

# Disclosures

Disclaimer: This document is intended solely for educational purposes. The content herein is subject to change based on evolving finance trends and any relevant rulings by the Government of India. Readers are advised to consult with qualified professionals for specific guidance related to their individual circumstances.

Accounting Standard (AS) 1, Disclosure of Accounting Policies, principally requires the disclosure of significant accounting policies and specifies the manner of their disclosure. A clear statement of significant accounting policies followed in the preparation and presentation of financial statements is necessary, irrespective of the type of entity presenting the financial statements. Further, all significant accounting policies should be disclosed at one place. Accordingly, NPOs should disclose their significant accounting policies at one place.

Where an NPO has followed a basis of accounting other than accrual, a disclosure in this regard should be made. Further, an illustrative list of accounting policies that an NPO could disclose in accordance with the laid down Accounting Standards governing these policies is as follows:

1. The basis of recognition of major types of expenses and revenue
2. Accounting for income from and expenditure on specialised activities such as research
3. Conversion or translation of foreign currency (in case of organisations receiving foreign funds)
4. Valuation of inventories
5. Valuation of investments
6. Treatment of employee benefits
7. Valuation of property, plant and equipment
8. Treatment of provisions, contingent liabilities and contingent assets
9. Treatment for Government grants
10. Treatment for Intangible assets

11. Impairment of assets
12. Effects of changes in foreign exchange rates

As per Accounting Standard (AS) 2, Valuation of Inventories, an NPO should disclose in the financial statements:

- the accounting policies adopted in measuring inventories, including the cost formula used; and
- The total carrying amount of inventories and its classification appropriate to the NPO.

As per Accounting Standard (AS) 9, Revenue Recognition, in addition to the disclosures required by AS 1, an NPO should also disclose the circumstances in which revenue recognition has been postponed pending the resolution of significant uncertainties and should recognise revenue when ultimate collection is reasonably certain.

As per Accounting Standard (AS) 10, an NPO should disclose in the financial statements for each class of property, plant and equipment:

- The measurement bases (i.e., cost model or revaluation model) used for determining the gross carrying amount;
- total depreciation for the period for each class of assets; and
- the gross carrying amount and accumulated depreciation at the beginning and end of the period; and
- a reconciliation of the carrying amount at the beginning and end of the period showing additions, disposals, acquisitions and other movements during the year.

The depreciation rates or the useful lives of the assets should be disclosed in the financial statements alongwith the disclosure of other accounting policies In case, they are different from the principal rates specified in the statute governing the NPO it should make specific mention of the fact.

As per Accounting Standard (AS) 10, an NPO should make the following disclosures in the financial statements:

- amount of expenditure recognised in the carrying amount of an item of property, plant and equipment in the course of its construction or amount of contractual commitments for the acquisition of property, plant and equipment; and
- the effective date of the revaluation, the method and significant assumptions applied in estimating fair values of the items, whether an external valuer was involved in carrying out the revaluation, and revaluation surplus.

As per Accounting Standard (AS) 11, The Effects of Changes in Foreign Exchange Rates, an NPO should make the following disclosures in its financial statements:

- the amount of exchange differences included in the income and expenditure account for the period; and
- net exchange differences accumulated in foreign currency translation reserve separately, and a reconciliation of the amount of such exchange differences at the beginning and end of the period.

As per Accounting Standard (AS) 12, Accounting for Government Grants, an NPO should make the following disclosures in the financial statements:

- The accounting policy adopted for Government grants, including the methods of presentation in the financial statements.
- The nature and extent of Government grants recognised in the financial statements, including grants by way of non-monetary assets given at a concessional rate or free of cost.

These disclosures are also required to be made in respect of donations and other grants received by an NPO.

As per Accounting Standard (AS) 13, Accounting for Investments, an NPO should make the following disclosures in the financial statements:

1. the accounting policies for the determination of carrying amount of investments;
2. classification of investments - whether current or long-term (refer AS- 13);
3. the amounts included in income and expenditure account for:
  - interest, dividends, and rentals on investments showing separately such income from current and long-term investments;
  - profits and losses on disposal of current investments and changes in the carrying amount of such investments; and
  - profits and losses on disposal of long-term investments and changes in the carrying amount of such investments;
4. significant restrictions on the right of ownership, realisability of investment or the remittance of income and proceeds of disposal;
5. the aggregate amount of quoted and unquoted investments, giving the aggregate market value of quoted investments;
6. other disclosures as specifically required by the relevant statute governing the NPOs.

As per Accounting Standard (AS) 17, Segment Reporting, an NPO that is operating in different geographical locations or is involved in different kinds of service delivery programmes/projects which meet the definitions of 'geographical segment' and 'business segment', should disclose segmental information according to the requirements of AS 17. However, for micro, small and medium sized NPOs falling within the meaning of MSMEs/SMCs AS 17 is not mandatory. Such entities are, however, encouraged to comply with AS 17.

Accounting Standard (AS) 18, Related Party Disclosures, establishes the requirements for disclosure of related party relationships, and transactions between a reporting enterprise and its related parties. Related party – parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Related party transaction is a

transfer of resources or obligations between related parties, regardless of whether or not a price is charged. Key management personnel are those persons who have the authority and responsibility for planning, directing and controlling the activities of the reporting enterprises.

Without the related party disclosures, there is a general presumption that transactions reflected in financial statements are consummated on an arm's-length basis between independent parties. NPOs are responsible to a number of stakeholders and in this context related party disclosures assume prime importance. Related party transactions may adversely affect the expectations of stakeholders, and furthermore, disclosing transactions between related parties also enhances transparency, accountability, and fairness. NPOs should, therefore, disclose the related party relationships and transactions in accordance with the requirements of AS 18. Some of the examples of related party transactions are as follows:

- sale, purchase, and transfer of property;
- services received or provided;
- property and equipment leases;
- borrowing or lending, including guarantees; and
- receipt of salary, honorarium or any other monetary or non-monetary benefits.

Parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions. For the purposes of AS 18, trustees of an NPO would be considered as key management personnel and, accordingly, trustees and their relatives would, inter alia, be treated as related parties. It may be noted that according to AS 18, relative, in relation to an individual, means the spouse, son, daughter, brother, sister, father and mother who may be expected to influence, or be influenced by, that individual in his/her dealings with the reporting enterprise. For micro and small sized NPO falling within the meaning of MSME/SMC, AS 18 is not mandatory. However, due to the onerous implications of related party transactions on the functioning of an NPO, it is recommended that the disclosures required in AS 18 should be made by all NPOs.

As per the requirements of Accounting Standard (AS) 19, Leases, where an NPO is a lessee, in case of a finance lease, it should in addition to the requirements of AS 10, make the following minimum disclosures:

1. assets acquired under finance lease as segregated from the assets owned;
2. for each class of assets, the net carrying amount at the balance sheet date;
3. contingent rents recognised as expense in the income and expenditure account.

(Only minimum disclosure requirements as per AS 19)

Where an NPO is a lessee, for operating leases it should make the following minimum disclosures:

- Lease payments recognised in the income and expenditure account for the period, with separate amounts for minimum lease payments and contingent rents;
- Sub-lease payments received (or receivable) recognised in the income and expenditure account for the period.

As per Accounting Standard (AS) 26, Intangible Assets, with regard to intangible assets, an NPO should disclose in the financial statements the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:

- the useful lives or the amortisation rates used;
- the amortisation methods used;
- the gross carrying amount and the accumulated amortisation (aggregated with accumulated impairment losses) at the beginning and end of the period; and
- a reconciliation of the carrying amount at the beginning and end of the period showing additions indicating separately those from internal development and through amalgamation, retirement and disposals, impairment losses recognised and reversed, amortisation recognised and other movements during the period

## An NPO should also disclose in the financial statements:

- if an intangible asset is amortised over a period of more than ten years, the reasons why it is presumed that the useful life of an intangible asset will exceed ten years from the date when the asset is available for use. While giving these reasons, the NPO should describe the factor(s) that played a significant role in determining the useful life of the asset;
- a description, the carrying amount and remaining amortisation period of any individual intangible asset that is material to the financial statements of the NPO as a whole;
- the existence and carrying amounts of intangible assets whose title is restricted and the carrying amounts of intangible assets pledged as security for liabilities; and
- the amount of commitments for the acquisition of intangible assets.
- The financial statements of an NPO should also disclose the aggregate amount of research and development expenditure recognised as an expense during the period.

Accounting Standard (AS) 27, Financial Reporting of Interests in Joint Ventures, sets out the principles and procedures for accounting for interests in joint ventures and reporting of joint venture assets, liabilities, income and expenses in the financial statements of venturers and investors. In case of NPOs, there may be instances where two or more NPOs jointly undertake or fund a certain project or activity which is considered as a jointly controlled operation. Similarly, two or more NPOs may jointly control an asset. In addition, an NPO may also have joint control in a jointly controlled entity with other enterprises that may be in any form of organisation. Accordingly, in such cases, NPOs should report their interests in such joint ventures in separate as well as in consolidated financial statements (prepared as per AS 21) in accordance with the requirements of AS 27.

## In respect of the funds created in the financial statements, the NPO should disclose the following in the Schedules/Notes to the accounts:

- In respect of each major fund, opening balance, additions during the period, deductions/utilisation during the period and balance at the end;

- Assets, such as investments, and liabilities related to each fund separately;
- Restrictions, if any, on the utilisation of each fund balance;
- Restrictions, if any, on the utilisation of specific assets.

## NPOs should also disclose the following in the Notes to accounts:

- Details of the services rendered by volunteers for which no payment has been made.
- Fair value of the non-monetary grants and donations, e.g., a fixed asset received free of cost during the year. The quantitative details of such grants and donations should be separately disclosed.
- Fair values of all the assets, received as non-monetary grants, existing on the balance sheet date, should be separately disclosed. If it is not practicable to determine the fair values of the assets on each balance sheet date, then such values may be determined after a suitable interval, say, every three years, and disclose the date of determination, along with the fair values. The fair value of an asset would normally be the market price in an active, liquid and freely accessible market. The market price of an item can be the purchase price of the item donated, where the proof of purchase price is available, e.g., the donor has provided the invoice received from the supplier, declaration for customs duty purposes where the assets have been received from abroad, etc. In case the market price of the asset is not available, then the market price of a comparable asset may be used as fair value. It is recommended that the method of determination of fair value is also disclosed.

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