**FM 006 - NOP Specific Provision**

Sri Lanka Statement of Recommended Practice for Not-for-Profit Organisations (including Non-Governmental Organisations) (SL SoRP – NPOs [including NGOs])

(The Sri Lanka Statement of Recommended Practice for Not-for-Profit Organisations (including Non-Governmental Organisations) - (SL SoRP – NPOs [including NGOs]) becomes operative for financial statements covering periods beginning on or after 1 January 2012).

The following specific provisions should be read in conjunction with the applicable set of Sri Lanka Accounting Standards and the purpose of giving the specific provisions is to address NPO specific matters and adjustments. This section 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 SL SoRP.

The Council will from time to time issue additional specific provisions and guidelines to address the developments in the sector. Those will also need to be considered as a part of this SL SoRP.

1. **The Elements of Financial Statements**

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

(a) Statement of Comprehensive Income

(b) Statement of Financial Position

(c) Statement of Changes in Reserves

(d) Statement of Cash Flow; and

(e) Accounting Policies and Explanatory Notes.

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.

1. **Accumulated Fund**

***Unrestricted Fund (Capital)***

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***

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

***Measurement and Recognition***

Restricted funds should be presented in the Statement of Financial Position 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***

The following should be disclosed:

(a) the accounting policy adopted for restricted funds and unrestricted funds, including the methods of 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 contingencies attaching to assistance that has been recognised.

1. **Recognition of Revenue /Grants**

3.1 NPOs should distinguish between

(a) restricted revenue and

(b) unrestricted revenue

and each should be measured at the fair value of the consideration received or receivable.

3.2 Different approaches are used for the recognition of

(a) restricted and

(b) unrestricted revenue.

***Restricted Revenue***

3.3 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 Comprehensive Income, until there is reasonable assurance that the contribution will be received, and the conditions stipulated for its receipt have been complied with.

3.4 Subject to the above restricted contributions when recognised in the Statement of Comprehensive Income 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.

3.5 On receiving any restricted contributions, e.g. as a bank deposit, the contribution should be credited to the restricted fund account in the Statement of Financial Position 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 Statement of Financial Position and crediting restricted Income account.

3.6 By following this procedure, the net result of restricted Income and direct project expenses of any particular transaction in the Statement of Comprehensive Income 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***

3.7 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.

3.8 The Statement of Comprehensive Income 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.

**4 Inventory**

***Inventory Purchased or Donated on Account of Beneficiaries***

4.1 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 SL SoRP.

4.2 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 Statement of Financial Position should therefore be listed and quantified.

**5 Income Tax Items**

***Credited or Charged Directly to the Accumulated Fund***

5.1 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. Tax Expense (Income)

5.2 The tax expense (income) should be presented on the face of the Statement of Comprehensive Income.

**6 Property, Plant & Equipment Land**

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

(a) By way of purchase from the landowners, including through a scheme of compulsory acquisition formulated by the government;

(b) Land gifted to NPOs by institutions or individuals, whether with or without any conditions as to their use;

(c) Land provided to NPOs by government free of cost, whether with or without any conditions as to their use;

(d) Land may also be vested in NPOs where such an NPO acts merely as a trustee and has no ownership rights.

6.2 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***

* 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 both grant and asset shall be accounted for at the fair value. An alternative course that is sometimes followed is to record both asset and grant at a nominal amount. 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.
* 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.

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

6.3 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 SL SoRP. 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 Comprehensive Income. 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***

6.4 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 SL SoRP, while a corresponding amount could be transferred from the deferred income to the Statement of Comprehensive Income, in the Statement of Financial Position. In the Statement of Financial Position, deferred Income would be deducted from the net book value of the assets so that the carrying amount of the asset would be zero.

6.5 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 Statement of Financial Position.

6.6 Where project assets are held and disclosed in accordance with paragraph 6.4, 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.