

# Financial Statements (FS) of Non Profit Organisations (NPOs)

(from FY 2024 – 25)

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# Contents

- Which format is prescribed?
  - Technical guide for accounting for NPOs -  
<https://resource.cdn.icaai.org/74188asb60123.pdf>
  - Financial statements format in excel -  
<https://resource.cdn.icaai.org/74189asb60123a.rar>
- The format in detail and explanation regarding certain terms
- Formats required in ITR 7 – *not compatible with TG*
- What if the client does not follow the prescribed format

## Which format to follow?

# Guidance Note on Financial Statement of Non-Corporate Entities or Technical Guide on Accounting for Non Profit Organisations

Extract from the FAQ issued by ICAI

**Question 6:** XYZ Foundation is a not-for profit organisation working to uphold the rights of children in India. It prepares financial statements that are subject to audit. Whether the Guidance Note on Financial Statements of Non-corporate Entities is required to be applied while preparing financial statements of XYZ foundation?

**Response:** This Guidance Note is relevant for the purpose of preparation of the financial statements of Non-Corporate Entities as per Question 2 of these FAQs.

As regards Not for Profit Organisations, ICAI has issued a '*Technical Guide on Accounting for Not-for-profit organisations*' (<https://resource.cdn.icai.org/74188asb60123.pdf>) to recommend uniform accounting principles in accordance with the Accounting Standards and other generally accepted accounting principles in India for the preparation and presentation of financial statements of NPOs to meet the common information needs of the various stakeholders.

Formats for NPOs have been specifically recommended in the Technical Guide on NPOs and the same are relevant for the purpose of preparation of financial statements of NPOs.

Hence, in the given case, for preparation of financial statements of XYZ foundation, the Technical Guide on Accounting for NPOs is relevant.

# General Instructions for NPO Financial Statements

- **Recommended Formats:**

Prescribed formats are recommended for **Balance Sheet** and **Income & Expenditure Account** of NPOs in the Technical Guide.

- **Modifications Permitted:**

Changes (additions, deletions, reclassifications) to the format are allowed to comply with relevant statutes & applicable Accounting Standards (AS).

- **Additional Disclosures:**

Required disclosures per AS must be included in **notes to accounts** or **additional statements**, unless explicitly required on the face of the financial statements. Statutory disclosures must also be made in the notes.

# General Instructions for NPO Financial Statements

- **Basis of Accounting**

Financial statements must be prepared **on an accrual basis**.

- **Accounting Policies:**

A separate **statement of significant accounting policies** must be disclosed.

Policies should be **consistent year-to-year**.

Any **change in policy** having material impact must be disclosed, including its financial effect if ascertainable.

- **Substance Over Form**

Transactions and events should be recorded and presented based on their **substance**, not just legal form.

- **Materiality Consideration**

Accounting treatment and disclosures should consider the **materiality** of items.

# General Instructions for NPO Financial Statements

## •Notes to Accounts:

- Should provide additional explanations or breakdowns of items in the financial statements.
- Should include non-recognized items if relevant.
- All items on the face of financial statements must be cross-referenced to related notes.
- Avoid excessive or inadequate detail—maintain clarity and relevance.

## •Rounding Off Figures (*Not Mandatory*):

- Gross income < ₹100 crore: Round off to nearest hundreds, thousands, lakhs or millions.
- Gross income ≥ ₹100 crore: Round off to nearest lakhs, millions or crores.
- Chosen unit should be uniformly applied throughout.

# General Instructions for NPO Financial Statements

- Comparative Figures: All items in the financial statements and notes must show corresponding figures from the previous year, except in the first year of reporting.
- Terminology: Terms used should follow the Accounting Standards.
- Minimum Disclosure Requirements:
  - Minimum line items must be shown on the face of the Balance Sheet and Income & Expenditure Account.
  - Additional or substituted line items/subtotals should be used if required for clarity or compliance.
- Cash Flow Statement:
  - Should be prepared where applicable, covering the current and previous reporting periods.

# Formats – Balance Sheet

Name of the NPO .....				
Balance Sheet as at .....				
			(Amount in Rs. XX)	
	Particulars	Note	31 March 20XX	31 March 20XX
<b>I</b>	<b>Sources of Funds</b>			
<b>1</b>	<b>NPO Funds</b>	<b>3</b>	<b>0</b>	<b>0</b>
(a)	Unrestricted Funds			
(b)	Restricted Funds			
			-	-
<b>2</b>	<b>Non-current liabilities</b>			
(a)	Long-term borrowings	<b>4</b>	-	-
(b)	Other long-term liabilities	<b>5</b>	-	-
(c)	Long-term provisions	<b>6</b>	-	-
			-	-
<b>3</b>	<b>Current liabilities</b>			
(a)	Short-term borrowings	<b>4</b>	-	-
(b)	Payables	<b>7</b>		
(c)	Other current liabilities	<b>8</b>	-	-
(d)	Short-term provisions	<b>6</b>	-	-
			-	-
	<b>Total</b>		-	-



## Formats – Balance Sheet Contd...

<b>II</b>	<b>Application of Funds</b>			
<b>1</b>	<b>Non-current assets</b>			
<b>(a)</b>	<b>Property, Plant and Equipment and Intangible assets</b>	<b>9</b>		
<b>(i)</b>	<b>Property, Plant and Equipment</b>			
<b>(ii)</b>	<b>Intangible assets</b>			
<b>(iii)</b>	<b>Capital work in progress</b>			
<b>(iv)</b>	<b>Intangible asset under development</b>			
<b>(b)</b>	<b>Non-current investments</b>	<b>10</b>	-	-
<b>(c)</b>	<b>Long Term Loans and Advances</b>	<b>11</b>	-	-
<b>(d)</b>	<b>Other non-current assets (specify nature)</b>	<b>12</b>	-	-
			-	-
<b>2</b>	<b>Current assets</b>			
<b>(a)</b>	<b>Current investments</b>	<b>10</b>	-	-
<b>(b)</b>	<b>Inventories</b>			
<b>(c)</b>	<b>Receivables</b>	<b>13</b>	-	-
<b>(d)</b>	<b>Cash and bank balances</b>	<b>14</b>	-	-
<b>(e)</b>	<b>Short Term Loans and Advances</b>	<b>11</b>	-	-
<b>(f)</b>	<b>Other current assets</b>	<b>15</b>	-	-
			-	-
	<b>Total</b>		-	-
	<b>Brief about the Entity</b>	<b>1</b>		
	<b>Summary of significant accounting policies</b>	<b>2</b>		
	<b>The accompanying notes are an integral part of the financial statements</b>			

# Instructions / Principles regarding Balance Sheet

## GENERAL CLASSIFICATION PRINCIPLES –

- ✓ **Assets**
- **Current Asset:** If it is:
  - Expected to be realized within 12 months after reporting date, or
  - Cash or cash equivalent (not restricted for use beyond 12 months).
- **Non-Current Asset:** All other assets.
- ✓ **Liabilities**
- **Current Liability:** If it is:
  - Due within 12 months after the reporting date, or
  - The NPO does not have an unconditional right to defer settlement beyond 12 months.
- **Non-Current Liability:** All other liabilities.

# Instructions / Principles regarding Balance Sheet

- ◆ DISCLOSURES IN NOTES TO ACCOUNTS

Format of notes can be traced from Technical Guide. The same is not reproduced in the slides, but salient features thereof are discussed (Page 95 of PDF)

## 1 NPO FUNDS - A. Unrestricted Funds

### 1. Corpus Fund: NOT THE CORPUS FUND MEANT UNDER THE INCOME TAX ACT

- Contributed by founders/promoters.
- Disclose opening, additions, and closing balance.

### 2. General Fund:

- Includes unrestricted resources not allocated to specific purposes.
- Surplus/deficit from income & expenditure is transferred here.
- Include grants/donations for non-depreciable assets (e.g., freehold land).

### 3. Designated Funds:

1. Internally earmarked for specific purposes or future commitments.

# Instructions / Principles regarding Balance Sheet

- ♦ DISCLOSURES IN NOTES TO ACCOUNTS

## 1 NPO FUNDS – B. Restricted Funds

- Subject to donor-imposed or legal restrictions.
- Includes:
  - Endowment funds (only income can be used).
  - Funds for assets yet to be acquired.
  - Deferred income (for depreciable assets already acquired).
  - Funds for specific expenses not yet incurred.
- Each restricted fund must be shown separately (either on the face or in schedules).

# Instructions / Principles regarding Balance Sheet

- ◆ DISCLOSURES IN NOTES TO ACCOUNTS

## 1 NPO FUNDS

- **Notes:**
- Show opening balance, additions, utilization, and closing balance for:
  - Surplus/(Deficit)
  - Each Designated/Restricted Fund
- Separately disclose funds backed by specific bank balances/investments.

# Instructions / Principles regarding Balance Sheet

- **◆ DISCLOSURES IN NOTES TO ACCOUNTS**

- **NON-CURRENT LIABILITIES**

- **A. Long-Term Borrowings**

- **Types:**

- Term loans (from banks/others)
- Loans from related parties

- **Disclosures:**

- Secured/unsecured
- Interest-bearing vs. interest-free
- Repayment terms
- Interest accrued and due

- **B. Long-Term Provisions**

- **Examples:**

- Employee retirement benefits
- Leave encashment
- Other long-term provisions (specify nature)

# Instructions / Principles regarding Balance Sheet

- **◆ DISCLOSURES IN NOTES TO ACCOUNTS**
  - **◆ CURRENT LIABILITIES**
    - **A. Short-Term Borrowings**
    - Loans repayable on demand:
      - From banks
      - From others
    - Loans from related parties
    - **Further classification:**
      - Secured/unsecured
      - Nature of security
    - Disclose current maturities of long-term borrowings separately
    - **B. Payables**

# Instructions / Principles regarding Balance Sheet

- **◆ DISCLOSURES IN NOTES TO ACCOUNTS**
  - **◆ CURRENT LIABILITIES**
  - **C. Other Current Liabilities**
    - Examples:
      - Interest accrued but not due
      - Income received in advance
      - Unpaid matured securities
      - Other payables (specify)
  - **D. Short-Term Provisions**
    - For employee benefits, etc.
    - Others (specify)



# Instructions / Principles regarding Balance Sheet

- **◆ DISCLOSURES IN NOTES TO ACCOUNTS**

- **1 NON-CURRENT ASSETS**

- **A. Property, Plant & Equipment (PPE)**

- Classification: Land, Building, Plant, Furniture, Vehicles, Equipment, Bearer plants, etc.

- **Separate disclosure for:**

- Donated assets
    - Leased assets
    - Advances to suppliers (do not classify as asset)

- **Reconciliation Statement:**

- Opening & closing balance
    - Additions, disposals, revaluations (>10%), depreciation/impairment

- **Fair Value Disclosure:**

- For donated assets (existing & received during the year)
    - At least every 3 years if not practicable annually
    - Disclose restriction on use of assets

# Instructions / Principles regarding Balance Sheet

- **◆ DISCLOSURES IN NOTES TO ACCOUNTS**
  - **1** NON-CURRENT ASSETS
    - **B. Intangible Assets**
      - Classification: Goodwill, Software, Copyrights, Patents, Licenses, Others
      - Same reconciliation & disclosure as for PPE

# Instructions / Principles regarding Balance Sheet

- **◆ DISCLOSURES IN NOTES TO ACCOUNTS**

- **1 NON-CURRENT ASSETS**

- **C. Long-Term Investments**

- Types: Govt. securities, investment property, other long-term investments
    - Shown at **cost** unless permanent decline (adjusted)

- **Disclose:**

- Market value of quoted investments
    - Total investments
    - Stock exchange listing, if any

# Instructions / Principles regarding Balance Sheet

- **◆ DISCLOSURES IN NOTES TO ACCOUNTS**
  - **1** NON-CURRENT ASSETS
    - **D. Long-Term Loans & Advances**
      - Capital advances, loans to related parties, others
      - Further classification:
        - Secured, Unsecured, Doubtful
      - Disclose bad/doubtful allowances separately

# Instructions / Principles regarding Balance Sheet

- ◆ DISCLOSURES IN NOTES TO ACCOUNTS
  - 2 CURRENT ASSETS
    - A. Current Investments
      - Same types as long-term
      - Valued at **lower of cost and fair value**
      - Can be valued individually or by category
    - B. Inventories
      - Valued at **lower of cost and net realizable value**
      - For free/nominal distribution: use **replacement cost**
      - Disclose fair values of non-monetary items

# Instructions / Principles regarding Balance Sheet

- **◆ DISCLOSURES IN NOTES TO ACCOUNTS**
  - **2 CURRENT ASSETS**
  - **C. Receivables**
    - Includes receivable grants/donations (reasonably assured)
    - Disclose amounts outstanding for >6 months
  - Further classification:
    - Secured, Unsecured, Doubtful
    - Separate allowance for doubtful receivables

# Instructions / Principles regarding Balance Sheet

- **◆ DISCLOSURES IN NOTES TO ACCOUNTS**
  - **2 CURRENT ASSETS**
  - **D. Cash and Bank Balances**
  - **Cash Equivalents:**
    - Bank balances
    - Cheques, drafts
    - Cash in hand
  - **Other Bank Balances:**
    - Earmarked balances
    - Margin money or deposits under lien
    - Deposits (3–12 months maturity)
    - Others (specify)

# Instructions / Principles regarding Balance Sheet

- **◆ DISCLOSURES IN NOTES TO ACCOUNTS**

- **2 CURRENT ASSETS**

- **E. Short-Term Loans & Advances**

- Related parties and others (specify)
- Further classify:
  - Secured, Unsecured, Doubtful
- Disclose separate allowance for doubtful advances

- **F. Other Current Assets**

- Includes all other current assets that don't fit elsewhere
- Example: interest accrued on investments



# Income and Expenditure account

Name of the NPO .....								
Income and Expenditure for the year ended .....								
								(Amount in Rs.)
	Particulars	Note	31 March 20XX			31 March 20XX		
			Unrestricted funds	Restricted funds	Total	Unrestricted funds	Restricted funds	Total
I	Income							
(a)	Donations and Grants							
(b)	Fees from Rendering of Services							
(c)	Sale of Goods							
II	Other Income	16					-	-
III	Total Income (I+II)						-	-
IV	Expenses:							
(a)	Material consumed/distributed	17					-	-
(b)	Donations/contributions paid							
(c)	Employee benefits expense	18					-	-
(d)	Depreciation and amortization expense	19					-	-
(e)	Finance costs	20					-	-
(f)	Other expenses	21					-	-
(g)	Religion/charitable expenses							
(h)	Other Expenses (specify nature)							
	Total expenses						-	-

# Income and Expenditure account

	Particulars	Note	31 March 20XX			31 March 20XX		
			Unrestrict ed funds	Restricted funds	Total	Unrestrict ed funds	Restrict ed funds	Total
V	Excess of Income over Expenditure for the year before exceptional and extraordinary items (III- IV)						-	-
VI	Exceptional items (specify nature & provide note/delete if none)						-	-
VII	Excess of Income over Expenditure for the year before extraordinary items (V-VI)						-	-
VIII	Extraordinary Items (specify nature & provide note/delete if none)						-	-
IX	Excess of Income over Expenditure for the year (VII-VIII)						-	-
	Appropriations Transfer to funds, e.g., Building fund							
	Transfer from funds							
	Balance transferred to General Fund							
	The accompanying notes are an integral part of the financial statements							

# Instructions / Principles regarding Income and expenditure account

- Disclosure Objective:**

The Income and Expenditure Account should present all material features and clearly reflect the financial results of the NPO for the reporting period.

- Recognition of Donations and Grants:**

Donations and grants should be recognised only when:

- There is reasonable assurance that the NPO will comply with the attached conditions.
- There is reasonable assurance that the grants/donations will be received.

- Depreciation:**

Depreciation must be provided to allocate the depreciable amount of an asset over its useful life.

# Instructions / Principles regarding Income and expensiture account

- Non-Monetary Grants/Donations:**

Items received free or at nominal value must be disclosed at fair value and quantity, showing:

- Opening balance
- Additions during the year
- Less: Distribution and sale
- Closing balance

- Appropriations:**

After determining the surplus/deficit:

- Transfers to specific funds (e.g., Building Fund)
- Transfers from funds
- Balance transferred to General Fund

- Classification of Finance Costs:**

- Interest expense
- Other borrowing costs
- Net gain/loss on foreign currency transactions and translation (applicable portion)

# Instructions / Principles regarding Income and expenditure account

- **Classification of Other Income:**

- Interest income
- Dividend income
- Net gain/loss on sale of investments
- Other income (net of directly related expenses)

- **Mandatory Disclosures in Notes:**

- **Employee Benefits Expense**, showing separately:

- (i) Salary and wages
- (ii) Contribution to provident and other funds
- (iii) Staff welfare expenses

- **Items exceeding ₹1,00,000 or 1% of gross income (whichever is higher)**

- Adjustments to carrying amount of investments
- Net gain/loss on foreign currency (excluding finance cost items)
- Details of exceptional and extraordinary items
- Prior period items

# Instructions / Principles regarding Income and expenditure account

- **Expenditure Disclosures – Item-wise (to be shown separately):**

- Consumption of stores and spare parts
- Power and fuel
- Rent
- Repairs to buildings
- Repairs to machinery
- Insurance
- Rates and taxes
- Miscellaneous expenses

# Formats required in ITR 7

Paragraph reference	Description
A 22	Unlisted equity shares held
Schedule I, IA	Accumulation u/s 11(2) [form 10 cases]
Schedule D, DA	Deemed application – explanation to section 11(1) [form 9 A Cases]
Schedule J	Disclosures of corpus funds, loan funds etc
Part A B.S; Sch R	Balance sheet
Sch V.C	Disclosures of voluntary contribution
A.I	Incomes other than voluntary contribution
Sch A	Application of income
Sch IE 1; IE 2	Income and expenditure, disclosures

# What if the client does not follow this format?

- Inform the client through audit engagement letter that ICAI has prescribed a format for presentation of financial statements of NPOs and it is their responsibility to prepare the financial statements in that format.
- If client is not preparing the financial statements in this format, get an audit representation from them stating the fact that there have not prepared the financial statements in this format and the reason therefor.
- Make suitable disclosure in the audit report. Since a technical guide is not mandatory in nature, a disclosure of the fact would suffice. Anyway, this is a matter of professional judgment of each auditor.
- In UDIN make appropriate reference – i.e., qualified report or clean report or emphasis of matter etc.



# THANK YOU...

- The flexibility, hitherto, enjoyed by non corporate entities and non profit organizations in financial reporting is now curtailed.
- Its very difficult for the entities themselves to assimilate the figures reported, leave alone stake holders and revenue authorities
- Time consuming and added stress when books are brought near the tax deadlines
- For tax reporting purposes different set of disclosures and standards are called for.
- Let's hope we are not moving into an era of form over substance.

For your valuable comments and feedback...