

# Overview of Financial Statements of NGOs

## Need for Financial Reporting Framework for NGOs

- Financial reporting should provide true and fair view of state of affairs in conformity with generally accepted accounting principles (GAAP).
- India GAAP is based on Accounting Standards formulated by ICAI
- TFV means financial statements are accurate, complete and present a fair representation of the company's financial position and performance.
- This confirmation is provided by an external auditor as per its opinion in the auditor report. This auditor is accredited with the apex accounting body i.e. ICAI
- Financial reporting (statements) should provide uniformity, clarity and common understanding to various stakeholders.
- For NGOs, lack of awareness and uniform applicability, inconsistency in basis of accounting, non-uniform terminology etc. results in financial statements being neither standard nor comparable.
- Financial reporting framework for NGOs is detailed in *Technical Guide on Accounting of NGOs (Jan 2022)* by ICAI for uniformity and standardisation.

## Components of Accounting Framework as per Technical Guide

1. **Elements of financial statements:** Identify and define the items that should be considered as income, expenses, assets and liabilities in NPOs.

2. **Principles for recognition of items:** These principles lay down the timing of recognition (when) in the financial statements.
3. **Principles of measurement:** These lay down at what amount items should be recognised.
4. **Presentation and disclosure principles:** These explain the manner of presentation and disclosures required.

*Note: 1, 2 and 3 are sector-neutral (not different for NPOs and for profit entities), while presentation and disclosure differ for the two sectors.*

# Accounting Terms

## Assets

These are resources or items that the NGO owns Assets have future economic value that can be measured and can be expressed in monetary terms. Examples include investments, cash, inventory, accounts receivable, land, supplies, equipment, buildings and vehicles.

Three categories:

1. Fixed Assets
2. Investments
3. Current Assets

## Liabilities

These refer to the legal financial obligations or debts that NGOs incur during business operations. They are settled over time through the transfer of economic benefits such as money, services or goods. Liabilities include payables, loans, accrued expenses, provisions.

Two types:

1. Long term
2. Short term

## Equity/Capital, Net Assets

Refers to the amount of money that is required to return to its shareholders after all assets are liquidated and all liabilities paid off.

Equity capital is not returned to founders/promoters in NGOs

### **Revenue/Income**

Refers to income that an NGO generates for/on its normal operations i.e. grants, donations, interest etc.

### **Expenses**

Expenses refer to the costs of operations that for profit incur to generate revenue. In NPOs, income is received for making expenses normally. Common expenses include employee wages, payments to suppliers, equipment depreciation and factory leases.

## **What is a financial statement?**

Financial statement is a collection of summary-level reports about an organization's financial results, position and cash flows.

Financial statements include:

1. balance sheet as at the end of the financial year,
2. income and expenditure account during the financial year,
3. Receipt & payment (cash flow) statement during the financial year and
4. Accounting Policies (principles for preparing the financial statement based on Accounting Standards) and explanatory notes

These come with Auditor Report with its opinion on the TFM of financials statements

## **BS, I&E, R&P**

- **Balance Sheet:** Presents assets and liabilities i.e. what you own and owe.

- **Income & Expenditure Statement:** Presents income earned and expenditure incurred during the year, Any excess is carried to the Balance Sheet
- **Receipt & Payment Statement:** Present actual receipts of funds and payments during the reporting period.
- FCRA registered entities have to prepare FCRA financial statements separately for its FC operations.

## Key Points for Preparation of Financial Statement

- Basis of accounting: Accrual system of accounting recommended
- Prepared annually
- Contain standard information for various stakeholders
- Comparative information for at least one year
- Different from donor reporting, govt compliance but these are extracted from the financial statements
- Should reflect restricted and unrestricted funds separately
- Format: Schedule III of Companies Act for section 8 company and other forms of charitable organisations also follow CA

## MRL and ML

**Management Representation Letter (MRL)** is issued by the client (Auditee/NGO) to the auditor in writing as part of Audit Evidence. Management takes responsibility for the complete and accurate information provided to auditor to provide TFV. This document during the audit clarifies the separation of responsibilities of the auditor and auditee (management).

**Management Letter (ML)** is a letter sent from auditors to Governing Board advising them of findings indicating control weaknesses identified during the audit, and suggestions to remedy these. It is an outcome of the audit process. The Board is supposed to respond to the observations and confirm compliance within a timeframe

## Maintaining Books of Accounts for NGOs

- There was no regulation regarding books of accounts by NGOs upto FY 21-22
- Section 12A(1)(b)(i) inserted for maintaining of books of accounts and other documents wef AY 23-24.

Books of accounts & other documents:

The specified books of accounts shall include

- Cash book
  - Ledger
  - Journal
  - Copies of serially numbered receipts, original copy of invoices, etc.
1. Record of all the projects and institutions run by the organisation
  2. Record of income of the organisation during the previous year
  3. Record of application out of the income during the year
  4. Record of specified application out of the income of preceding years
  5. Record of voluntary contribution with a specific direction to form Corpus
  6. Record of contribution received under 80G(2)(b) being treated as corpus
  7. Record of Loans and Borrowings
  8. Record of properties held by the organisation
  9. Record of specified persons, as per section 13 (3) of the Act
  10. Any other document

## Bookkeeping Guidelines

1. Form of keeping books of accounts and documents: Kept in written form or electronic form or digital form or printouts or any other form of electromagnetic data storage device.
2. Place of maintaining books of accounts and other documents: shall be kept and maintained at its "registered office". If the accounts are maintained other than the registered office or at various project locations, intimate Assessing Officer in writing, giving full address of the other places supported by resolution of the board
3. Period for which books of accounts & other documents should be kept: Kept and maintained for a period of ten years from the end of the relevant assessment year
  - Organisation having income subject to section 11(4) and 11(4)(a) to maintain separate set of books of account of such income in line with the provision under

# Accounting Standards

- Formulation of uniform Accounting Standards is necessary in the preparation of accounting information and its presentation in financial statements for bringing about a greater degree of uniformity in accounting measurements.
- Accounting Standards lay down the rules for measurement and presentation of accounting information by organizations and are prescribed by ICAI

## AS-1: Disclosure of Accounting Policies

**Fundamental assumptions:** Going concern, Consistency, Accrual.

**Considerations** in selection of accounting policies to reflect true and fair view of the financial statement

- Prudence:** Profits are not anticipated but recognized when realized. Provision is made for all known liabilities and losses even though the amount cannot be determined with certainty and represents only as an estimate.
- Substance over Form:** The accounting treatment and presentation of transactions and events in financial statements should be governed by their economic substance and not merely by the legal form.
- Materiality:** Financial statements should disclose all “material” items, i.e. items the knowledge of which might influence the decisions of the user of the financial statements.

## AS-1 Points to Remember

- Areas for accounting policy disclosure for NPOs-Depreciation, FA valuation, valuation of investment, treatment of employee benefits, contingent liabilities.
- All significant accounting policies used in the preparation and presentation of financial statements should form part of the financial statements as a Schedule.
- Change in the accounting policies which has a material effect should be disclosed and amount by which the financial statements is affected should also be disclosed. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.

- If the fundamental accounting assumptions are not followed, the fact should be disclosed in financial statements.

## AS-10: Accounting for Fixed Assets

1. Gross and net book values of fixed assets at the beginning and end of an accounting period showing additions, disposals, acquisitions and other movements;
2. Expenditure incurred on account of fixed assets in the course of construction or acquisition; and
3. Revalued amounts, the method adopted, the nature of indices used, the year of any appraisal made and whether an external valuer was involved

## AS-13: Accounting for Investments

- Investments are assets held by an organization for earning income by way of dividends, interest and rentals, for capital appreciation, or for other benefits.
- Classification of Long term and short term investments should be as specified in the standards.
- The requirements of this Standard regarding cost of investment, carrying amount of investment, disposal, reclassification etc should be followed.

---

Revision #3

Created 25 April 2025 04:39:24 by Pooja

Updated 4 July 2025 00:04:46 by Pooja