such benefits are payable to all employees at the end of the accounting year.

(b) In case the liability for retirement benefits is funded through creation of a trust, the cost incurred for the year shall be determined actuarially. Such actuarial valuation shall normally be conducted at least once in every three years. However, where the actuarial valuations are not conducted annually, the actuary's report shall specify the contributions to be made by the employer on annual basis during the inter valuation period. This annual contribution (which is in addition to the contribution that may be required to finance unfunded past service cost) reflects proper accrual of retirement benefit cost for each of the years during the inter valuation period and shall be charged to the statement of profit and loss for each such year. Where the contribution paid during a year is lower than the amount required to be contributed during the year to meet the accrued liability as certified by the actuary, the shortfall shall be charged to the statement of profit and loss for the year. Where the contribution paid during a year is in excess of the amount required to be contributed during the year to meet the accrued liability as certified by the actuary, the excess shall be treated as a prepayment.

(c) In case the liability for retirement benefits is funded through a scheme administered by an insurer, an actuarial certificate or a confirmation from the insurer shall be obtained that the contribution payable to the insurer is the appropriate accrual of the liability for the year. Where the contribution paid during a year is lower than amount required to be contributed during the year to meet the accrued liability as certified by the actuary or confirmed by the insurer, as the case may be, the shortfall shall be charged to the statement of profit and loss for the year. Where the contribution paid during a year is in excess of the amount required to be contributed during the year to meet the accrued liability as certified by the actuary or confirmed by the insurer, as the case may be, the excess shall be treated as a prepayment.

6.12.10 Where actuarial valuation is conducted, it shall be in accordance with requirements of IAS 19 – Employee Benefits.

6.12.11 Any alterations in the retirement benefit costs arising from:

(a) introduction of a retirement benefit scheme for existing employees or improvements to an existing scheme, or

(b) changes in the assumptions adopted, shall be charged or credited to the statement of profit and loss as they arise in accordance with paragraphs 12.1 to 12.14.

6.12.12 When a retirement benefit scheme is amended with the result that additional benefits are provided to retired employees, the cost of the additional benefits shall be accounted for in accordance with paragraph 6.12.9 above.

6.12.13 The financial statements shall disclose the method by which retirement benefit costs for the period have been determined. In case the *costs* related to gratuity and other defined benefit schemes are based on an actuarial valuation, the financial statements shall also disclose whether the actuarial valuation was made at the end of period or at an earlier date. In the latter case, the date of the actuarial valuation shall be specified and the method by which the accrual for the period has been determined shall also be briefly described, if the same is not based on the report of the actuary.

Applicability of this Guideline

6.12.14 The requirement of this section 6.12 and should be followed in their entirety by NPOs compliance with this Guideline.

6.13 Accounting for Grants and other Assistance

Definitions

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

Grants are assistance in the form of transfers of resources to an enterprise in return for past or future compliance with certain conditions relating to the operating activities of the enterprise. They exclude those forms of assistance which cannot reasonably have a value placed upon them and which cannot be distinguished from the normal trading transactions of the enterprise.

Assistance is action designed to provide an economic benefit specific to an enterprise or range of enterprises qualifying under certain criteria. Assistance for the purpose of this section does not include benefits provided only indirectly through action affecting general trading conditions, such as the provision of infrastructure in development areas.

Grants related to assets are grants whose primary condition is that an enterprise qualifying for them should purchase, construct or otherwise acquire long-term assets. Subsidiary conditions may also be attached restricting the type or location of the asset or the period during which they are to be acquired or held.

Grants related to income are grants other than those related to assets.
For the purpose of this Guideline this definition is extended to include other project and grant assistance provided to NPOs, in cash or in kind, by and/or through multilateral organisations, bilateral government or other organisations or other individual, corporate or organisational donors, headquarters of donor organisations through donations, grants or monetary or other allocations to carry out a project or provide any humanitarian or other assistance to the people of the country in which they operate.

Recognition of Grants

6.13.2 A grant including non-monetary grants at fair value should not be recognised until the conditions for its receipt have been complied with and there is reasonable assurance that the grant will be received.

6.13.3 A mere promise from the other donor agencies as to the donation or grant does not provide reasonable assurance that the grant will be received and, therefore, does not require its recognition.

6.13.4 If there is no reasonable assurance that the donation or grant, or any part thereof, will be received recognition of such donation or grant, or part thereof, should be postponed. However, the fact that collection of donation or grant has been delayed does not necessarily mean that reasonable assurance does not exist.

6.13.5 The donation or grant, the recognition of which has been postponed as suggested in 6.13.13, should be recognised only in the period in which reasonable assurance is attained that the donation or grant will be received. In some cases, the reasonable assurance will be attained only when cash is actually received. In such a case, recognition of donation or grant on receipt basis does not mean that the NPO has not followed accrual basis of accounting.

Accounting for Grants Received

6.13.6 In the event that cash or cash equivalents are received on account of a specific project, prior to the incurring of the relevant costs, the cash should be credited to the appropriate restricted fund. These sums may then be transferred to the Income account as and when the relevant expenses are being charged

6.13.7 On the conclusion of the project any balances lying to the credit of the restricted fund

account may be transferred to an unrestricted fund provided there are no restrictions

identified by the Donor.

6.13.8 Donations received without any specific conditions may be credited directly to the Income account for utilisation against normal unrestricted expenditure of the NPO.

6.13.9 Subject to paragraph 6.13.10, any grant received should be recognised in the statement of financial activities so as to match the amount received with the related costs which they are intended to compensate on a systematic basis.

6.13.10 A grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the enterprise with no future related costs should be recognised as income of the period in which it becomes receivable.

6.13.11 A grant may take the form of a transfer of a non-monetary asset, such as land or other resources, for the use of the enterprise. In these circumstances it is usual to assess the fair value of the non-monetary asset and to account for both grant and asset at that fair value. An alternative course that is sometimes followed is to record both asset and grant at a nominal amount.

6.13.12 Non-monetary grants, (whether fixed or current) received free of cost or at a concessionary rate should be recognised at fair value or nominal value.

6.13.13 Grants related to assets, including non-monetary grants at fair value, should be presented in the balance sheet either by:

(a) setting up the grant as deferred income where it is recognised as income on a systematic and rational basis over the useful life of the related asset; or
(b) by deducting the grant in arriving at the carrying amount of the asset where it is recognised as income over the life of a depreciable asset by way of a reduced depreciation charge.

6.13.14 Potential liabilities to repay grants either in whole or in part in specified circumstances should be provided for only to the extent that repayment is probable. The repayment of a grant should be accounted for by setting off the repayment against any un-amortised deferred income relating to the grant. Any excess should be charged immediately to the statement of financial activities. Repayment of a grant related to an asset should be recorded by increasing the carrying amount of the asset or reducing the deferred income balance by the amount repayable. The cumulative additional depreciation that would have been recognised to date as an expense, in the absence of the grant, should be recognised immediately as an expense.

Disclosure

6.13.15 The following information should be disclosed in the financial statements:

(a) the accounting policy adopted for grants, project grants and any other assistance received including the methods of presentation adopted in the financial statements;
(b) the nature and extent of grants recognised in the financial statements and an indication of other forms of assistance from which the enterprise has directly benefited; and
(c) unfulfilled conditions and other contingencies attached to assistance that has been recognised.
(d) concentration of donation from single source.

6.13.16 Since NPOs receive large volume of grants to meet certain revenue expenses, it is recommended that both the grant (to the extent utilised during the period) and the relevant expenses should be disclosed separately in the statement of financial activities. Such a disclosure would be useful in appreciating the operations undertaken by the NPO during the period. Similarly, in case of NPOs, it is recommended that the donations or grants received to acquire or construct specific fixed assets should be accounted for as

per paragraphs 6.13.12, 6.13.13 and 6.13.14.

Applicability of this Guideline

6.13.17 Accounting treatment for government grants, as prescribed in the International Accounting Standard dealing with Grants, is based on the nature of the grants and the purpose for which these are received. However, in addition to grants, NPOs also receive donations and grants from other donor agencies, e.g., multilateral funding institutions, through bilateral aid from other governments, headquarters of international organisations working in the relevant country, other international organisations, individual donors, corporate bodies, etc. The provisions of this section 6.13 cover both grants and these additional forms of funding. Accordingly, NPOs should follow the requirements of this section 6.13 in their entirety for accounting for grants and other monetary and non-monetary benefits received, to be in compliance with this Guideline.

6.14 The Effects of Changes in Foreign Exchange Rates

Definitions

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

Closing rate is the spot exchange rate at the balance sheet date.
Exchange difference is the difference resulting from translating a given number of units of one currency into another currency at different exchange rates.

Exchange rate is the ratio of exchange for two currencies.

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.

Foreign currency is a currency other than the functional currency of the entity.

Foreign operation is an entity that is a subsidiary, associate, joint venture or branch of a reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity.

Functional currency is the currency of the primary economic environment in which the entity operates.

A **group** is a parent and all its subsidiaries.

Monetary items are units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency.

Net investment in a foreign operation is the amount of the reporting entity's interest in the net assets of that operation.

Presentation currency is the currency in which the financial statements are presented.

Spot exchange rate is the exchange rate for immediate delivery.

Elaboration on the Definitions

Functional Currency

6.14.2 The following factors may also provide evidence of an entity's functional currency:

(a) the currency in which funds from financing activities are generated.
(b) the currency in which funding retained are usually retained.

6.14.3 The following additional factors are considered in determining the functional currency of the local operation of a foreign organisation, and whether its functional currency is the same as that of the reporting entity (the reporting entity, in this context, being the entity that has the local operation as the subsidiary, branch, associate or joint venture of the international organisation):

(a) whether the activities of the local operation are carried out as an extension of the international entity, rather than being carried out with a significant degree of autonomy. An example of the former is when the local operation carries on its activities solely on behalf of and with funds remitted by its owning entity. An example of the latter is when the local operation develops its own programmes and works independently using funds remitted by its owning entity; or

(b) whether the activities of any overseas operation are carried out as an extension of the local entity, rather than being carried out with a significant degree of autonomy. An example of the former is when the overseas operation carries on its

activities solely on behalf of and with funds remitted by its owning entity. An example of the latter is when the overseas operation develops its own programmes and works independently using funds remitted by its owning entity.

6.14.4 When the above indicators are mixed and the functional currency is not obvious, management uses its judgment to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. As part of this approach, management should consider the indicators in paragraphs 6.14.2 and 6.14.3, which are designed to provide additional supporting evidence to determine an entity's functional currency.

6.14.5 An entity's functional currency reflects the underlying transactions, events and conditions that are relevant to it. Accordingly, once determined, the functional currency is not changed unless there is a change in those underlying transactions, events and conditions.

Net Investment in a Foreign Operation

6.14.6 An entity may have a monetary item that is receivable from or payable to a foreign organisation. Such an item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, a part of the entity's assets in that foreign operation, and is accounted for in accordance with paragraphs 6.14.23 and 6.14.24. Such monetary items may include long-term receivables or loans. They do not include trade receivables or trade payables.

Monetary Items

6.14.7 The essential feature of a monetary item is a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: pensions and other employee benefits to be paid in cash, and provisions that are to be settled in cash. Similarly, a contract to receive (or deliver) a variable amount of assets in which the fair value to be received (or delivered) equals a fixed or determinable number of units of currency is a monetary item. Conversely, the essential feature of a non-monetary item is the absence of a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: amounts prepaid for goods and services (e.g. prepaid rent); goodwill; intangible assets; inventories; property, plant and equipment; and provisions that are to be settled by the delivery of a non-monetary asset.

Summary of the Approach Required by this Guideline

6.14.8 In preparing financial statements, each entity whether a stand-alone entity, an entity which is a local representation of an international organisation or any other non-governmental organisation operating in any country within this Region determines its functional currency in accordance with paragraphs 6.14.2 - 6.14.5. The entity translates foreign currency items into its functional currency and reports the effects of such translation in accordance with paragraphs 6.14.11 - 6.14.26 and 6.14.31.

6.14.9 Reporting entities may comprise a number of individual entities. It is necessary for the results and financial position of each individual entity included in the reporting entity to be translated into the currency in which the reporting entity presents its financial statements. This Guideline permits the presentation currency of a reporting entity to be any currency (or currencies). The results and financial position of any individual entity within the reporting entity whose functional currency differs from the presentation currency are translated in accordance with paragraphs 6.14.26 - 6.14.31.

6.14.10 This Guideline also permits a stand-alone entity preparing financial statements or an entity preparing separate financial statements in accordance with section 6.18 of this Guideline: Consolidated and Separate Financial Statements to present its financial statements in any currency (or currencies). If the entity's presentation currency differs from its functional currency, its results and financial position are also translated into the presentation currency in accordance with paragraphs 6.14.26 - 6.14.31.

Reporting Foreign Currency Transactions in the Functional Currency

Initial Recognition

6.14.11 A foreign currency transaction is a transaction that is denominated or requires settlement in a foreign currency, including transactions arising when an entity:

(a) buys or sells goods or services whose price is denominated in a foreign currency;
(b) borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency; or
(c) otherwise acquires or disposes of assets, or incurs or settles liabilities, denominated in a foreign currency.

6.14.12 A foreign currency transaction shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

6.14.13 NPOs may receive grants, donations, etc., in foreign currency. Such transactions should initially be accounted for at the exchange rate prevalent on the date of the transaction. Exchange differences on amounts receivable, arising on account of change in exchange rates should be recognised in the statement of financial activities.

6.14.14 The date of a transaction is the date on which the transaction first qualifies for recognition in accordance with this Statement of Recommended Practice. For practical reasons, a rate that approximates the actual rate at the date of the transaction is often used, for example, an average rate for a week or a month might be used for all transactions in each foreign currency occurring during that period. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate.

Reporting at Subsequent Balance Sheet Dates

6.14.15 At each balance sheet date:

(a) foreign currency monetary items shall be translated using the closing rate;
(b) non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction; and
(c) non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined.

6.14.16 The carrying amount of an item is determined in conjunction with other relevant sections in the Statement of Recommended Practice. For example, property, plant and equipment may be measured in terms of fair value or historical cost in accordance with section 6.9 of this Guideline: Property, Plant and Equipment. Whether the carrying amount is determined on the basis of historical cost or on the basis of fair value, if the amount is determined in a foreign currency it is then translated into the functional currency in accordance with this Guideline.

6.14.17 The carrying amount of some items is determined by comparing two or more amounts. For example, the carrying amount of inventories is the lower of cost and net realisable value in accordance with section 6.2 of this Guideline: Inventories.

6.14.18 When several exchange rates are available, the rate used is that at which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred at the measurement date. If exchangeability between two currencies is temporarily lacking, the rate used is the first subsequent rate at which exchanges could be made.

Recognition of Exchange Differences

6.14.19 Exchange differences arising on the settlement of monetary items or on translating

monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements shall be recognised in the statement of financial activities for the period in which they arise.

6.14.20 When monetary items arise from a foreign currency transaction and there is a change in the exchange rate between the transaction date and the date of settlement, an exchange difference results. When the transaction is settled within the same accounting period as that in which it occurred, the exchange difference is recognised in that period. However, when the transaction is settled in a subsequent accounting period, the exchange difference recognised in each period up to the date of settlement is determined by the change in exchange rates during each period.

6.14.21 When a gain or loss on a non-monetary item is recognised directly through the accumulated fund, any exchange component of that gain or loss shall be recognised directly in that respective Fund. Conversely, when a gain or loss on a non-monetary item is recognised in the statement of financial activities, any exchange component of that gain or loss shall be recognised in the statement of financial activities.

6.14.22 Other sections within this Guidelines require some gains and losses to be recognised directly in the accumulated fund. For example, section 6.9 of this Guideline: Property, Plant and Equipment require some gains and losses arising on a revaluation of property, plant and equipment to be recognised directly in the relevant Fund account. When such an asset is measured in a foreign currency, paragraph 6.14.15(c) of this Guideline requires the revalued amount to be translated using the rate at the date the value is determined, resulting in an exchange difference that is also recognised in that Fund account.

6.14.23 When an entity keeps its books and records in a currency other than its functional currency, at the time the entity prepares its financial statements all amounts are translated into the functional currency in accordance with paragraphs 6.14.11 - 6.14.17. This produces the same amounts in the functional currency as would have occurred had the items been recorded initially in the functional currency. For example, monetary items are translated into the functional currency using the closing rate, and non-monetary items that are measured on a historical cost basis are translated using the exchange rate at the date of the transaction that resulted in their recognition.

Change in Functional Currency

6.14.24 When there is a change in an entity's functional currency, the entity shall apply the translation procedures applicable to the new functional currency prospectively from the date of the change.

6.14.25 As noted in paragraph 6.14.5, the functional currency of an entity reflects the underlying transactions, events and conditions that are relevant to the entity. Accordingly, once the functional currency is determined, it can be changed only if there is a change to those underlying transactions, events and conditions. For example, a change in the currency that mainly influences the funding received from donor agencies may lead to a change in an entity's functional currency.

6.14.26 The effect of a change in functional currency is accounted for prospectively. In other words, an entity translates all items into the new functional currency using the exchange rate at the date of the change. The resulting translated amounts for non-monetary items are treated as their historical cost.

Use of a Presentation Currency other than the Functional Currency

Translation to the Presentation Currency

6.14.27 An entity may present its financial statements in any currency (or currencies). If the presentation currency differs from the entity's functional currency, it translates its results and financial position into the presentation currency. For example, when a group contains individual entities with different functional currencies, the results and financial position of

each entity are expressed in a common currency so that consolidated financial statements may be presented.

6.14.28 The results and financial position of an entity whose functional currency is different from the presentation currency, shall be translated into the presentation currency using the following procedures:

(a) assets and liabilities for each balance sheet line item presented (i.e. including comparatives) shall be translated at the closing rate at the date of that balance sheet;
(b) income and expenses for each statement of financial activities line item (i.e. including comparatives) and any income and expense items recognised directly in the accumulated fund shall be translated at exchange rates at the dates of the transactions; and
(c) all resulting exchange differences shall be recognised as a separate component in the accumulated fund.

6.14.29 For practical reasons, a rate that approximates the exchange rates at the dates of the transactions, (i.e. an average rate for the period), is often used to translate income and expense items. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate.

6.14.30 The exchange differences referred to in paragraph 6.14.28(c) result from:

(a) translating income and expenses at the exchange rates at the dates of the transactions and assets and liabilities at the closing rate. Such exchange differences arise both on income and expense items recognised in the statement of financial activities and on those recognised directly in the accumulated fund;
(b) translating the opening net assets at a closing rate that differs from the previous closing rate.

These exchange differences are not recognised in the statement of financial activities because the changes in exchange rates have little or no direct effect on the present and future cash flows from operations.

Investment in or Disposal of a Foreign Operation

6.14.31 In the event that any local organisation invests in a foreign operation or in the alternative disposes of such an interest the provisions of the relevant Accounting Standard dealing with the Effects of Changes in Foreign Exchange Rates with regard to such investment or disposal shall apply. These provisions are not included or considered in this Guideline.

Tax Effects of All Exchange Differences

6.14.32 Gains and losses on foreign currency transactions and exchange differences arising on translating the results and financial position of an entity (including a foreign operation) into a different currency may have tax effects. The provisions of section 6.7 of this Guideline: Income Taxes apply to these tax effects.

Disclosure

6.14.33 An entity shall disclose:

(a) the amount of exchange differences recognised in the statement of financial activities except for those arising on financial instruments measured at fair value through the statement of financial activities; and
(b) net exchange differences classified in a separate component under accumulated fund, and a reconciliation of the amount of such exchange differences at the beginning and end of the period.

6.14.34 When the presentation currency is different from the functional currency, that fact shall be stated, together with disclosure of the functional currency and the reason for using a

different presentation currency.

6.14.35 When there is a change in the functional currency of either the reporting entity or any other related entity with a significant operation, that fact and the reason for the change in functional currency shall be disclosed.

6.14.36 When an entity presents its financial statements in a currency that is different from its functional currency, it shall describe the financial statements as complying with International Accounting Standards only if they comply with all the requirements as set out in this Guideline including the translation method set out in paragraph 6.14.27.

Applicability of this Guideline

6.14.37 This section 6.14 is applicable to all foreign exchange transaction of an entity both capital and current. An NPO operating in any country in the Region may have a foreign entity/operation only in exceptional circumstances. In such an event the translation of any activities of, any investment in or disposal of such foreign entity/operation shall be translated in accordance with this Guideline.

Most NPOs receive donations and grants in foreign exchange. These NPOs must comply with this section in respect of all such receipts.

NPOs are required to follow the provisions contained in this section 6.14 to be in compliance with this Guideline.

6.15 Borrowing Costs

Definitions

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

Borrowing costs are interest and other costs incurred by an enterprise in connection with the borrowing of funds.

A **qualifying asset** is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

6.15.2 Borrowing costs may include:

(i) interest on bank overdrafts and short-term and long-term borrowings from banks and other third parties;
(ii) amortisation of discounts or premiums relating to borrowings;
(iii) amortisation of ancillary costs incurred in connection with the arrangement of borrowings;
(iv) finance charges in respect of finance leases recognised in accordance with section 6.10 of this Guideline: "Accounting for Leases"; and
(v) exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Borrowing Costs - Benchmark Treatment Recognition

6.15.3 Under the benchmark treatment borrowing costs are recognised as an expense in the period in which they are incurred regardless of how the borrowings are applied.

Borrowing Costs - Allowed Alternative Treatment Recognition

6.15.4 Borrowing costs should be recognised as an expense in the period in which they are incurred, except to the extent that they are capitalised in accordance with paragraph 6.15.5.

6.15.5 Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalised as part of the cost of that asset. The amount of borrowing costs eligible for capitalisation should be determined in accordance with this Guideline.

Borrowing Costs Eligible for Capitalisation

6.15.6 To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation on that asset should be determined as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

6.15.7 To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation should be determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate should be the weighted average of the borrowing costs applicable to the borrowings of the enterprise that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalised during a period should not exceed the amount of borrowing costs incurred during that period.

Commencement of Capitalisation

6.15.8 The capitalisation of borrowing costs as part of the cost of a qualifying asset should commence when:

(a) expenditures for the asset are being incurred;

(b) borrowing costs are being incurred; and
(c) activities that are necessary to prepare the asset for its intended use or sale are in progress.

6.15.9 Expenditures on a qualifying asset include only those expenditures that have resulted in payments of cash, transfers of other assets or the assumption of interest-bearing liabilities. Expenditures are reduced by any progress payments received and grants received in connection with the asset (see section 6.13 of this Guideline : Accounting for Government Grants and other Assistance). The average carrying amount of the asset during a period, including borrowing costs previously capitalised, is normally a reasonable approximation of the expenditures to which the capitalisation rate is applied for that period.

6.15.10 The activities necessary to prepare the asset for its intended use or sale encompass more than the physical construction of the asset. They include technical and administrative work prior to the commencement of physical construction, such as the activities associated with obtaining permits prior to the commencement of the physical construction. However, such activities exclude the holding of an asset when no production or development that changes the asset's condition is taking place. For example, borrowing costs incurred while land is under development are capitalised during the period in which activities related to the development are being undertaken. However, borrowing costs incurred while land acquired for building purposes is held without any associated development activity do not qualify for capitalisation.

Suspension of Capitalisation

6.15.11 Borrowing costs may be incurred during an extended period in which the activities necessary to prepare an asset for its intended use or sale are interrupted. Such costs are costs of holding partially completed assets and do not qualify for capitalisation. However, capitalisation of borrowing costs is not normally suspended during a period when substantial technical and administrative work is being carried out. Capitalisation of borrowing costs is also not suspended when a temporary delay is a necessary part of the process of getting an asset ready for its intended use. For example, capitalisation continues during an extended period when high water levels delay construction of a bridge, if such high water levels are common during the construction period in the geographic region involved.

Cessation of Capitalisation

6.15.12 Capitalisation of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

6.15.13 An asset is normally ready for its intended use or sale when the physical construction of the asset is complete even though routine administrative work might still continue. If only minor modifications, such as the decoration of a property to the purchaser's or user's specification, are outstanding, then all activities are substantially complete.

6.15.14 When the construction of a qualifying asset is completed in parts and each part is capable of being used while construction continues on other parts, capitalisation of borrowing costs on any one part should cease when substantially all the activities necessary to prepare that part for its intended use or sale are completed.

Disclosure

6.15.15 The financial statements should disclose:

(a) the accounting policy adopted for borrowing costs;
(b) the amount of borrowing costs capitalised during the period
(c) the total borrowing cost charged to income during the period.
(d) the capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation

Applicability of this Guideline

6.15.16 NPOs would not normally borrow funds to carry out their operations or for the acquisition, construction or production of assets. They would not therefore incur any borrowing cost. The principles as set out in section 6.15 deals with the measurement, recognition and disclosure of interest accrued on the various types of borrowing and in the event that an NPO does incur any borrowing cost, the requirements of this section 6.15 would need to be followed in order to be in compliance with this Guideline

6.15.17 A qualifying asset, as referred to in this section, is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. The definition of 'substantial period' is pure judgmental. For the purpose of this Guideline, it is recommended that a minimum of twelve months be considered as a suitable period.

6.16 Related Party Disclosures

Definitions

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

Related party - A party is related to an entity if:

(a) directly, or indirectly through one or more intermediaries, the party:
  (i) controls, is controlled by, or is under common control with, the entity;
  (ii) has an interest in the entity that gives it significant influence over the entity; or
  (iii) has joint control over the entity;
(b) the party is an associate (as defined in Section 6.19) of the entity;
(c) the party is a joint venture in which the entity is a venturer (see Section 6.20);
(d) the party is a member of the key management personnel of the entity or its parent;
(e) the party is a close member of the family of any individual referred to in (a) or (d);
(f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
(g) the party is a post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.

A **related party transaction** is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

Close members of the family of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity. They may include:

(a) the individual's domestic partner and children;
(b) children of the individual's domestic partner; and
(c) dependants of the individual or the individual's domestic partner.

Compensation includes all employee benefits. Employee benefits are all forms of consideration paid, in exchange for services rendered to the entity. It also includes such consideration paid on behalf of a parent of the entity in respect of the entity. Compensation includes:

(a) short-term employee benefits, such as wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses (if payable within twelve months of the end of the period) and non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees;

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

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

(d) termination benefits; and

(e) share based payments.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

6.16.2 If there have been transactions between related parties, an entity shall disclose the nature of the related party as well as information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements.

6.16.3 At a minimum, disclosures shall include:

(a) the amount of the transactions
(b) the amount of outstanding balances and:

 (i) their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and
 (ii) details of any guarantees given or received;

(c) provisions for doubtful debts related to the amount of outstanding balances; and
(d) the expense recognised during the period in respect of any bad or doubtful debts due from related parties.
(e) key management personnel compensation in total and for each of the following categories must also be disclosed:

 (i) short-term employment benefits;
 (ii) post-employment benefits;
 (iii) other long-term benefits; and
 (iv) termination benefits, differentiating between payments to local and expatriate staff.

6.16.4 The following are examples of transactions that are disclosed if they are with a related party:

(i) purchases or sales of goods (finished or unfinished);
(ii) purchases or sales of property and other assets;
(iii) rendering or receiving of services;
(iv) leases;
(v) transfers of research and development;
(vi) transfers under license agreements;
(vii) transfers under finance arrangements (including loans and donor contributions in cash or in kind);
(viii) provision of guarantees or collateral; and
(ix) settlement of liabilities on behalf of the entity or by the entity on behalf of another party.

The Applicability of this Guideline

6.16.5 This section 6.16 deals with a situation where an enterprise may enter into a transaction with a related party, which is not an arm's length agreement. In the absence of related party disclosures, there could exist a general presumption that all transactions reflected in an entity's financial statements are transacted between independent parties on an arm's-length basis. NPOs should disclose related party relationships and transactions in accordance with the requirements of this section 6.16 to be compliance with this Guideline.

6.17 Accounting for Investments

Definitions

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

An **investment** is an asset held by an enterprise for the accretion of wealth through distribution (such as interest, royalties, dividends and rental), for capital appreciation or for other benefits to the investing enterprise such as those obtained through trading relationships. Inventories as defined in the International Accounting Standard dealing with Inventories, are not investments. Property, plant and equipment as defined in the International Accounting Standard dealing with Property, Plant and Equipment (other than investment properties), are not investments.

A **current investment** is an investment that is by its nature readily realisable and is intended to be held for not more than one year.

A **long-term investment** is an investment other than a current investment.

Fair value is the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction.

Market value is the amount obtainable from the sale of an investment in an active market.

Marketable means that there is an active market from which a market value (or some indicator that enables a market value to be calculated) is available.

Classification, Recognition and Measurement

6.17.2 An enterprise that distinguishes between current and long-term assets in its financial statements should present current investments as current assets and long-term investments as long-term assets.

6.17.3 Enterprises that do not distinguish between current and long-term investments in their balance sheets should nevertheless make a distinction for measurement purposes and determine the carrying amount for each category of investments.

6.17.4 The cost of an investment shall include acquisition charges such as brokerages, fees, duties and bank fees.

6.17.5 If an investment is acquired or partly acquired by the issue of shares or in exchange or part exchange for another asset, the acquisition cost of the investment is determined by reference to the fair value of the securities issued or the asset that was released.

6.17.6 Investments classified as current assets should be carried in the balance sheet at market value;

6.17.8 Investments classified as long-term assets should be carried in the balance sheet at:

(i) cost;
(ii) re-valued amounts; or
(iii) in the case of marketable equity securities, the lower of cost and market value determined on a portfolio basis.

In case of revalued amounts, the revaluation should be done at each year end and an entire category of long-term investments should be revalued at the same time.

The carrying amount of all long-term investments should be adjusted to recognise a decline that is not temporary in the value of the investments, such adjustment being determined and made for each investment individually.

6.17.9 On disposal of an investment the difference between net disposal proceeds and the carrying amount should be recognised as income or expense.

6.17.10 Investments re-classified from current to long-term should each be transferred at lower of cost and market value or at market value if they were previously stated at that value.

6.17.11 Investments re-classified as from long term to current investments, should be transferred at:

(a) the lower of cost and carrying amount, if current investments are carried at the lower of cost and market value. If the investments had previously been revalued, then any remaining balance on the related revaluation surplus should be reversed on the transfer; and
(b) carrying amount if current investments are carried at market value. If changes in market value of current investments are included in the statement of financial activities, any remaining balance on the related revaluation surplus should be transferred to income.

6.17.12 An enterprise that carries current investments at market value should adopt and consistently apply a policy that accounts for increases or decreases in carrying amount, and such increases or decreases recognised as an income or expense.

6.17.13 An increase in carrying amount arising from the revaluation of long-term investments should be credited to the accumulated fund as a revaluation surplus.

6.17.14 To the extent that a decrease in carrying amount offsets a previous increase, in respect of the same investment, that has been credited to revaluation surplus and not subsequently reversed or utilized, it should be charged against that revaluation surplus. In all other cases, a decrease in carrying amount should be recognised as an expense. An increase on revaluation directly related to a previous decrease in carrying amount for the same investment that was recognised as an expense, should be credited to income to the extent that it offsets the previously recorded decrease.

Disclosures

6.17.15 The following should be disclosed.

(a) Accounting policy for accounting for investments
(b) Movement in market value of quoted investments
(c) Management Board's valuation of unquoted investments
(d) Profit/loss on disposal of investments
(e) Charge to statement of financial activities in lieu of diminution in value/write-off of investments
(f) Any amount credited to the statement of financial activities on account of an increase in market value of investments
(g) Any amounts included in income for interest, dividends and royalties.

The Applicability of this Guideline

6.17.16 This section 6.17 deals with the accounting for and disclosure of investments that are not included in a set of consolidated financial statements. The principles, as set out in this section 6.17, should be followed in their entirety by NPOs to be in compliance with this Guideline .

6.18 Consolidated and Separate Financial Statements

Definitions

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

Consolidated financial statements are the financial statements of a group presented as those of a single economic entity.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The **cost method** is a method of accounting for an investment whereby the investment is recognised at cost. The investor recognises income from the investment only to the extent that the investor receives distributions from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognised as a reduction of the cost of the investment.

A **group** is a parent and all its subsidiaries.

A **parent** is an entity that has one or more subsidiaries.

Separate financial statements are those presented by a parent, an investor in an associate or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.

A **subsidiary** is an entity, including an unincorporated entity such as a partnership, that is controlled by another entity (known as the parent).

Scope of Consolidated Financial Statements

6.18.2 Consolidated financial statements shall include all subsidiaries of the parent.

6.18.3 NPOs would either operate through wholly owned subsidiary operations or through joint ventures with other NPOs. The principles of control as laid down by the Companies Ordinance 1984 would apply only to such organisations that are incorporated under that Ordinance.

Consolidation Procedures

6.18.4 In preparing consolidated financial statements, an entity combines the financial statements of the parent and its subsidiaries. In order that the consolidated financial statements present financial information about the group as that of a single economic entity, the following steps are then taken:

(a) the carrying amount of the parent's investment or involvement in each subsidiary and the parent's portion of equity of each subsidiary are eliminated;
(b) like items of assets, liabilities, accumulated fund, income and expenses are added together line by line.

6.18.5 Intra-group balances, transactions, income and expenses shall be eliminated in full.

6.18.6 The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements shall be prepared as of the same reporting date. When the reporting dates of the parent and a subsidiary are different, the subsidiary prepares, for consolidation purposes, additional financial statements as of the same date as the financial statements of the parent unless it is impracticable to do so.

6.18.7 When, in accordance with paragraph 6.18.6, the financial statements of a subsidiary used in the preparation of consolidated financial statements are prepared as of a reporting date

different from that of he parent, adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the parents' financial statements. In any case, the difference between the reporting date of the subsidiary and that of the parent shall be no more than three months. The length of the reporting periods and any difference in the reporting dates shall be the same from period to period.

6.18.8 Consolidated financial statements shall be prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Accounting for Investments in Subsidiaries, Jointly Controlled Entities and Associates in Separate Financial Statements

6.18.9 When separate financial statements are prepared, investments in subsidiaries or jointly controlled entities shall be accounted for either:

(a) at cost, or
(b) in accordance with section 6.17 of this Guideline: Accounting for Investments.

Disclosure

6.18.10 The following disclosures shall be made in consolidated financial statements:

(a) the nature of the relationship between the parent and a subsidiary when the parent does not own, more than half of the voting power;
(b) the reporting date of the financial statements of a subsidiary when such financial statements are used to prepare consolidated financial statements and are as of a reporting date or for a period that is different from that of the parent, and the reason for using a different reporting date or period; and
(c) the nature and extent of any significant restrictions (e.g. resulting from regulatory requirements) on the ability of subsidiaries to transfer funds to the parent to repay loans or advances.

6.18.11 When a parent venturer with an interest in a jointly controlled entity prepares separate financial statements, those separate financial statements shall disclose:

(a) the fact that the statements are separate financial statements and the reasons why those statements are prepared if not required by law;
(b) a list of significant investments in subsidiaries, associates and jointly controlled entities the name, country of incorporation or residence and proportion of ownership interest; and
(c) a description of the method used to account for the investments listed under (b);

and shall identify the financial statements prepared in accordance with section 6.19 of this Guideline : Investments in Associates and with section 6.20 of this Guideline : Interests in Joint Ventures respectively to which they relate.

Applicability of this Guideline

6.18.12 One entity may control another entity either through ownership or through a joint venture where it has more than one-half voting power or through control over governing body of the entity. If any NPO should have such a control over another entity, the NPO would be the parent and the entity that is controlled by the NPO would be a subsidiary. In such circumstances, the NPO should prepare and present consolidated financial statements in accordance with the requirements as set out in this section 6.18 to be in compliance with this Guideline .

6.19 Investments in Associates

Definitions

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

An **associate** is an entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

Consolidated financial statements are the financial statements of a group presented as those of a single economic entity.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The **equity method** is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control. (the venturers)

Separate financial statements are those presented by a parent, an investor in an associate or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.

Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A **subsidiary** is an entity, including an unincorporated entity such as a partnership, that is controlled by another entity (known as the parent).

Significant Influence

6.19.2 If an investor holds, directly or indirectly (e.g. through subsidiaries), 20 per cent or more of the voting power of the investee, it is presumed that the investor has significant influence, unless it can be clearly demonstrated that this is not the case. However, given that NPOs are not in business for profit, they would not be expected to make any investments for purpose of obtaining significant influence except to the extent that it invests funds with another NPO with similar intent and purpose.

6.19.3 The existence of significant influence by an investor is usually evidenced in one or more of the following ways:

- (a) representation on the board of directors or equivalent governing body of the investee;
- (b) participation in policy-making processes, including participation in decisions about dividends or other distributions;
- (c) material transactions between the investor and the investee;
- (d) interchange of managerial personnel; or
- (e) provision of essential technical information.

Equity Method

6.19.4 Under the equity method, the investment in an associate is initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of any income or loss of the associate after the date that the investment is made. The investor's share of the income or loss of the associate is recognised in the investor's statement of

financial activities. Further adjustments to the carrying amount may be necessary for changes in the investor's proportionate interest in the associate arising from changes in the associate's equity that have not been recognised in the associate's income or loss. Such changes include those arising from the revaluation of property, plant and equipment and from foreign exchange translation differences. The investor's share of those changes is recognised directly in the accumulated fund or other related fund account of the investor.

Application of the Equity Method

6.19.5 An investor shall discontinue the use of the equity method from the date that it ceases to have significant influence over an associate and shall account for the investment in accordance with section 6.17 of this Guideline : Accounting for Investments from that date, provided the associate does not become a subsidiary defined in section 6.18 of this Guideline : Consolidated and Separate Financial Statements or a joint venture as defined in section 6.20 of this Guideline : Financial Reporting for Joint Ventures.

6.19.6 The carrying amount of the investment at the date that it ceases to be an associate shall be regarded as its cost on initial measurement in accordance with section 6.17 of this Guideline : Accounting for Investments.

6.19.7 An investment in an associate is accounted for using the equity method from the date on which it becomes an associate.

6.19.8 The most recent available financial statements of the associate are used by the investor in applying the equity method. When the reporting dates of the investor and the associate are different, the associate prepares, for the use of the investor, financial statements as of the same date as the financial statements of the investor unless it is impracticable to do so.

6.19.9 When, in accordance with paragraph 6.19.8, the financial statements of an associate used in applying the equity method are prepared as of a different reporting date from that of the investor, adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the investor's financial statements. In any case, the difference between the reporting date of the associate and that of the investor shall be no more than three months. The length of the reporting periods and any difference in the reporting dates shall be the same from period to period.

6.19.10 If an associate uses accounting policies other than those of the investor for like transactions and events in similar circumstances, adjustments shall be made to conform the associate's accounting policies to those of the investor when the associate's financial statements are used by the investor in applying the equity method.

6.19.11 If an investor's share of losses of an associate equals or exceeds its interest in the associate, the investor discontinues recognising its share of further losses. Losses recognised under the equity method in excess of the investor's investment in ordinary shares are applied to the other components of the investor's interest in an associate in the reverse order of their seniority (i.e. priority in liquidation).

6.19.12 After the investor's interest is reduced to zero, additional losses are provided for, and a liability is recognised, only to the extent that the investor has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the investor resumes recognising its share of those profits only after its share of profits equals the share of losses not recognized.

Disclosure

6.19.13 The following disclosures shall be made:

(a) the fair value of investments in associates for which there are published price quotations;

(b) summarised financial information of associates, including the aggregated amounts of assets, liabilities, revenues and surplus or deficit;

(c) the reasons why the presumption that an investor has significant influence is overcome if the investor holds, directly or indirectly through subsidiaries, 20 per cent or more of the voting or potential voting power of the investee but concludes that it does not have significant influence;

(d) the reporting date of the financial statements of an associate, when such financial statements are used in applying the equity method and are as of a reporting date or for a period that is different from that of the investor, and the reason for using a different reporting date or different period;

(e) the nature and extent of any significant restrictions (e.g. resulting from regulatory requirements) on the ability of associates to transfer funds to the investor in the form of cash dividends;

(f) the unrecognised share of losses of an associate, both for the period and cumulatively, if an investor has discontinued recognition of its share of losses of an associate.

6.19.14 Investments in associates accounted for using the equity method shall be classified as non-current assets. The investor's share of the surplus or deficit of such associates, and the carrying amount of those investments, shall be separately disclosed. The investor's share of any discontinuing operations of such associates shall also be separately disclosed.

6.19.15 The investor's share of changes recognised directly in the associate's equity shall be recognised directly in the accumulated fund by the investor and shall be disclosed in the statement of changes in the accumulated fund as required by section 6.1 of this Guideline: Presentation of Financial Statements.

Applicability of this Guideline

6.19.16 This section 6.19 deals with the accounting for investments in associates in consolidated financial statements, under the equity method, and should be followed in its entirety to be in compliance with this Guideline.

6.19.17 If an NPO is part of a group (a group comprises a parent and all of its subsidiaries), and for any stated reason, the group does not prepare consolidated financial statements, the NPO should not use the equity method to account for its investment in its associate.

6.19.18 If, however, the NPO is not a part of a group, but has an investment in an associate, then it should account for this investment in compliance with this section 6.19.

6.20 Interests in Joint Ventures

Definitions

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

Control is the power to govern the financial and operating policies of an economic activity so as to obtain benefits from it.

An **investor in a joint venture** is a party to a joint venture and does not have joint control over that joint venture.

Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers)

A **joint venture** is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

Proportionate consolidation is a method of accounting whereby a venturer's share of each of the assets, liabilities, income and expenses of a jointly controlled entity is combined line by line with similar items in the venturer's financial statements or reported as separate line items in the venturer's financial statements.

Separate financial statements are those presented by a parent, an investor in an associate or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.

Significant influence is the power to participate in the financial and operating policy decisions of an economic activity but is not control or joint control over those policies.

A **venturer** is a party to a joint venture and has joint control over that joint venture.

Forms of Joint Venture

6.20.2 Joint ventures take many different forms and structures. This Guideline identifies three broad types-jointly controlled operations, jointly controlled assets and jointly controlled entities-that are commonly described as, and meet the definition of, joint ventures. The following characteristics are common to all joint ventures:

(a) two or more venturers are bound by a contractual arrangement; and
(b) the contractual arrangement establishes joint control.

Contractual Arrangement

6.20.3 The existence of a contractual arrangement distinguishes interests that involve joint control from investments in associates in which the investor has significant influence. Activities that have no contractual arrangement to establish joint control are not joint ventures for the purposes of this Guideline.

6.20.4 The contractual arrangement may be evidenced in a number of ways, for example by a contract between the venturers or minutes of discussions between the venturers. In some cases, the arrangement is incorporated in the articles or other by-laws of the joint venture. Whatever its form, the contractual arrangement is usually in writing and deals with such matters as:

(a) the activity, duration and reporting obligations of the joint venture;
(b) the appointment of the board of directors or equivalent governing body of the joint venture and the voting rights of the venturers;
(c) capital contributions by the venturers;

(d) the sharing by the venturers of the output, income, expenses or results of the joint

venture.

6.20.5 The contractual arrangement may identify one venturer as the operator or manager of the joint venture. The operator does not control the joint venture but acts within the financial and operating policies that have been agreed by the venturers in accordance with the contractual arrangement and delegated to the operator. If the operator has the power to govern the financial and operating policies of the activity, it controls the venture and the venture is a subsidiary of the operator and not a joint venture.

Jointly Controlled Activities

6.20.6 The operation of some joint ventures involves the use of the assets and other resources of the venturers rather than the establishment of a company, partnership or other entity, or a financial structure that is separate from the venturers themselves. Each venturer uses its own property, plant and equipment and carries its own inventories. It also incurs its own expenses and liabilities and raises its own finance, which represent its own obligations. The joint venture activities may be carried out by the venturer's employees alongside other similar activities of the venturer. The joint venture agreement usually provides a means by which the results of the activity or joint product and any expenses incurred in common are shared among the venturers.

6.20.7 In respect of its interests in jointly controlled operations, a venturer shall recognise in its financial statements:

(a) the assets that it controls and the liabilities that it incurs; and
(b) the expenses that it incurs and its share of the income that it earns from the sale of any goods or services by the joint venture.

6.20.8 Because the assets, liabilities, income and expenses are recognised in the financial statements of the venturer, no adjustments or other consolidation procedures are required in respect of these items when the venturer presents consolidated financial statements.

6.20.9 Separate accounting records may not be required for the joint venture itself and financial statements may not be prepared for the joint venture. However, the venturers may prepare management accounts so that they may assess the performance of the joint venture.

Jointly Controlled Assets

6.20.10 Some joint ventures involve the joint control, and often the joint ownership, by the venturers of one or more assets contributed to, or acquired for the purpose of, the joint venture and dedicated to the purposes of the joint venture. The assets are used to obtain benefits for the venturers. Each venturer may take a share of the output from the assets and each bears an agreed share of the expenses incurred.

6.20.11 These joint ventures do not involve the establishment of a company partnership or other entity, or a financial structure that is separate from the venturers themselves. Each venturer has control over its share of future economic benefits through its share of the jointly controlled asset.

6.20.12 In respect of its interest in jointly controlled assets, each venturer includes in its accounting records and recognises in its financial statements:

(a) its share of the jointly controlled assets, classified according to the nature of the assets rather than as an investment. For example, a share of a jointly controlled oil pipeline is classified as property, plant and equipment;
(b) any liabilities that it has incurred, for example those incurred in financing its share of the assets;
(c) its share of any liabilities incurred jointly with other venturers in relation to the joint venture;

(d) any income from the sale or use of its share of the output of the joint venture, together with its share of any expenses incurred by the joint venture; and

(e) any expenses that it has incurred in respect of its interest in the joint venture, for example those related to financing the venturer's interest in the assets and selling its share of the output.

6.20.13 Because the assets, liabilities, income and expenses are recognised in the financial statements of the venturer, no adjustments or other consolidation procedures are required in respect of these items when the venturer presents consolidated financial statements.

6.20.14 The treatment of jointly controlled assets reflects the substance and economic reality and, usually, the legal form of the joint venture. Separate accounting records for the joint venture itself may be limited to those expenses incurred in common by the venturers and ultimately borne by the venturers according to their agreed shares. Financial statements may not be prepared for the joint venture, although the venturers may prepare management accounts so that they may assess the performance of the joint venture.

Jointly Controlled Entities

6.20.15 A jointly controlled entity is a joint venture that involves the establishment of a company, partnership or other entity in which each venturer has an interest. The entity operates in the same way as other entities, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity.

6.20.16 A jointly controlled entity controls the assets of the joint venture, incurs liabilities and expenses and earns income. It may enter into contracts in its own name and raise finance for the purposes of the joint venture activity. Each venturer is entitled to a share of the profits of the jointly controlled entity, although some jointly controlled entities also involve a sharing of the output of the joint venture.

6.20.17 A common example of a jointly controlled entity is when two entities combine their activities in a particular line of business by transferring the relevant assets and liabilities into a jointly controlled entity. Another example is when an entity commences a business in a foreign country in conjunction with the government or other agency in that country, by establishing a separate entity that is jointly controlled by the entity and the government or agency.

6.20.18 Many jointly controlled entities are similar in substance to those joint ventures referred to as jointly controlled operations or jointly controlled assets. Some jointly controlled operations also involve the establishment of a jointly controlled entity to deal with particular aspects of an activity.

6.20.19 A jointly controlled entity maintains its own accounting records and prepares and presents financial statements in the same way as other entities in conformity with the appropriate national requirements, the Guidelines and, where relevant the International or other relevant Accounting Standards.

6.20.20 Each venturer usually contributes cash or other resources to the jointly controlled entity. These contributions are included in the accounting records of the venturer and recognised in its financial statements as an investment in the jointly controlled entity.

Financial Statements of a Venturer

Proportionate Consolidation

6.20.21 A venturer shall recognise its interest in a jointly controlled entity using proportionate consolidation. When proportionate consolidation is used, one of the two reporting formats identified below shall be used.

6.20.22 A venturer recognises its interest in a jointly controlled entity using one of the two reporting formats for proportionate consolidation irrespective of whether it also has investments in subsidiaries or whether it describes its financial statements as consolidated financial statements.

6.20.23 When recognising an interest in a jointly controlled entity, it is essential that a venturer reflects the substance and economic reality of the arrangement, rather than the joint venture's particular structure or form. In a jointly controlled entity, a venturer has control over its share of future economic benefits through its share of the assets and liabilities of the venture. This substance and economic reality are reflected in the consolidated financial statements of the venturer when the venturer recognises its interests in the assets, liabilities, income and expenses of the jointly controlled entity by using one of the two reporting formats for proportionate consolidation described in paragraph 6.20.25.

6.20.24 The application of proportionate consolidation means that the balance sheet of the venturer includes its share of the assets that it controls jointly and its share of the liabilities for which it is jointly responsible. The statement of financial activities of the venturer includes its share of the income and expenses of the jointly controlled entity. Many of the procedures appropriate for the application of proportionate consolidation are similar to the procedures for the consolidation of investments in subsidiaries, which are set out in section 6.18 of this Guideline: Consolidated and Separate Financial Statements.

6.20.25 Different reporting formats may be used to give effect to proportionate consolidation. The venturer may combine its share of each of the assets, liabilities, income and expenses of the jointly controlled entity with the similar items, line by line, in its financial statements. For example, it may combine its share of the jointly controlled entity's inventory with its inventory and its share of the jointly controlled entity's property, plant and equipment with its property, plant and equipment. Alternatively, the venturer may include separate line items for its share of the assets, liabilities, income and expenses of the jointly controlled entity in its financial statements. For example, it may show its share of a current asset of the jointly controlled entity separately as part of its current assets; it may show its share of the property, plant and equipment of the jointly controlled entity separately as part of its property, plant and equipment. Both these reporting formats result in the reporting of identical amounts of surplus or deficit and of each major classification of assets, liabilities, income and expenses; both formats are acceptable for the purposes of this Guideline.

6.20.26 Whichever format is used to give effect to proportionate consolidation, it is inappropriate to offset any assets or liabilities by the deduction of other liabilities or assets or any income or expenses by the deduction of other expenses or income, unless a legal right of set-off exists and the offsetting represents the expectation as to the realisation of the asset or the settlement of the liability.

6.20.27 A venturer shall discontinue the use of proportionate consolidation from the date on which it ceases to have joint control over a jointly controlled entity

6.20.28 A venturer discontinues the use of proportionate consolidation from the date on which it ceases to share in the control of a jointly controlled entity. This may happen, for example, when the venturer disposes of its interest or when such external restrictions are placed on the jointly controlled entity that the venturer no longer has joint control.

Separate Financial Statements of a Venturer

6.20.29 An interest in a jointly controlled entity shall be accounted for in a venturer's separate financial statements in accordance with paragraphs 6.18.9 - 6.18.11 of section 6.18 of this Guideline: Consolidated and Separate Financial Statements.

6.20.30 This Guideline does not mandate which entities produce separate financial statements available for public use.

Transactions between a Venturer and a Joint Venture

6.20.31 When a venturer contributes or sells assets to a joint venture, recognition of any portion of a gain or loss from the transaction shall reflect the substance of the transaction. While the assets are retained by the joint venture, and provided the venturer has transferred the significant risks and rewards of ownership, the venturer shall recognise only that portion of the gain or loss that is attributable to the interests of the other venturers. The venturer

shall recognise the full amount of any loss when the contribution or sale provides evidence of a reduction in the net realisable value of current assets or an impairment loss.

6.20.32 When a venturer purchases assets from a joint venture, the venturer shall not recognise its share of the profits of the joint venture from the transaction until it resells the assets to an independent party. A venturer shall recognise its share of the losses resulting from these transactions in the same way as profits except that losses shall be recognised immediately when they represent a reduction in the net realisable value of current assets or an impairment loss.

Operators of Joint Ventures

6.20.33 Operators or managers of a joint venture shall account for any fees in accordance with section 6.11 of this Guideline: Revenue.

6.20.34 One or more venturers may act as the operator or manager of a joint venture. Operators are usually paid a management fee for such duties. The fees are accounted for by the joint venture as an expense.

Disclosure

6.20.35 A venturer shall disclose the aggregate amount of the following contingent liabilities, unless the probability of loss is remote, separately from the amount of other contingent liabilities:

(a) any contingent liabilities that the venturer has incurred in relation to its interests in joint ventures and its share in each of the contingent liabilities that have been incurred jointly with other venturers;
(b) its share of the contingent liabilities of the joint ventures themselves for which it is contingently liable; and
(c) those contingent liabilities that arise because the venturer is contingently liable for the liabilities of the other venturers of a joint venture.

6.20.36 A venturer shall disclose the aggregate amount of the following commitments in respect of its interests in joint ventures separately from other commitments:

(a) any capital commitments of the venturer in relation to its interests in joint ventures and its share in the capital commitments that have been incurred jointly with other venturers; and
(b) its share of the capital commitments of the joint ventures themselves.

6.20.37 A venturer shall disclose a listing and description of interests in significant joint ventures and the proportion of ownership interest held in jointly controlled entities. A venturer that recognises its interests in jointly controlled entities using the line-by-line reporting format for proportionate consolidation shall disclose the aggregate amounts of each of current assets, long-term assets, current liabilities, long-term liabilities, income and expenses related to its interests in joint ventures.

6.20.38 A venturer shall disclose the method it uses to recognise its interests in jointly controlled entities.

Applicability of this Guideline

6.20.39 This section 6.20 prescribes the principles to be followed in the different forms of joint ventures. In the event that:

i. two or more NPOs jointly undertake or fund a certain project or activity in a jointly controlled operation, or
ii. two or more NPOs jointly control an asset, or
iii. an NPO has joint control with other enterprises over a jointly controlled entity, in accordance with a contractual agreement, such NPOs should report their interests

in such joint ventures in separate as well as consolidated financial statements.

The provisions contained in this section 6.20 should be followed in their entirety to be in compliance with this Guideline.

6.21 Interim Financial Reporting

Definitions

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

Interim period is a financial reporting period shorter than a full financial year.

Interim financial report means a financial report containing either a complete set of financial statements (as described in Section 6.1) or a set of condensed financial statements (as described in this Guideline) for an interim period.

Minimum Components of an Interim Financial Report

6.21.2 An interim financial report should include, at a minimum, the following components:

- (i) condensed balance sheet;
- (ii) condensed statement of financial activities;
- (iii) condensed statement showing all changes in accumulated fund and other restricted and unrestricted funds.
- (iv) condensed cash flow statement; and
- (v) selected explanatory notes.

Form and Content of Interim Financial Statements

6.21.3 If an enterprise publishes a complete set of financial statements in its interim financial report, the form and content of those statements should conform to the requirements of section 6.1 of this Guideline for a complete set of financial statements.

6.21.4 If an enterprise publishes a set of condensed financial statements in its interim financial report, those condensed statements should include, at a minimum, each of the headings and subtotals that were included in its most recent annual financial statements and the selected explanatory notes as required by this Guideline. Additional line items or notes should be included if their omission would make the condensed interim financial statements misleading.

Selected Explanatory Notes

6.21.5 An enterprise should include the following information, as a minimum, in the notes to its interim financial statements, if material and if not disclosed elsewhere in the interim financial report. The information should normally be reported on a financial year-to-date basis. However, the enterprise should also disclose any events or transactions that are material to an understanding of the current interim period:

(a) a statement that the same accounting policies and methods of computation are followed in the interim financial statements as compared with the most recent annual financial statements or, if those policies or methods have been changed, a description of the nature and effect of the change;

(b) the nature and amount of items affecting assets, liabilities, accumulated fund, net income, or cash flows that are unusual because of their nature, size, or incidence;

(c) the nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years, if those changes have a material effect in the current interim period;

(d) material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period.

Disclosure of Compliance with this Guideline

6.21.6 If an enterprise's interim financial report is in compliance with this Guideline, that fact should be disclosed. An interim financial report should not be described as complying with this Guideline unless it complies with all of the requirements of each applicable paragraph

of this section 6.21.

Periods for which Interim Financial Statements are required to be presented

6.21.7 Interim reports should include interim financial statements (condensed or complete) for periods as follows:

(a) balance sheet as of the end of the current interim period and a comparative balance sheet as of the end of the immediately preceding financial year;

(b) statement of financial activities for the current interim period and cumulatively for the current financial year to date, with comparative statement of financial activities for the comparable interim periods (current and year-to-date) of the immediately preceding financial year;

(c) statement showing changes in accumulated fund cumulatively for the current financial year to date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year; and

(d) cash flow statement cumulatively for the current financial year to date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year.

Materiality

6.21.8 In deciding how to recognise, measure, classify, or disclose an item for interim financial reporting purposes, materiality should be assessed in relation to the interim period financial data. In making assessments of materiality, it should be recognised that interim measurements may rely on estimates to a greater extent than measurements of annual financial data.

Disclosure in Annual Financial Statements

6.21.9 If an estimate of an amount reported in an interim period is changed significantly during the final interim period of the financial year but a separate financial report is not published for that final interim period, the nature and amount of that change in estimate should be disclosed in a note to the annual financial statements for that financial year.

Recognition and Measurement

Same Accounting Policies as Annual Financial Statements

6.21.10 An enterprise should apply the same accounting policies in its interim financial statements as are applied in its annual financial statements, except for accounting policy changes made after the date of the most recent annual financial statements that are to be reflected in the next annual financial statements. However, the frequency of an enterprise's reporting (annual, half-yearly, or quarterly) should not affect the measurement of its annual results. To achieve that objective, measurements for interim reporting purposes should be made.

Use of Estimates

6.21.11 The measurement procedures to be followed in an interim financial report should be designed to ensure that the resulting information is reliable and that all material financial information that is relevant to an understanding of the financial position or performance of the enterprise is appropriately disclosed. While measurements in both annual and interim financial reports are often based on reasonable estimates, the preparation of interim financial reports generally will require a greater use of estimation methods than annual financial reports.

Applicability of this Guideline

6.21.12 This section 6.21 prescribes the principles to be followed by any entity that prepares and presents interim financial statements. Any NPO that presents interim financial reports, either to meet the requirements of donors or other parties or on a voluntary basis, would

be required to present such financial reports in accordance with this section 6.21, to be in compliance with this Guideline.

6.22 Provisions, Contingent Liabilities and Contingent Assets

Definitions

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

A **provision** is a liability of uncertain timing or amount.
A **liability** is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits.

An **obligating event** is an event that creates a legal or constructive obligation that results in an enterprise having no realistic alternative to settling that obligation.

A **legal obligation** is an obligation that derives from:

(a) a contract (through its explicit or implicit terms);
(b) legislation; or
(c) other operation of law.

A **constructive obligation** is an obligation that derives from an enterprise's actions where:

(a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the enterprise has indicated to other parties that it will accept certain responsibilities; and
(b) as a result, the enterprise has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

A **contingent liability** is:

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

(b) a present obligation that arises from past events but is not recognised because:
  (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
  (ii) the amount of the obligation cannot be measured with sufficient reliability.

A **contingent asset** is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise.

Application

6.22.2 The requirements set out in this paragraph 6.22 do not apply to retirement benefit costs, deferred tax and leases, which are specifically covered in sections 6.12, 6.7 and 6.10 of this Guideline.

A. Provisions

Recognition

6.22.3 A provision should be recognised when, and only when, it is probable (i.e. more likely than not) that a current obligation exists, as a result of a past event, and that the settlement thereof will require a transfer of economic benefits that can be reliably estimated. The amount so estimated shall be recognised as a provision.

Measurement

6.22.4 The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the balance sheet date.

6.22.5 The risks and uncertainties that inevitably surround many events and circumstances shall be taken into account in reaching the best estimate of a provision.

6.22.6 Where the effect of the time value of money is material, the amount of a provision should be the present value of the expenditures expected to be required to settle the obligation. Where discounting is used, the unwinding of the discount should be shown as a financial item and disclosed separately from interest.

6.22.7 Future events that may affect the amount required to settle an obligation should be reflected in the amount of a provision where there is sufficient objective evidence that such events will occur.

6.22.8 Gains from an expected disposal of assets should be excluded from the measurement of a provision.

6.22.9 Where some or all of the expenditure required to settle a provision may be reimbursed by another party (e.g. through an insurance claim), the reimbursement should be recognised, only when it is virtually certain that the other entity will settle the obligation. In such an event, the expense relating to the provision may be presented, net of the recovery, in the statement of financial activities.

6.22.10 Provisions should be reviewed at each balance sheet date and adjusted to reflect the current best estimate.

6.22.11 A provision, once made, should be used only to settle the expenditures for which the provision was originally recognised.

Disclosures

6.22.12 An entity shall disclose, for each class or category or provision:

(a) the carrying amount at the beginning and end of the period;
(b) any additional provisions made during the period, including increases or decreases to existing provisions;
(c) amounts used for set off against actual settlement during the period;
(d) unused amounts reversed during the period;
(e) a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits; and
(f) the amount of any expected reimbursement, stating the amount of ant asset that has been recognised for that expected reimbursement.

B. Contingent Liabilities and Contingent Assets

Recognition

6.22.13 Contingent liabilities and contingent assets should only be recognised as a note to the financial statements and not within the financial statements.

Disclosure

6.22.14 The following should be disclosed in respect of contingent liabilities, except where their existence is remote, and for probable contingent assets:

(a) a brief description of the nature of the contingent item; and
(b) where practicable, an estimate of its financial effect; and
(c) an indication of the uncertainties relating to the amount or timing of any outflow and in the case of a contingent liability, the possibility of any reimbursement.

The Applicability of this Guideline

6.22.15 The principles laid down in this section 6.22 with regard to provisions, contingent liabilities and contingent assets are applicable, irrespective of the type of the entity, and should be followed in their entirety to be in compliance with this Guideline.

6.23 Intangible Assets

Definition

6.23.1 The following terms are used in this Guideline with the meanings specified

An **intangible asset** is 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.

An **asset** is a resource:

(i) controlled by an enterprise as a result of past events; and
(ii) from which future economic benefits are expected to flow to the enterprise.

Monetary assets are monies held and assets to be received in fixed or determinable amounts of money.

Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.

Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services prior to the commencement of commercial production or use.

Recognition and Measurement

6.23.2 An intangible asset should be recognised if and only if:

(a) it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise; and
(b) the cost of the asset can be reliably measured.

regardless of whether the asset is generated internally or acquired externally.

6.23.3 The initial measurement of the value of intangible assets should be at cost.

6.23.4 In some cases an intangible asset may be acquired free of charge, or for nominal consideration, For example by way of government grant, when a government transfers or allocates to the enterprise, intangible assets such as airport landing rights, license to operate radio or television stations, import license or quotas or rights to access other restricted resources. Under section 6.13 of this Guideline: Accounting for Grants and other Assistance, an enterprise may initially choose to recognise both the intangible asset and the grant at fair value. An enterprise may initially choose not to recognise the asset at fair value, but at a nominal amount plus any expenditure that is directly attributable to preparing the asset for its intended use.

6.23.5 Research costs and other deferred expenditure, should be recognised as an expense in the period in which they are incurred and should not be recognised as an asset in a subsequent period. e.g. pre-operational expenses, start-up costs, preliminary expenses, promotional & advertising expenses.

6.23.6 Development expenditure should be written off in the period of expenditure except in the following circumstances when it may be deferred to future periods:

(a) there is a clearly defined product or process and the cost attributable to the product or process can be separately identified and measured;
(b) the outcome of such a project has been assessed with reasonable certainty as to:
- its technical feasibility; and
- its ultimate operational viability considered in the light of factors such as

likely socio economic conditions (including competing activities or products), public opinion and environmental legislation.

(c) the enterprise intends to use the product or process;

(d) the aggregate of the deferred development costs, any further development costs, and related production costs is reasonably expected to be comparable to acquiring a similar product in the market; and

(e) adequate resources exist, or are reasonably expected to be available, to enable the project to be completed and to provide any consequential increases in working capital.

6.23.7 Development costs initially recognised as expenditure should not be recognised as an asset in a subsequent period.

6.23.8 In the foregoing circumstances development expenditure may be deferred to the extent that its socio economic benefit can be reasonably assured over a period extending beyond the financial year in which it is incurred.

6.23.9 The amount of development costs recognised as an asset should be amortised and recognised as an expense on a systematic basis so as to reflect the pattern in which the related socio economic benefits are recognised.

6.23.10 The amortisation should commence with the application of the product, service, process or system and should be allocated on a systematic basis to each accounting period, by reference to the use of the product, service, process or system or the period over which these are expected to be used.

6.23.11 Deferred development expenditure for each product should be reviewed and where the circumstances that justified the deferral of expenditure no longer apply, or are considered doubtful, the expenditure, to the extent to which it is considered to be irrecoverable, should be written off immediately.

Disclosures

6.23.12 The following disclosures should be made:

(a) Accounting policy for research, development and other deferred expenditure.

(b) The nature of the expenses deferred.

(c) Movement in deferred expenditure balances including opening and closing balances, expenses deferred during the period and expenses amortised during the period.

Other Intangible Assets

6.23.13 Intangible assets that are purchased should be capitalised.

6.23.14 Intangible assets that are capitalised should be depreciated on a straight-line (or more appropriate) basis over their useful economic lives.

6.23.15 Useful economic lives should be reviewed at the end of each reporting period and revised if necessary. The carrying amount at the date of revision should be depreciated over the revised estimate of remaining useful economic life.

6.23.16 Intangible assets should not be revalued.

Applicability of this Guideline

6.23.17 This section 6.23 deals with the criteria for the recognition, measurement and disclosure of the various forms of intangible assets, including computer software, website development cost, research and development expenditure, etc., and should be followed in its entirety to be in compliance with this Guideline.

6.24 Discontinued operations

6.24.1 A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and

(a) represents a separate major line of business or geographical area of operations;
(b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
(c) is a subsidiary acquired exclusively with a view to resale.

Presentation and disclosure

6.24.2 An entity shall disclose:

(a) a single amount on the face of the income statement comprising the total of:

(i) the post-tax profit or loss of discontinued operations; and
(ii) the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or group(s) of assets and liabilities constituting the discontinued operation.

(b) an analysis of the single amount in (a) into:

(i) the revenue, expenses, pre-tax profit or loss and income tax expense of discontinued operations;
(ii) the gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or group(s) of assets constituting the discontinued operation and the related income tax expense.

The analysis may be presented in the notes or on the face of the income statement. If it is presented on the face of the income statement it shall be presented in a section identified as relating to discontinued operations, i.e. separately from continuing operations.

(c) the net cash flows attributable to the operating, investing and financing activities of discontinued operations. These disclosures may be presented either in the notes or on the face of the financial statements.

6.24.3 Unless impracticable, an entity shall restate the disclosures in the preceding paragraph for prior periods presented in the financial statements so that the disclosures relate to all operations that have been discontinued by the end of the reporting period for the latest period presented.

6.24.4 If an entity ceases to classify a component of an entity as held for sale, the entity shall reclassify the results of operations of the component previously presented in discontinued operations and shall include them in income from continuing operations for all periods presented. The amounts for prior periods shall be described as having been restated.

Non-current assets held for sale

6.24.5 An entity shall classify non-current assets (including property, plant and equipment, intangibles, and investments in subsidiaries, associates and joint ventures) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets, its sale must be highly probable, and the entity must expect to complete the sale within one year from the date of classification as held for sale.

6.24.6 An entity shall measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell.

6.24.7 An entity shall not depreciate (or amortise) a non-current asset while it is classified as held for sale or while it is part of a disposal group classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale shall continue to be recognised.

Disclosure

6.24.8 An entity shall disclose the following information in the period in which non-current assets have been either classified as held for sale or sold:

(a) a description of the asset or disposal group;
(b) a description of the facts and circumstances of the sale, or leading to the expected disposal, and the expected manner and timing of that disposal; and
(c) the gain or loss recognised, if not separately presented on the face of the income statement.

6.25 Investment Properties

Definitions

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

Carrying amount is the amount at which an asset is recognised in the balance sheet.

Cost is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Sections.

Investment property is property (land or a building-or part of a building-or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:

(a) use in the production or supply of goods or services or for administrative purposes; or
(b) sale in the ordinary course of business.

Owner-occupied property is property held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services or for administrative purposes.

6.25.2 Investment property is held to earn rentals or for capital appreciation or both. Therefore, an investment property generates cash flows largely independently of the other assets held by an entity. This distinguishes investment property from owner-occupied property. The production or supply of goods or services (or the use of property for administrative purposes) generates cash flows that are attributable not only to property, but also to other assets used in the production or supply process. Section 6.9 of this Guideline: Property, Plant and Equipment apply to owner-occupied property.

6.25.3 The following are examples of investment property:

(a) land held for long-term capital appreciation rather than for short-term sale in the ordinary course of business;
(b) land held for a currently undetermined future use. (If an entity has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation);
(c) a building owned by the entity (or held by the entity under a finance lease) and leased out under one or more operating leases;

(d) a building that is vacant but is held to be leased out under one or more operating leases.

6.25.4 The following are examples of items that are not investment property and are therefore outside the scope of this Guideline:

(a) property being constructed or developed on behalf of third parties (see section 6.6 of this Guideline: Construction Contracts).
(b) owner-occupied property (see section 6.9 of this Guideline: Property, Plant and Equipment), including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees and owner-occupied property awaiting disposal.

6.25.5 Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the activities of the enterprise or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), an entity accounts for the portions separately.

If the portions could not be sold separately, the property is investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

6.25.6 In some cases, an entity owns property that is leased to, and occupied by, its parent or another subsidiary. The property does not qualify as investment property in the consolidated financial statements, because the property is owner-occupied from the perspective of the group. However, from the perspective of the entity that owns it, the property is investment property if it meets the definition in paragraph 6.25.1. Therefore, the lessor treats the property as investment property in its individual financial statements.

Recognition

6.25.7 Investment property shall be recognised as an asset when and only when:

(a) it is probable that the future economic benefits that are associated with the investment property will flow to the entity; and
(b) the cost of the investment property can be measured reliably.

6.25.8 An entity evaluates under this recognition principle all its investment property costs at the time they are incurred. These costs include costs incurred initially to acquire an investment property and costs incurred subsequently to add to, replace part of, or service a property.

Measurement at Recognition

6.25.9 An investment property shall be measured initially at its cost. Transaction costs shall be included in the initial measurement.

6.25.10 The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure. Directly attributable expenditure includes, for example, professional fees for legal services, property transfer taxes and other transaction costs.

6.25.11 The cost of a self-constructed investment property is its cost at the date when the construction or development is complete. Until that date, an entity applies section 6.9 of this Guideline: Property, Plant and Equipment. At that date, the property becomes investment property and this section 6.25 applies (see paragraphs 6.25.17(c) and 6.25.22).

6.25.12 The cost of an investment property is not increased by:

(a) start-up costs (unless they are necessary to bring the property to the condition necessary for it to be capable of operating in the manner intended by management),
(b) operating losses incurred before the investment property achieves the planned level of occupancy, or
(c) abnormal amounts of wasted material, labour or other resources incurred in constructing or developing the property.

If payment for an investment property is deferred, its cost is the cash price equivalent. The difference between this amount and the total payments is recognised as interest expense over the period of credit.

6.25.13 The initial cost of a property interest held under a lease and classified as an investment property shall be as prescribed for a finance lease i.e. the asset shall be recognised at the lower of the fair value of the property and the present value of the minimum lease payments. An equivalent amount shall be recognised as a liability in accordance with that same paragraph.

6.25.14 Any premium paid for a lease is treated as part of the minimum lease payments for this purpose, and is therefore included in the cost of the asset, but is excluded from the

liability. If a property interest held under a lease is classified as investment property, the item accounted for at the value stated is that interest and not the underlying property.

Guidance on determining cost for initial recognition purposes is set out in this section

Measurement after Recognition

Accounting Policy

6.25.15 An entity shall use the cost model for:

(a) all investment property backing liabilities that pay a return linked directly to the returns from, specified assets including that investment property; and
(b) all other investment property.

Cost Model

6.25.16 After initial recognition, an entity shall measure all of its investment property in accordance with section 6.9 of this Guideline: Property, Plant and Equipment, other than those that meet the criteria to be classified as held for sale (or are included in a disposal group that is classified as held for sale). Investment properties that meet the criteria to be classified as held for sale (or are included in a disposal group that is classified as held for sale) shall be measured in accordance with section 6.24 of this Guideline: Non-current Assets Held for Sale and Discontinued Operations.

Transfers

6.25.17 Transfers to, or from, investment property shall be made when, and only when, there is a change in use, evidenced by:

(a) commencement of owner-occupation, for a transfer from investment property to owner-occupied property;
(b) end of owner-occupation, for a transfer from owner-occupied property to investment property;
(c) end of construction or development, for a transfer from property in the course of construction or development (covered by section 6.9 Property, Plant and Equipment) to investment property.

6.25.18 When an entity decides to dispose of an investment property without development, it continues to treat the property as an investment property until it is derecognised (eliminated from the balance sheet) and does not treat it as inventory. Similarly, if an entity begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property and is not reclassified as owner-occupied property during the redevelopment.

6.25.19 When an entity uses the cost model, transfers between investment property, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes.

6.25.20 If an owner-occupied property becomes an investment property an entity shall apply the provisions of section 6.9: Property, Plant and Equipment up to the date of change in use. In the event that the property is valued prior to transfer, the entity shall treat any difference at that date between the carrying amount of the property in accordance with section 6.9: Property, Plant and Equipment and the revalued amount in the same way as a revaluation in accordance with section 6.9.

6.25.21 Up to the date when an owner-occupied property becomes an investment property, an entity depreciates the property. The entity treats any difference at that date between the carrying amount of the property in accordance with section 6.9: Property, Plant and Equipment and any revalued amount in the same way as a revaluation in accordance with section 6.9: Property, Plant and Equipment. In other words:

(a) any resulting decrease in the carrying amount of the property is recognised in the statement of financial activities. However, to the extent that an amount is included in revaluation surplus for that property, the decrease is charged against that revaluation surplus.

(b) any resulting increase in the carrying amount is credited directly to accumulated fund in revaluation surplus. On subsequent disposal of the investment property, the revaluation surplus included in reserve may be transferred to the accumulated fund. The transfer from revaluation surplus to retained earnings is not made through the statement of financial activities.

6.25.22 When an entity completes the construction or development of a self-constructed investment property that will be carried at cost in accordance with this section, unless revalued in accordance with section 6.9: Property, Plant and Equipment.

Disposals

6.25.23 An investment property shall be derecognised (eliminated from the balance sheet) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal.

6.25.24 Gains or losses arising from the retirement or disposal of investment property shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset and shall be recognised in the statement of financial activities in the period of the retirement or disposal, (unless section 6.10 of this Guideline: Leases requires otherwise on a sale and leaseback transaction).

Disclosure Cost Model

6.25.25 The disclosures below apply in addition to those in section 6.10 of this Guideline: Leases. In accordance with section 6.10, the owner of an investment property provides lessors' disclosures about leases into which it has entered. An entity that holds an investment property under finance or operating lease provides lessees' disclosures for finance leases and lessors' disclosures for any operating leases into which it has entered.

6.25.26 An entity shall disclose:

(a) whether it applies the cost model;
(b) when classification is difficult, the criteria it uses to distinguish investment property from owner-occupied property;
(c) in the event that the investment property (as measured or disclosed in the financial statements) has been revalued in accordance with section 6.9 of this Guideline: Property Plant and Equipment the information as required by that section;
(d) the amounts recognised in the statement of financial activities for:

    (i) rental income from investment property;
    (ii) direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income during the period; and
    (iii) direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental income during the period;

(e) the existence and amounts of restrictions on the realisability of investment property or the remittance of income and proceeds of disposal;
(f) contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements;
(g) the depreciation methods used;
(h) the useful lives or the depreciation rates used;
(i) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period;

(j) a reconciliation of the carrying amount of investment property at the beginning and end of the period, showing the following:
   (i) additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognised as an asset;
   (ii) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with section 6.24: Non-current Assets Held; for Sale and Discontinued Operations, and other disposals;
   (iii) depreciation;
   (iv) the net exchange differences arising on the translation of the financial statements into a different presentation currency, and on translation of a foreign operation into the presentation currency of the reporting entity;
   (v) transfers to and from owner-occupied property;
   (vi) other changes; and

(k) the revalued amount of investment property, with valuation carried out as required by paragraphs 6.9.13 to 6.9.20 for property, plant and equipment and the provisions of these paragraphs in this regard shall apply.

Applicability of this Guideline

6.25.27 This section 6.25 prescribes the principles for accounting, valuation and presentation of property that is being held for purpose of investment and is not owner occupied. While it is recognised that NPOs would not normally invest in such property, it is also possible that an NPO can come into ownership of such property. This section 6.25 provides the direction and processes to meet with such a situation. NPOs would be expected to adhere to the requirements as set out in this section 6.25 to be in compliance with this Guideline.

7. Glossary of Terms

Following are the references by Guideline paragraph number.

	Paragraph Reference
Accounting policies	6.4.1
Accounting profit	6.7.1
Accumulated Fund	2.15
A change in accounting estimate	6.4.1
Asset	6.23.1
Associate	6.19.1
Borrowing costs	6.15.1
Carrying amount	6.9.1 6.25.1
Cash	6.3.1
Cash equivalents	6.3.1
Cash flows	6.3.1
Close members of the family	6.16.1
Closing rate	6.14.1
Commencement of the lease term	6.10.1
Compensation	6.16.1
Consolidated financial statements	6.18.1 6.19.1
Construction contract	6.6.1
Constructive obligation	6.22.1
Contingent liability	6.22.1
Contingent asset	6.22.1
Control	6.19.1 6.18.1 6.20.1
Cost	6.9.1 6.25.1
Cost method	6.18.1
Cost plus contract	6.6.1
Current investment	6.17.1
Current tax	6.7.1
Deferred tax liabilities	6.7.1
Defined benefit plans	6.12.1

Defined contribution plans	6.12.1
Depreciable amount	6.16.1
Depreciation	6.16.1
Development	6.23.1
Discontinuing operation	6.24.1
Donor Agreement	2.7 – 2.10
Entity-specific value	6.16.1
Equity method	6.19.1
Exchange difference	6.14.1
Exchange rate	6.14.1
Events after the balance sheet date	6.5.1
Fair value	6.2.1 6.9.1 6.14.1 6.17.1 6.11.1
Finance lease	6.10.1
Financing activities	6.3.1
Fixed price contract	6.6.1
Foreign currency	6.14.1
Foreign operation	6.14.1
Functional currency	6.14.1
Funding	6.12.1
Governing Body	2.20
Government	6.13.1
Government assistance	6.13.1
Government grants	6.13.1
Grants	6.13.1
Grants related to assets	6.13.1
Group	6.14.1 6.18.1
Impairment loss	6.9.1
Impracticable	6.1.1 6.4.1
Inception of the lease	6.10.1
Intangible asset	6.23.1

Term	Reference
Interim financial report	6.21.1
Interim period	6.21.1
Inventories	6.2.1
Investing activities	6.3.1
Investment	6.17.1
Investment property	6.25.1
Investor in a joint venture	6.20.1
Joint control	6.19.1 6.20.1
Joint venture	6.20.1
Key management personnel	6.16.1
Lease	6.10.1
Legal obligation	6.22.1
Liability	6.22.1
Long-term investment	6.17.1
Market value	6.17.1
Marketable	6.17.1
Material	6.1.1
Material omissions or misstatements	6.4.1
Monetary assets	6.23.1
Monetary items	6.14.1
Net investment in a foreign operation	6.14.1
Net realisable value	6.2.1
Notes	6.1.1
Obligating event	6.22.1
Operating activities	6.3.1
Operating lease	6.10.1
Owner-occupied property	6.25.1
Parent	6.18.1
Presentation currency	6.14.1
Prior period errors	6.4.1
Property, plant and equipment	6.9.1
Proportionate consolidation	6.20.1

Prospective	6.4.1
Provision	6.22.1
Qualifying asset	6.15.1
Recoverable amount	6.9.1
Related party	6.16.1
Related party transaction	6.16.1
Research	6.23.1
Residual value of an asset	6.9.1
Restricted Funds	2.15 - 2.12
Retirement benefit plans	6.12.1
Retrospective application	6.4.1
Retrospective restatement	6.4.1
Revenue	6.11.1
Segments	
Reportable segments **Aggregation criteria** **Quantitative thresholds**	6.8.1 6.8.2 6.8.3
Separate financial statements	6.18.1 6.19.1 6.20.1
Significant influence	6.19.1 6.20.1
Spot exchange rate	6.14.1
Subsidiary	6.18.1 6.19.1
Taxable profit (tax loss)	6.7.1
Tax expense (tax income)	6.7.1
Unrestricted Funds	2.13 – 2.14
Useful life	6.9.1
Venturer	6.20.1

Z:\NPO's Guidelines\NGO Guideline -final(clean copy for website)\Final NGO Guidelines (website).doc