Definitions and Key Concepts

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As per the Technical Guide by ICAI, the following accounting terms have the meanings specified:

Accounting policies are the specific accounting principles, and the methods of applying these principles adopted by NPOs in the preparation and presentation of financial statements.

Accrual basis means a basis of accounting under which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and reported in the financial statements of the periods to which they relate. The elements recognised under accrual basis of accounting are assets, liabilities, revenue and expenses. Financial statements prepared on an accrual basis inform users not only of past events involving the payment and receipt of cash but also of obligations to pay cash in future and of resources that represent cash to be received in future. Hence, they provide information about past transactions and other events that is most useful to users in making economic decisions.

Assets are resources controlled by an NPO as a result of past events and from which future economic benefits and/or service potential are expected to flow that enable the NPO to achieve its objectives.

Corpus is unrestricted funds which comprises of non-reducible funds of capital nature, contributed by founders/promoters of the NPO.

Designated funds are unrestricted funds which have been set aside by the management of the NPOs for specific purposes or to meet specific future commitments. These are also called earmarked funds

Expenses are decreases in economic benefits during the accounting period in the form of outflows or depletion of assets or incurrences of liabilities that result in decreases in NPO’s funds other than decreases relating to transfers from corpus.

Fair value is the amount for which an asset could be exchanged or a liability could be settled between knowledgeable, willing parties in an arm’s length transaction.

Financial statements include balance sheet as at the end of the financial year,income and expenditure account for the financial year, cash flow statement for the financial year (where applicable) and other statements and explanatory notes which form part thereof.

Government grants are assistance by the Government in cash or kind to NPO for past or future compliance with certain conditions. They exclude those forms of Government assistance which cannot reasonably have a value placed upon them and transactions with Government which cannot be distinguished from normal transactions of an NPO.

Government refers to Government, Government agencies and similar bodies whether local, national or international.

Income is the increase in economic benefits during the accounting period when that results in an increase in NPO’s funds other than increases relating to contributions to corpus.

Liabilities are present obligations of the NPO arising from past events, the settlement of which is expected to result in an outflow from the NPO’s resources embodying economic benefits.

Restricted funds are contributions received by an NPO, the use of which is restricted by the contributor(s).

Unrestricted funds are contributions received or funds generated by an NPO, the use of which is not restricted by the contributor(s).

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