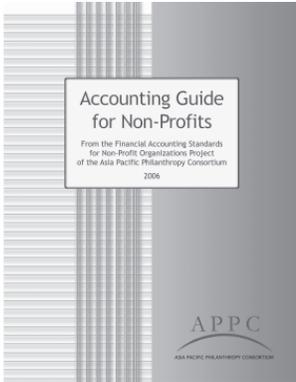


Accounting Guide for Non-Profits



· **Accounting Guide**
· **for Non-Profits**
· from the Financial Accounting Standards
· for Non-Profit Organizations Project

· *Published by the*

· **Asia Pacific Philanthropy Consortium**

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FOREWORD

When APPC first held its conference on “Governance, Organizational Effectiveness and the Nonprofit Sector” in Manila on September 2003, we began an effort to set minimum financial accounting standards to guide Nonprofit organizations in the region. With this Accounting Guide, we mark the end of a process of consultation, dialogue and the exchange of ideas between and among the different societies who participated in it. We are proud to share the results of this process and the many learnings that it has brought to fore.

We started planning the 2003 APPC Conference with a decidedly philanthropic approach, and one that we had framed as a question: How do we improve nonprofit governance to ultimately bring in more philanthropic resources for nonprofit work in the region? How could NPOs be encouraged to look at strategic options in working together to respond to concerns of legitimacy, effectiveness, transparency and accountability within the sector? In the end, our goal was to build a more responsible NPO sector in the various societies, and in the region as a whole.

The post-conference project “Developing Financial Accounting Standards for NPOs in Asia” has shown us a concrete way forward in responding to these challenges. The project demonstrated how key actors in the seven participating societies (Bangladesh, China, India, Indonesia, Pakistan, the Philippines and Thailand. Hong Kong, SAR, China joined the first workshop-consultation, and contributed its knowledge of NPO accounting systems) worked together to sift through the accounting issues and practices in their respective societal contexts to determine how NPOs can best achieve the goals of accountability and transparency. At the end of the process, they were able to come up with this Accounting Guide, which participants recommended that APPC forward to the International Accounting Standards Board (IASB), with a request to begin a process of setting international standards for the NPO sector, a sector that has as yet not been seen as a sector by itself. It is thus with great pride, as well as great hope, that we transmit this Accounting Guide, with the corresponding Issues Paper, which lays out what the accounting issues are for each of the participating societies to the International Accounting Standards Board. We hope that the IASB will heed our call to begin this process, which we believe will determine, and thereafter

enforce, global standards that will promote transparency and accountability for a sector whose influence and visibility are growing all over the world.

Interestingly, back in 2003, APPC had initially refrained from recommending a specific model for any aspect of transparency and accountability of NPOs. However, as a result of the process we have described above, APPC now recommends this Accounting Guide as a model, at least for the major aspect of internal nonprofit governance, or the financial accounting standards. This development could only have been made possible with the successful consultative processes undertaken by our partners in the different participating societies; the leadership of our dynamic Project Steering Committee; the assistance of our partner, the Association of Foundations in the Philippines, our fiscal agent for this project; and the trust and confidence of our invaluable donor partner, the Ford Foundation.

In June 2004, we began this project with consultation sessions in each of the different participating societies, which involved studying a model developed by the Indian Institute of Chartered Accountants, which had been brought to our attention by Sunil Mor of India's Azim Premji Foundation. These national level consultations, which involved various sectors such as government regulatory bodies, chartered accountancy bodies, nonprofit sector leaders, their finance officers as well as members of the auditing profession, brought to the fore the contexts in which nonprofit organizations in these societies operated and subsequently helped us develop recommendations which were then brought to a regional consultative conference.

The project took a life of its own immediately after this first regional consultative conference, where the 40-member participant body reached some understanding on the actual effort or programs being undertaken per society and the direction each one was headed. The body also agreed to produce an Issues Paper that identified the critical concerns vis-a-vis nonprofit accounting in the participating societies, along with the body's recommendations on their disposition. A second round of national-level consultations and consensus building followed per society, focusing on what minimum standards for NPO accounting could be derived from the what was discussed in the first regional consultation.

The development of the Issues Paper was carefully managed. It was initially developed by a consultant, Eribert Padilla (Accountants for NGO Concerns, Philippines) following agreements made in the regional conference. Where there were major points of contention among different societies, it was agreed that the majority position would be taken, so as to be able to come up with minimum consensus positions. The draft of the Issues Paper was then circulated to two Steering Committee members,

considered the “experts” in the group: Sanjay Agarwal of India and Lu Jianqiao of China, for their comments. These comments were integrated before the Issues Paper was released to the 40-member body who then subjected the Paper to careful validation in country consultation process. The feedback provided to the consultant finalized the Issues Paper.

The development of this Accounting Guide for NPOs was deemed to be the next critical step in the project, and APPC worked with a pool of consultants to ensure that it would be useful as well as relevant to NPOs in the region. This Guide was used as the primary training reference for the last major stage of the project, the training of trainers in the seven participating societies, in a Training Design Workshop held in Bangkok, Thailand in February 2006. The training design was crafted by the team of Sanjay Agarwal of AccountAid, India, using the Issues Paper and the Accounting Guide developed by the project. The trainers’ goal would be to disseminate the Guide and its principles for wider application among nonprofit organizations in each society.

In the end, we see that what this project has created is a committed network of collaborators among different organizations on accounting standards. It is also a resounding confirmation of the NPO sector’s desire to strengthen ongoing efforts towards financial accountability and continued legitimacy.

Our sincere gratitude goes to many individuals and their organizations who have given inspiration and leadership in this project: Suzanne Siskel and Sushma Rahman of Ford Foundation, who encouraged us to develop this initiative; the Project Steering Committee members –Iftekhar Zaman and Amita Dey of Bangladesh Freedom Foundation, Lu Jianqiao of the Ministry of Finance in Beijing, Sanjay Agarwal of Sanjay Aditya and Associates, Rustam Ibrahim of LP3ES, Syed Mohammad Ahmad of Pakistan Centre for Philanthropy, Gil Salazar of the Philippines Business for Social Progress, and Gawin Chutima of the Thai Fund Foundation – who guided this project to completion with a tremendous sense of responsibility. We especially thank Sanjay for sharing with us the depth of his experience in promoting accounting standards and for taking this project in perspective and moving it forward with the Committee!

We also express our thanks to Eribert Padilla for developing the Issues Paper and leading the pool of consultants for the Accounting Manual. In addition to these, he also undertook the planning of the Philippine country consultations with Fely Soledad of the Philippine Council for NGO Certification. We are most grateful too, to Nurul Wahab of Bangladesh, Suresh Kejriwal of India, and Pansa Tajaroensuk of Thailand for helping to convene the second round of country consultations and who have promised to move the project forward in each of their societies.

To the Board of APPC who participated in the workshops and encouraged us along, we thank them—Sukich Udindu of Thailand, Iftekhhar Zaman of Transparency International Bangladesh, and former APPC Council member, Paiboon Wattanasiritham. We acknowledge as well the keen interest of the rest of the APPC Board, currently led by Darwin Chen of Hong Kong, who followed the progress of the project over two years! The APPC staff must be recognized as well for their steady coordination and execution of project requirements—Tina V. Pavia, Jeanette Bandiola and Alessandra Ferreria.

We hope this Accounting Guide lives up to its promise, as the people behind it are among the most dedicated professionals in the region. APPC has been privileged to have worked with them the past two years. We now challenge the wider circle of accountants in more organizations in more societies to use the Accounting Guide and share their own learnings to an even wider audience.



Maria Aurora F. Tolentino

CHIEF EXECUTIVE

Asia Pacific Philanthropy Consortium

MESSAGE FROM THE APPC CHAIR

It is my pleasure, as the Chair of the Asia Pacific Philanthropy Consortium, to launch the Accounting Guide for Non-Profits, the outcome of our Financial Accounting Standards for Non-Profit Organizations Project, which we launched two years ago.

This project began as a response to the need that was expressed by the different sectors in most of the societies in Asia and the Pacific for more transparent and accountable governance for the non-profit sector. Since then, it has taken some twists and turns along the way, and what we envisioned to be a relatively small project might end up being the forerunner of a global call for increased financial accountability for the non-profit sector, especially if the International Accounting Standards Board (IASB) agrees to open a project to determine the financial accounting standards for the sector globally.

What we have at this time are groups of people from government, from the nonprofit sector and from the chartered accountancy profession who have participated in the various activities we undertook for this project, and who believe that it is in the best interest of the sector to be more accountable. They are willing to help others in the sector to be able to do this, through training and through the use of this Accounting Guide.

While the final set of global Accounting Standards for the sector will be determined in the future, we hope that this proves useful to the sector itself, as it tries to hold itself to the standards other sectors are held by. Ultimately, the Non-Profit Sector itself will be the gainers, as we prove that we are worthy stewards of the investments made by other sectors, including the general public, in the work of helping others that we do.

We welcome your feedback and comments and wish to thank all the participants to this project, our Board of Directors, and the Ford Foundation, who made this possible.

With best wishes,



Darwin Chen

CHAIR, BOARD OF DIRECTORS

Asia Pacific Philanthropy Consortium

I

FUNDAMENTAL CONCEPTS

1. INTRODUCTION

1.1 NPOs: Definition, characteristics and scope.¹

Traditionally, definitions of the nonprofit sector, also referred to as “civil society,” “third sector,” “NGO sector,” “social economy,” “voluntary sector,” and “social sector,” have revolved around three aspects: its sources of economic support, its legal status and its purposes.

According to the first set of definitions, an NPO is an organization whose primary source of revenue is made up of contributions from the private sector, differentiating it from those who are supported by market transactions or government resources.

The second set of definitions places an organization’s legal personality as the defining characteristic of NPOs, which are then identified as organizations that are exempt from some, if not all, of a country’s taxes.

The third and last set of definitions emphasize the purposes that an organization chooses to pursue, stressing that an NPO is one that promotes the public good, encourages empowerment and participation, or seeks to address the structural roots of poverty and distress.

However, Salamon, Sokolowski and List, in the book, *Global Civil Society: Dimensions of the Nonprofit Sector*, point out that these definitions are insufficient insofar as providing a holistic view of the NPO sector.

Focusing on sources of revenue, they say, downplays other features that NPOs may share, such as their use of volunteers, their social missions and their not-for-profit character, while emphasizing legal personality is made difficult to apply comparatively by the significant differences that exist between each country’s legal structure. Lastly, while purpose definitions may be the most appealing of the three, Salamon, Sokolowski and List say that they are “too subjective,” as the idea of what constitutes “public purpose,” may vary across countries and sectors. In addition to the fact that it is difficult to determine whether or not a particular organization is actually pursuing their declared

¹ Taken from Salamon, Sokolowski et al. *Global Civil Society: Dimensions of the Nonprofit Sector*.

purpose, they also point out that this raises the possibility of making any NPO's pursuit of public purposes true by definition, making such claims difficult to disprove.

Given these limitations surrounding traditional definitions, the study on global civil society yielded a consensus on five structural-operational features that defined organizations within the NPO sector:

- *Organized*, i.e., they have some structure and regularity to their operations, whether or not they are formally constituted or legally registered. More than legal or formal recognition, this qualification stresses organizational permanence and regularity, reflected in regular meetings, a membership, and legitimate decision-making structures and procedures.
- *Private*, i.e., they are not part of the apparatus of the state, even though they may receive support from governmental sources.
- *Not profit-distributing*, i.e., they are not primarily commercial in purpose and do not distribute profits to a set of directors, stockholders, or managers. While NPOs may generate a surplus from time to time, they must reinvest these resources back into the objectives of their respective organizations.
- *Self-governing*, i.e., they have their own mechanisms for internal governance, are able to cease operations on their own authority, and are fundamentally in control of their own affairs.
- *Voluntary*, i.e., membership or participation in them is not legally required or otherwise compulsory.

This fivefold definition encompasses organizations both formal and informal, religious and secular, those with paid staff and those staffed entirely by volunteers and organizations performing expressive functions (i.e., advocacy, cultural expression, community organizing, environmental protection, human rights, religion, representation of interests, and political expression) as well as those performing service functions (i.e., provision of health, education and welfare services). This description does not take into account individual forms of citizen action such as voting or writing to legislators, but it embraces most organized forms, including social movements and community-based cooperatives serving solidarity objectives. Government agencies, private businesses, commercial cooperatives and mutuals have been deliberately excluded.

Scope

This Accounting Guide shall apply to organizations that meet all the Unique Characteristics of an NPO and any or all of the Additional Characteristics as described above. For other organizations or entities, they should apply the accounting standards set for business enterprises or public sector.

Because of the nature of their operations, some NPOs, such as schools and hospitals, can be considered to be similar to commercial concerns for the purpose of applicability of accounting standards for NPOs.

Exemption from Applicability of the Accounting Guide

There is a wide spectrum of NPOs in terms of size, level of operation, operating fund, and number of personnel. Smaller NPOs may not be able to have the resources and capability to adopt some of the prescribed guidelines.

It is recommended and encouraged that this guide applies to all NPOs. The adoption of this guide, will lead to a significant improvement in the quality of general purpose financial reporting by NPOs. This, in turn, is likely to lead to better informed assessments of the resource allocation decisions made by NPOs, thereby increasing transparency and accountability. However, where local laws allow exemptions from following standards, small organizations may be exempted until they are capable to follow the standards and guidelines. Furthermore, this Accounting Guide acknowledges the right of national standard-setting bodies to establish accounting standards and guidelines for financial reporting in their jurisdictions. It may assist such standard-setting bodies in the development of new standards or in the revision of existing standards in order to contribute to greater comparability.

It is important to note that there is a need for small NPOs to undergo capacity-building activities for them to follow the standards and guidelines. The standards and guidelines are not merely technical requirements but more importantly, are tools to efficiently and effectively manage NPOs.

1.2 The Role of the NPOs in Society

According to Boutros-Ghali in 1995, “Non-governmental organizations are a basic element in the representation of the modern world. And their participation in international organizations is in a way a guarantee of the latter’s political legitimacy... From the stand point of global democratization, we need the participation of international public opinion and the mobilizing powers of non-governmental organizations.”

The World Bank also describes non-government organizations (NPOs) as:

“...include many groups and institutions that are entirely or largely independent of government and that have primarily humanitarian or cooperative rather than commercial objectives. They are private agencies in industrial countries that support international development; indigenous groups organized regionally or nationally; and member-groups in villages. NPOs include charitable and religious associations that mobilize private funds for development, distribute food and family planning services and promote community organization. They also include independent cooperatives, community associations, water-user societies, women’s groups and pastoral associations. Citizen groups that raise awareness and influence policy are also NPOs”

Today, the increasing role of NPOs in society is more pronounced, from relief services (logistics management) to development services (strategic management) to arts and culture. They also contribute in creating a more inter-dependent global community.

1.3 NPO Stakeholders

STAKEHOLDERS	EXPECTATIONS(Social and Economic)
1. Members/Beneficiaries	1. Services, ROI, Social Justice
2. Governing Board	2. Prestige, Self-reliance
3. Management/Staff	3. Better career
4. Donors	4. Attainment of the purpose/s of funds Compliance with agreements
5. Government	5. Regulation Partnership in Development
6. Volunteers	6. Contribution to the development of specific concerns
7. General Public	7. Contribution to the development of society, in general

1.4 NPO Governance and Accountability

For NPOs to fulfill their goals and objectives as well as to realize stakeholders' expectations efficiently and effectively, they must be governed by the principles of Fairness, Accountability, and Transparency. Fairness - rights of stakeholders should be observed and respected; Accountability - Board and management should be answerable on their performance to stakeholders; Transparency - timely, accurate and sufficient information must be disclosed.

The foremost responsibility for NPOs is to be accountable to the needs and aspirations of the community it is working with since serving community interests is the stated primary goal of most NPOs. In practice, these communities lack mechanisms for holding NPOs accountable. Unlike donors, communities cannot withdraw their funding; unlike governments, they cannot impose conditionalities.

NPOs are also accountable to its donors, who may be both external (for example, governments, foundations, or other NPOs) and internal (members who contribute smaller amounts). The simplest level of responsibility is that of spending money for the purpose to which it has been designated.

Lastly, NPOs are also accountable to its organization. They are responsible to their stated mission, governing board, management and staff, partners, and to the NPO community as a whole.

Financial accounting in NPOs, the topic of this guide, hopes to contribute significantly to helping NPOs increase their capacity to express accountability to their different stakeholders.

1.5. Rationale

NPOs as a Sector

The UNDP² describes NPOs as the “third sector”, the first and second being the government and private sectors. This is in recognition of the distinct characteristics of NPOs from other forms of organization especially from the commercial ones. Several studies reveal that NPOs contribute significantly to the development of society and the economy.

In many countries, accounting pronouncements cater to the needs of commercial organizations. Although fundamental accounting principles apply to any type of organization, appropriate standards and guidelines for NPOs are needed to fit the specifications and peculiarities of these organizations. Basic differences between commercial organizations and NPOs include the following:

- 1) NPOs do not operate primarily for profit but for specific needs of a community, group, organization or its membership.
- 2) Most of NPOs revenues come from funds contributed, donated, granted or given as other forms of support. Revenues from income generating activities, if any, are eventually plowed back to program operations.

Unlike in the business community where an exchange transaction occurs, in non-profit organizations, resource providers do not expect to receive either repayment or economic benefits proportionate to the resources provided. There is no defined ownership interest that can be sold, transformed or redeemed or that convey entitlements to a share to a residual distribution of resources in the event that the organization is dissolved.

- 3) NPOs have the responsibility to account for these funds designated for a specific purpose for a specified period of time. The nature of the revenues received requires ensuring that separate types of funds are properly tracked and reported.

The Need for Financial Accounting Standards & Guidelines for NPOs

To date, comprehensive guidelines on accounting issues unique to NPOs have yet to be developed at the international level. Some pronouncements made by standards-setting bodies covering NPOs have been developed in the United States and recently in China. Likewise in India, the Technical Guide on Accounting and Auditing on NPOs was issued by the Institute of Chartered Accountants of India. Also, the Proposed Financial Accounting Standards for NPOs in the Philippines is being reviewed by the Accounting Standards Council of the Philippines. However, many countries are either practicing *de facto* standards for NPOs or applying current pronouncements in their respective countries to NPOs which may or may not be totally apt to the nature of these

² UNDP = United Nations Development Programme

organizations. Although all accounting applications are based on the same set of principles, the importance of adopting the specifications and particularities of the NPO community, as a sector, is paramount for uniform interpretation and analysis of financial reports. The resultant diversity of accounting practices has provided the ingredients for the need to standardize accounting practices.

APPC has conducted various consultations and conferences in and among eight Asian societies with the general objective of proposing a set of Financial Accounting Standards for NPOs in the region. The consultations and conferences were attended by NPO representatives, government officials, accountants & auditors. The initial outcome of these processes was an Issues Paper on the proposed financial accounting standards, from which this subsequent Accounting Guide was created to provide concrete guidelines in the accounting of NPO transactions.

2. FRAMEWORK

2.1 Users and their Information Needs as applied to NPOs

EXTERNAL USERS

a. Donors/Grantors/Funding Agencies

- Degree of attainment of development objectives as indicated in financial statements and reports.
- Degree of compliance with agreed amount and manner of using funds.
- Degree of compliance with prescribed financial accounting and reporting system and procedures

b. Creditors (Banks/Financing Institutions)

- Information on ability to pay as indicated by ratios of solvency, liquidity, and stability as well as status of their security.

c. Government Agencies

- Compliance with laws, government rules and regulations, payment of taxes (if any) and reportorial requirements

d. General Public

- Effect of the activities of NPOs to the community and society in general

INTERNAL USERS

e. Members

- Information on how fees, donations, grants, and proceeds from fundraising activities were used.
- Other information needs such as managerial remuneration, use of assets, management efficiency, etc.

f. Management Team

- Board of directors/trustees for policy-making, strategic decision-making, and fulfilling its trusteeship/stewardship role.

- Executive Director for operational decision-making
- Program/project managers for project/program-related decision making

2.2 Objectives of Financial Reporting

The primary objective of financial reporting by NPOs is to provide information about the financial position, performance, and cash flows of the organization that is useful, and indeed, necessary, for a wide range of users to engage in informed decision making.

Financial reporting prepared for this purpose meets the common needs of most users. However, financial reporting does not provide all the information that users may need to make decisions since they mostly portray the financial effects of past events.

Financial reporting also shows the results of the stewardship of management for the resources entrusted to it. Those users who wish to assess the stewardship or accountability of management do so in order that they may make sound decisions. The financial reports of NPOs should compliment other non-financial, performance reports.

The financial reporting is the means by which the information gathered and presented in financial accounting is regularly communicated to those who use it.

2.3 Basis of Accounting

Description

The basis of accounting affects the timing of recognition of income and expenses. When a cash basis of accounting is used, income is recognized once it is received while expense is recognized once it is paid. On the other hand, using an accrual basis means that income is recognized when it is earned, even when it has not yet been received, and expenses are recognized when they are incurred even when they have not yet actually been paid.

Basis of Accounting	Recognition of Income	Recognition of Expense
Cash Basis	When cash is actually received	When cash is actually paid
Accrual Basis	When income is earned pertaining to the period	When an expense is incurred pertaining to the period even when not yet actually paid

The basis of accounting used, as discussed and summarized above, affects the presentation of the financial statements of the organization.

In cash basis, a transaction is recorded only when actual cash has been received or spent. Basically, only the movement of cash can constitute a transaction. Under this basis of accounting, funds are recognized as receipts for the period if these are actually

received within the current year. Expenses actually paid for in the current year are recognized for the period. This is regardless of whether the receipts or expenses pertain only to the current year, prior to or beyond it. This may result in an over/understatement of the net asset that make up a specific period.

In accrual basis, revenues and related assets are recognized when earned rather than when received while expenses are recognized when incurred rather than when paid. There is recognition of receivables and payables built up within a specific period.

The Recommended Basis of Accounting for NPOs

After extensive deliberations in the consultations and conferences, it was decided that the Accrual Basis should be adopted by NPOs as this basis is considered to be more accurate aside from the preferred basis of the respective national accounting standards-setting bodies. The use of the accrual basis of accounting helps present more fairly and accurately the financial status of NPOs. It was also seen to be required if an organization wanted to measure the cost of a project or activity or when comparative statements are required to be prepared. It was also pointed out that the accrual basis of accounting facilitates the use of the budget as part of control techniques.

(A separate discussion and illustration of the application of Accrual Basis to NPOs is presented in Chapter 5)

An option for small NPOs (where there is an insignificant difference between cash and accrual bases), is to combine the simplicity of the cash basis and the accuracy of the accrual basis, i.e., cash basis in the interim and accrue transactions that need to be accrued when preparing periodic general-purpose financial reports. Thus, the financial reports are still presented in accrual form. The accounting standards setting body of each country has to define the qualifications of small NPOs.

Donor-specific financial reports, being specific-purpose financial reports, may be presented using the cash basis upon the agreement between the NPO and the donor. As in the case of other specific-purpose reports, reconciliation between the specific reports prepared in cash basis and the general-purpose reports prepared in accrual basis, is necessary when required.

Exemption

In some countries, cash basis of accounting is allowed or required by local laws for NPOs. In such cases, NPOs may use the cash basis.

2.4 Assumption of Going-Concern

The financial statements are normally prepared on the assumption that an NPO is a going concern, and will continue to be in operation for the foreseeable future. It is thus assumed that the NPO has neither the intention nor the need to liquidate or

scale back its operations; if such an intention or need exists, the financial statements may have to be prepared using a different basis, in which case, this basis should be disclosed.

There are instances where an NPO is established *ad hoc* or its existence is limited to a specific period. In this case, the management of an *ad hoc* NPO should properly disclose its nature and terms of existence, as well as the implications of its *ad hoc* nature on its financial statements.

2.5 Qualitative Characteristics of Financial Statements

These are the attributes that make the information in financial statements useful to various NPO stakeholders, who are the users of the information. An essential quality of the information provided is its understandability by users.

- a. **Relevance.** Information has the quality of relevance when it influences the decisions of users by helping them evaluate past, present or future events or confirming, or correcting their past evaluations.
 1. **Materiality.** Information is material if its omission or misstatement could influence the decision of users taken on the basis of the financial statements.
 2. **Timeliness.** Accounting information must be available on time when needed if it is to influence decisions. Lack of timeliness reduces relevance.
- b. **Reliability.** Information is reliable when it is free from material error and bias and can be depended upon by users to embody faithfully the representation contained therein.
 1. **Faithful Representation.** To be reliable, information must represent faithfully the transactions and other events that it either purports to represent or could reasonably be expected to represent.
 2. **Substance over form.** Transactions and other events are accounted for and presented in accordance with their substance and not merely their legal form.
 3. **Neutrality.** Information must be free from bias. Financial statements are not neutral if, by selection or presentation of information, they influence the making of a decision or judgment in order to achieve a predetermined result or outcome.
 4. **Prudence.** Some degree of caution in the exercise of the judgments needed in making the estimates required under conditions of uncertainty, such that assets or revenues are not overstated and liabilities or expenses are not understated.
 5. **Completeness.** Information must be complete within the bounds of materiality. Omission may cause information to be false or misleading and thus unreliable and deficient in terms of its relevance.
- c. **Comparability.** Users must be able to compare the financial statements through time in order to identify trends in its financial position and performance.

- d. **Understandability.** An essential quality of the information provided in financial statements is that it is readily understandable by users.

Balance between Qualitative Characteristics

In practice, a balancing, or trade-off, between qualitative characteristics is often necessary. Generally, the aim is to achieve an appropriate balance among the characteristics in order to meet the objective of financial statements. The relative importance of the characteristics in different cases is a matter of professional judgment.

Fair Presentation

Financial statements are frequently described as a fair presentation of an organization's financial position, performance, and changes in financial position. Although this framework does not deal directly with such concepts, the application of the principal qualitative characteristics and of appropriate accounting standards normally results in financial statements that convey what is generally understood as presenting fairly such information.

2.6 Accounting Elements

Financial Position. The elements directly related to the measurement of financial position are an organization's assets, liabilities, and equity.

- a. Asset is a resource controlled by the organization as a result of past transactions or events and from which future economic benefits or service potential are expected to flow to the organization.
- b. Liability is a present obligation of the organization arising from past transactions or events, the settlement of which is expected to result in an outflow of resources from the organization embodying economic benefits or service potential.
- c. Equity is the residual interest in the assets after deducting all its liabilities. In business enterprises, equity represents the net ownership of the enterprise.

NPOs do not have specific owners, thus the remaining value of its assets does not go to its members. Assets and their residual values are intended for specific purposes; therefore, it is not appropriate to use the term "equity" in reference to NPOs.

In place of "equity", NPOs use the term "**Net Assets**" to emphasize the outstanding value in the statement of financial position (assets less liabilities).

The US GAAP,³ Chinese GAAP and IPSAS⁴ use "Net Assets;" however, IPSAS 1.6 also states that "other terms may be used in place of net assets/equity, provided

³ GAAP = Generally Accepted Accounting Principles

⁴ IPSAS = International Public Sector Accounting Standards

that their meaning is clear”. In this regard, the respective national accounting standards-setting body may define the appropriate term in the specific country. Many NPOs prefer to use the term “fund balance” to describe the balance of a fund, defined as a sum set aside for specific purpose, as of any given date.

Performance. The elements directly related to measurement of financial performance are revenue and expenses.

- d. Revenue is the total inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in Net Assets.
- e. Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumptions of assets or incurrence of liabilities that result in decreases in Net Assets.

2.7 Recognition and Measurement

Recognition is the process of incorporating in the financial statements an item that meets the definition of an element. An item that meets the definition of an element should be recognized if:

- a. It is probable that any future economic benefit or service potential associated with the item will flow to or from the organization;
- b. The item has a cost or value that can be measured with reliability.

Measurement is the process of determining the monetary amounts at which the elements of the financial statements are to be recognized and carried in the financial statements. A number of different measurement bases are employed to different degrees and in varying combinations in financial statements:

- a. **Historical cost.** Pertains the original cost of an asset to an entity.
- b. **Fair value.** The amount for which an asset may be exchanged or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.
- c. **Replacement cost.** The amount it will cost to replace an asset at current prices.
- d. **Net realizable value.** This refers to the net monetary gain of a transaction, i.e., the selling price of an asset less expenses.
- e. **Value-in-use.** Represents the market value of an asset that reflects a value to a particular user, recognizing the extent to which the property contributes to that entity.

3. THE ACCOUNTING EQUATION

The equation is based on the causal relationship principle and expressed as “Each resource has a source.” Thus:

$$\text{ASSETS} = \text{SOURCES}$$

An asset is anything owned by the organization that has value. Sources may be categorized according to whether these were derived from external or internal sources, i.e., liabilities or equity. In NPOs, there is no equity in the real sense since there are no specific owners. The residual amount is then called Net Assets. Thus, the fundamental accounting equation is expressed in NPOs as:

$$\begin{aligned} A &= L + NA \\ \text{Asset} &= \text{Liabilities} + \text{Net Assets} \end{aligned}$$

Net Assets has two nominal accounts, namely, Revenue/Support/Income that add up to the net assets and Expenses that are deducted from the net assets.

Based on the equation, the five major accounts are: assets, liabilities, net assets (also known as real accounts), revenue/income/support, and expense (also called nominal accounts). All financial transactions are analyzed through the fundamental accounting equation:

$$A = L + NA$$

Debit is represented in the left side of the equation, while Credit is in the right side of the equation.

In *increasing* format (when the variables are positive), the equation expressed in Debit and Credit is:

$$A = L + NA$$

Debit	Credit
-------	--------

In **decreasing** format (when the variables are negative or transposed), the equation expressed in Debit and Credit is:

$$[-L] + [-NA] = [-A]$$

Debit	Credit
-------	--------

It is very important to express the equation in increasing and decreasing forms because in real life, the variables (A, L, NA) may increase or decrease for every transaction. Hence, assets, liabilities, and net assets always consist of left and right sides or what we call the T-accounts. Combining the two equation formats (increasing and decreasing) above, we come up with the rules of Debit and Credit, as follows:

Assets

Debit	Credit
+	-

Liabilities

Debit	Credit
-	+

Net Assets

Debit	Credit
-	+
Expenses	Income

For every transaction, the fundamental accounting equation is used. Therefore, the rule can be re-stated as “***For every transaction, total debits must equal total credits.***”

Important Note

We would like to emphasize that the objective of accounting is not simply to have a balanced equation, but to have a proper analysis of transactions. A balanced equation is the result of proper analysis. In other words, balancing becomes automatic, if the analysis is correct.

4. THE ACCOUNTING CYCLE

Accounting starts with an event or transaction and ends in the preparation and interpretation of the financial reports. The phases from the recognition to report preparation are as follows:

4.1 Source Documents

Source documents are prepared to provide evidence of each transaction. The basic rule here is “a document is prepared for every transaction at the time the transaction occurs”.

Transaction	Document
for CASH RECEIVED	OFFICIAL RECEIPT (accompanied by validated deposit slip)
for CASH DISBURSED	CASH VOUCHER (accompanied by invoice/request for payment/cash advance form) and the check stub. In the case of petty cash disbursements, the Petty Cash Voucher is the source document.
for OTHER TRANSACTIONS	JOURNAL VOUCHER (accompanied by supporting documents)

The types of transactions and the representing documents are the basic requirements for NPOs. Other documents may be necessary if the transactions of a specific NPO become more complex such that there are more transaction types than the items enumerated above.

4.2 Journalizing

Transactions are recorded in the book of original entry called the Journal. The process of recording is termed “Journalizing.” A transaction must be analyzed in its debit and credit elements before it is recorded in the books of accounts. Journalizing

begins with the source document. The information in it tells the bookkeeper all that is needed for the entry.

The basic rule here is “every source document should be recorded in the appropriate journal on a daily basis or on a frequency which the NPO determines to be efficient”.

Following the categories of the transactions above, the primary books of original entry are:

Document	Journal
OFFICIAL RECEIPT	Cash Receipts Book
CASH VOUCHER	Cash Disbursements Book
JOURNAL VOUCHER	General Journal

4.3 Posting

Posting is the procedure of transferring entries from the journal to the general ledgers and subsidiary ledgers. Posting should be done on a regular (daily or monthly) basis, depending on the volume and frequency of transactions. The ledger is an account form where all accounts taken together as one group are recorded.

4.4 Trial Balance

When all journalizing and posting have been completed at the end of the period, the Bookkeeper checks the accuracy of that work. A list is made of all ledger accounts and their balances; this is called Trial Balance.

4.5 Financial Statements

Financial statements are prepared to summarize the financial operation of the organization. This information allows the management to see how financially efficient the organization has been, to compare one period with prior periods, and to determine future courses of action. Financial statements may be communicated to other interested parties such as the Board of Directors, members of the organization, donors, government, etc.

(Financial Statements are described and illustrated in Chapter 6)

5. ACCRUAL BASIS — Guidelines

This discussion on accrual basis is being presented separately in recognition of the fact that many NPOs keep their records on a Cash Basis but record accrual entries at the end of each reporting period to convert these records to an accrual basis. These accrual entries are recorded because financial statements will be distorted if unpaid bills or obligations actually incurred and uncollected income at the end of a period are not recorded.

Small non-profit organizations want to keep their records as basic as possible by implementing a system that combines the simplicity of cash basis bookkeeping and the advantage of accrual basis reporting.

5.1 Moving from the Cash Basis to the Accrual Basis

If an NPO follows the Cash Basis, it is encouraged to voluntarily disclose accrual-based information, although its core financial statements will nonetheless be prepared under the cash basis of accounting. An entity in the process of moving from cash accounting to accrual accounting may wish to include particular accrual-based disclosures during this process. The status and location of additional information (for example, in the notes to the financial statements or in a separate supplementary section of the financial report) will depend on the characteristics of the information (for example, reliability and completeness) and any legislation or regulations governing financial reporting within a country.

5.2 Accrual of Revenues

Revenues are recognized when they are earned regardless of when the cash is actually collected. Revenues must also be realized, meaning that the organization must, at some time in the future, be able to convert any receivables resulting from revenue recognition.

Accrual of Grants and Donations

Accounting for grants and donations is a major concern of NPOs with regard to the accrual basis. NPOs record a donor's unconditional commitment to contribute as

revenue (and receivable), provided that the contribution is realizable and enforceable. Grants and donations may be accrued subject to the following conditions:

- completed contract; and
- fulfillment of conditions/agreements previously set forth

In many occasions, grants received (or a portion thereof) are intended for other periods other than the period that these are received. It may be that a grant remittance is intended to cover previous period activities or that it is intended for the next period/s.

5.3 Accrual of Expenses

Expenses recorded on the accrual basis of accounting follow three basic principles:

First, some expenses are recognized when they are “matched” to the revenue which they generate.

For example, if an NPO sells an item, the costs and expenses related to that item is recognized at the same time as the revenue from the sale is recorded.

Second, some expenses are recognized in the fiscal year or accounting period in which they are used by the organization. These types of expenses are recognized when the organization has an obligation to pay the expense, which will generally correspond to the period in which the organization receives the benefit of the expense.

For example, rental expenses should be recognized in the month or period in which the NPO occupied the rented premises. Another example is personnel cost which is recognized in the period the employees rendered their services. The same applies to utility expenses such as electricity, telephone, water, etc. which are paid on a monthly or regular basis.

Third, some expenses are the result of a systematic allocation of costs to accounting periods.

Depreciation expense related to the depreciation of fixed assets is the classic example of this type.

5.4 Accrual Basis and Liquidation of Cash Advances

One of the common problems in NPO accounting is the untimely liquidation of cash advances. When the accrual basis is used, it is paramount that liquidations should be prompt or immediately after the activity. Liquidation submitted very late defeats the benefits of the accrual basis described above.

Important Note:

As part of the accounting system, transactions to be accrued at the end of the reporting period should be documented in the NPO’s accounting manual. This will

serve as a guide in the preparation of necessary accounting documents and records for accrual purposes. In considering the accrual basis of accounting, the time of the actual cash receipt or cash disbursement does NOT determine in which accounting period a revenue or expense is recorded. Rather, the principles described above guide the recognition of revenue or expense regardless of when the actual cash is collected or disbursed.

Among others, the following items are considered when preparing accrual entries:

- Accrued Revenues/Income
- Periodic Costs/End of the Month or Period
 - a. Salaries and related costs
 - b. Rentals
 - c. Utilities
 - d. Retainer fees and other periodic expenses
- Portion of Prepaid Expenses consumed for the period (Prepaid expenses are treated as assets)
 - a. Consumed portion of supplies, inventories, prepaid tickets, etc.
 - b. Completed portion of prepaid contracts
 - c. Amortization of other prepaid expenses
- Recognition of expense or asset and related liability based on consumed or completed portion of an obligation.
- Provisions
 - a. Depreciation, impairment and amortization
 - b. Provision for doubtful accounts
 - c. Unrealized gains or losses such as foreign exchange gain or loss as a result of changes in the foreign currency balances as of balance sheet date

PRACTICAL EXAMPLES and PRO-FORMA ENTRIES

	Debit	Credit
<i>Accrued Revenues/Income</i>		
1 _____ receivable	100,000	
_____ income		100,000
To accrue _____ earned from _____ for the period		
<i>(all other accrual of revenues, income, contributions follow this entry format, recognizing the specific revenue and the corresponding receivable)</i>		
2 Deferred Grant (<i>liability</i>)	500,000	
Grant (<i>as revenue</i>)		500,000
To recognize the portion of grant received that is intended for the period.		
<i>(this entry assumes that grant received was originally credited to Deferred Grant (a liability account) because the amount was intended for several periods)</i>		
<i>Periodic Costs/End of the Month or Period</i>		
3 Salaries expense	100,000	
SSS employer's contribution	7,000	
HDMF employer's contribution	4,000	
PHIC employer's contribution	3,000	
Withholding tax payable-compensation		15,000
SSS payable		14,000
HDMF payable		8,000
PHIC payable		6,000
Cash		71,000
To record payroll expenses and set-up liabilities to government arising from the payroll.		
4 Retirement Benefit expense	20,000	
Accrued expenses		20,000
To accrue retirement benefit expense for the period.		
5 Rent expense	10,000	
Accrued expenses		10,000
To accrue rent for the month of December.		
6 Power, light and water	8,000	
Accrued expenses		8,000
To accrue electricity and water charges for the month of December.		

	Debit	Credit
7 Professional fee	5,500	
Accrued expenses		5,500
To accrue retainer’s fee for the month of December.		
<i>Consumed Portion of Pre-paid Expenses (the following entry assumes that pre-paid expenses were treated as asset when this was paid in advance)</i>		
8 _____ expense	40,000	
Prepaid expenses		40,000
To record consumed portion of prepaid _____ expense for the period.		
<i>Recognition of Expense or Asset and Related Liability Based on Consumed or Completed Portion of an Obligation</i>		
9 Interest expense	20,000	
Interest payable		20,000
To accrue interest incurred on Loans payable for the period.		
10 _____ (Expense or Asset)	50,000	
Accounts payable		50,000
To recognize completed portion of _____ expense or asset during the period.		
<i>Provisions</i>		
11 Depreciation expense	20,000	
Accumulated depreciation		20,000
To record depreciation of properties for the period.		
12 Bad debts	10,000	
Allowance for bad debts		10,000
To record provision for bad debts.		
13 Cash (foreign currency)	5,000	
Foreign exchange gain		5,000
To re-value foreign currency balance based on the current rate as of end of the period.		

II

FINANCIAL REPORTING AND CHART OF ACCOUNTS

6. FINANCIAL REPORTS and DISCLOSURES

IAS⁵ 1 pertains to Framework/Presentation. It includes the basic financial statements or the general-purpose financial statements that an organization should prepare – Balance Sheet, Income Statement, Changes in Equity, Cash Flow Statement, and Disclosures.

The proposed accounting standards for NPOs and this Accounting Guide attempt to attain uniformity in the presentation and interpretation of the financial statements of NPOs. This will also help in properly comparing reports of similar organizations for the purpose of analyzing financial statements.

This Guide focuses on the general-purpose financial statements, as specific purpose financial statements may differ based on the concerns of each individual NPO. The general-purpose financial statements include the following:

- a. **Balance Sheet or Statement of Financial Position.** This statement presents the financial position of the organization at a certain date. It may be used as a tool to evaluate the resource controlled, solvency, liquidity and stability of the Organization's financial standing.

For NPOs, Net Assets is the equivalent of Equity.

Net Assets is divided into Unrestricted and Restricted. Restrictions may be imposed by the donor or by legal requirements.

Unrestricted Net Assets represent the resources of an NPO that are not controlled by the donor or limited by legal requirements.

Restricted Net Assets are those whose use is limited by either a time restriction or a purpose restriction. A time restriction requires that the resources be used during a certain period of time. Sometimes time restrictions specify that the resources cannot be used until after a specific point in time. A purpose restriction, as its name suggests, requires that resources be used for a specific purpose, such as a specific program/project of the organization.

⁵ IAS = International Accounting Standards

- b. **Statement of Activities or Performance Statement.** This financial statement reports on the sum all support & revenue received and expenses disbursed for a given period. It measures how financial resources were derived and utilized.

Changes in Net Assets. The changes in Net Assets may not be very complicated for NPOs. This may be reflected in the Statement of Financial Position or in the Statement of Activities.

*Option 1: In the Statement of Financial Position
under Net Assets*

NET ASSETS

Beginning Balance

Add(Deduct): Net Excess(Deficit) for the period

(from the Statement of Activities)

Ending Balance

*Option 2: In the Statement of Activities
after Net Excess (Deficit)*

NET EXCESS (DEFICIT) FOR THE PERIOD

Add: Net Asset – Beginning

NET ASSET – Ending *(forwarded to the Statement of Financial Position)*

- c. **Cash Flow Statement.** The statement of cash flows provides a summary of available cash and its use during the accounting period. It also shows the information about methods of financing activities and use and investment of resources during the period. (This statement can be called “Statement of Receipts and Payments” if the cash basis is allowed and used.)

It classifies cash flows according to whether they stem from operating, investing, or financing activities and provides definitions of each category.

Operating Activities

The Operating Activities reflect all cash transactions that are not classified as either investing or financing activities.

Cash inflows from operating activities include:

- Grants
- Contributions (other than long-term restricted contributions)
- Receipts from the sales of goods or services

Cash outflows for operating activities include:

- Disbursements made for program/project activities
- Disbursements to employees, vendors, and contractors

- Payments of taxes, if any
- Grants made by the organization to other organization, if any

Investing Activities

Investing activities include acquiring and disposing of debt and equity investments, making and collecting loans, and acquiring and disposing of property, plant, and equipment.

Cash inflows from investing activities include:

- Sales of property, plant, and equipment
- Collections on loans

Cash outflows for investing activities include:

- Purchase of property, plant, and equipment
- Disbursements of loans

Financing activities

Financing activities include borrowing money and repaying amounts borrowed, and obtaining and paying for other resources obtained from creditors using long-term credit. This category would also include cash received for contributions from donors that is restricted for long-term purposes for which the restrictions have yet been satisfied and the cash is still being held.

Cash inflows from financing activities include:

- Receipts of contributions from donors that are restricted for long-term purposes
- Interest and dividends restricted for long-term use
- Short-and long-term borrowings

Cash outflows for financing activities include:

- Repayment of short-and long-term debt
- Repayment of capital leases

Methods of Presenting Statement of Cash Flows

Statement of cash flows can be presented using one of two methods: the direct method or the indirect method. The direct method reports actual receipts and disbursements for each item of cash inflows and outflows. The indirect method begins with the result of operating activities reported in the statement activities and then adjusts this amount to convert it to a cash receipts/disbursements basis. Most NPOs use the direct method, while auditors prefer the indirect method.

The sample company, LEAD Foundation, used the Indirect Method (see page 32); while a sample presentation of the Direct Method can be found in page 45.

Non-Cash Activities as Supplementary Information

While the title is Statement of Cash Flows, the statement is required to report non-cash transactions as well. The cash flow statement should include non-cash investing and financing activities either by narrative or by including a schedule, of non-cash transactions as part of the Statement of Cash Flows.

d. Notes to Financial Statements and Supporting Schedules.

Disclosures. The minimum disclosure requirements include the following:

- Nature and purpose of the organization, including the domicile and legal form of the organization
- Description of funds/projects/services
- Number of members of the governing board/body, general assembly/membership and employees and changes during the reporting period.
- Basis of preparation of the financial statements
- Accounting policies to be disclosed will assist users in understanding the way in which transactions and events are reflected in the financial statements
- Major donors/sources of funds and explanation to the restricted assets imposed by the resource providers
- Recipients of material donations given, if any.
- Related party transactions, if any (*discussed separately in 4.8*)
- Explanation to significant impairments of assets
- Liens on assets and other restrictions
- Explanation to main items of the financial statements and their changes .
- Explanation of agency transactions/pass-through accounts/ funds-held-in-trust
- Contingencies, commitments, and other financial disclosure
- Non-adjustment events incurred after balance sheet date
- Non-financial disclosures relevant to the financial statements
- All other necessary disclosure. *Note: the presence or absence of an explanatory note may alter the reader's interpretation of financial information.*

Additional Disclosures for Income-Generating Activities.

- Nature and description of the commercial activities.
- Particulars of income and expenses of the commercial activities.
- For NPOs engaged in microfinance activities: Portfolio Report, Loan Aging and Key Ratio Analysis.

Some Supporting Schedules and Statements Prepared by NPOs include the following:

1. Bank Reconciliation Statement wherein all cash in bank balances are reconciled with the bank records monthly or as the need arises.
2. Daily Cash Position Report which is prepared for cash in bank, cash on hand and petty cash/revolving funds at the end of the day to provide information on receipts and payments as well the amount of cash still available for use the following day.
3. Various Assets and Liabilities Schedules, or listings, to support the balances reflected in the financial statements.
4. Ageing of Receivables and Payables
5. Schedule of Grants Received

Sample Financial Statements & Disclosures

LEAD FOUNDATION, INC. (a non-stock, non-profit corporation)			
STATEMENTS OF FINANCIAL POSITION December 31, 2004 and 2003			
	Notes	2004	2003
A S S E T S			
CURRENT ASSETS			
Cash and cash equivalents	2, 3	XXXXXXXXXX	XXXXXXXXXX
Receivables, net			
Farm inventories and office supplies	2, 42	XXXXXXXXXXXXXX	XXXXXXXXXXXXXX
Investments, current portion	2, 6	XXXXXXXXXX	XXXXXXXXXX
Prepayments and other current assets	5	XXXXXXXXXX	XXXXXXXXXX
Total current assets		XXXXXXXXXX	XXXXXXXXXX
NON-CURRENT ASSETS			
Investments, net of current portion	2, 6	XXXXXXXXXX	XXXXXXXXXX
Property and equipment, net	2, 7	XXXXXXXXXX	XXXXXXXXXX
Other non-current assets	2, 8	XXXXXXX	XXXXXXX
Total non-current assets		XXXXXXXXXX	XXXXXXXXXX
Total assets		XXXXXXXXXX	XXXXXXXXXX
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Payables and accrued expenses	2, 9	XXXXXXXXXX	XXXXXXXXXX
Deferred support, current portion	10	XXXXXXXXXX	XXXXXXXXXX
Funds held in trust	2	XXXXXXXXXX	XXXXXXXXXX
Total current liabilities		XXXXXXXXXX	XXXXXXXXXX
NON-CURRENT LIABILITIES			
Small enterprise fund facility		XXXXXXXXXX	XXXXXXXXXX
Deferred support & income, net of current portion	10	XXXXXXXXXX	XXXXXXXXXX
Total non-current liabilities		XXXXXXXXXX	XXXXXXXXXX
Total liabilities		XXXXXXXXXX	XXXXXXXXXX
NET ASSETS	11		
Unrestricted		XXXXXXXXXX	XXXXXXXXXX
Restricted		XXXXXXXXXX	XXXXXXXXXX
Total net assets		XXXXXXXXXX	XXXXXXXXXX
Total liabilities and net assets		XXXXXXXXXX	XXXXXXXXXX

(see accompanying notes to financial statements)

LEAD FOUNDATION, INC.					
(a non-stock, non-profit corporation)					
STATEMENTS OF ACTIVITIES					
for the years ended December 31, 2004 and 2003					
		2004		2003	
	Notes	Unrestricted	Restricted	Unrestricted	Restricted
REVENUES					
Support	2				
Membership donations		xxxxxxx	xxxxxxx	xxxxxxx	xxxxxxx
Grants and other contributions		xxxxxxx	xxxxxxx	xxxxxxx	xxxxxxx
Total support		xxxxxx	xxxxxx	Xxxxxxx	xxxxxxx
Income	2	xxxxxxx	-	xxxxxxx	-
Investment income	2	xxxxxxx	-	xxxxxxx	-
Income from small enterprise facility trust fund, net	2, 12	xxxxxxx	-	xxxxxxx	-
Other income, net					
Total income		xxxxxxx	-	xxxxxxx	-
Total revenues		xxxxxxxxx	xxxxxxxxx	xxxxxxxxx	xxxxxxxxx
EXPENSES					
Program/Project Expenses	2				
_____ program/project		xxxxxxxxx	xxxxxxx	xxxxxxx	xxxxxxxxx
_____ program/project		xxxxxxxxx	xxxxxxx	xxxxxxx	xxxxxxxxx
General and administrative expenses	13	xxxxxxxxx	-	xxxxxxx	-
Fund-raising expenses		xxxxxxxxx	-	xxxxxxx	-
Other expenses					
Provision for losses on loans receivables		xxxxxxxxx	-	xxxxxxx	-
Unrealized loss in market value of investments, net	6	-	-	xxxxxxx	-
Total expenditures		xxxxxxx	xxxxxxxxx	xxxxxxx	xxxxxxxxx
Excess of support and income over expenditures for the year		xxxxxxxxxxx	xxxxxxx	xxxxxxxxxxx	xxxxxxx

(see accompanying notes to financial statements)

LEAD FOUNDATION, INC.

(A non-stock, non-profit corporation)

STATEMENTS OF CHANGES IN NET ASSETS
for the years ended December 31, 2004 and 2003

	Note	2004	2003
UNRESTRICTED			
January 1		xxxxxxx	xxxxxxx
Excess of support and income over expenditures for the year		xxxxxxx	xxxxxxx
Net transfer to restricted		(xxxxxxx)	(xxxxxxx)
December 31		xxxxxxx	xxxxxxx
RESTRICTED			
January 1	11	xxxxxxxx	xxxxxxxx
Excess of support and income over expenditures for the year		xxxxxxxx	xxxxxxxx
Net transfer from unrestricted		xxxxxxxx	xxxxxxxx
December 31		xxxxxxxx	xxxxxxxx
Total net assets		xxxxxxxx	xxxxxxxx

(See accompanying notes to financial statement)

NOTE: For simplification purposes, this statement can be incorporated in the statement of financial position or in the statement of activities.

LEAD FOUNDATION, INC.

(A non-stock, non-profit corporation)

STATEMENTS OF CASH FLOWS
for the years ended December 31, 2004 and 2003

Notes	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of support and income over expenditures for the year		xxxxxxx
Adjustments for:		
Return to donor		
Depreciation and amortization	7	xxxxxxx
Provision for possible losses on loans receivable		xxxxxx
Amortization of unamortized fees and interest		xxxxxxx
Unrealized loss in market value of investments		-
Unrealized foreign exchange gain		(xxxxxxx)
Gain on sale of property and equipment		(xxxxxx)
Dividend income	12	(xxxxxx)
Interest income		(xxxxxxxx)
Interest expense		xxxxxxx
Net cash used before changes in working capital		(xxxxxxxx)
Changes in assets and liabilities:		
Receivables		xxxxxxx
Office supplies		xxxxxxx
Other current assets		(xxxxxxx)
Payables and accrued expenses		xxxxxxx
Deferred grant/support		
Interest paid		(xxxxxxx)
Net cash used in operating activities		(xxxxxxxx)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment		(xxxxxxxx)
Proceeds from sale of property and equipment		xxxxxx
Increase (decrease) in investments		(xxxxxxxx)
Increase (decrease) in small enterprise facility trust fund		(xxxxxxxx)
Increase in other assets		(xxxxxxx)
Dividend income received		xxxxxx
Interest received		xxxxxxxx
Net cash provided by (used in) investing activities		(xxxxxxx)
CASH FLOWS FROM FINANCING ACTIVITY		
Increase (decrease) in deferred revenues		(xxxxxxx)
Increase (decrease) in funds held in trust		xxxxxxx
EFFECTS OF EXCHANGE RATE CHANGES		
		xxxxxx
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(xxxxxxxx)
CASH AND CASH EQUIVALENTS		
January 1		xxxxxxxx
December 31	3	xxxxxxxx

(See accompanying notes to financial statement)

LEAD FOUNDATION, INC.

(A Non-stock, Non-profit Corporation)

SAMPLE NOTES TO FINANCIAL STATEMENTS

December 31, 2004

*(With Comparative Figures for 2003)***1. CORPORATE INFORMATION**

LEAD Foundation was founded in 2002 by a group of concerned citizens to

The Foundation's activities are funded from donations appropriated by members contributions and grants from local and foreign sources. Other funds are sourced through co-financing and cooperative agreements and brokering.

The registered office of the LEAD Foundation is located at the _____.

The Foundation had ___ and ___ employees as of December 31, 2004 and 2003, respectively.

The financial statements of the Foundation for the year ended December 31, 2004, was authorized for issue by the Foundation's Executive Committee, acting for and in behalf of the Board of Trustees, on _____.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*Basis of Preparation of Financial Statements*

The financial statements have been prepared in accordance with generally accepted accounting principles.

The financial statements have been prepared on a historical cost basis.

The accounting policies have been consistently applied by the Foundation and are consistent with those used in the previous year, except for the adoption of new accounting standards as stated below.

Adoption of New Accounting Standards

In 2004, the Foundation adopted the following International Accounting Standards ("IAS") effective for periods beginning on or after January 1, 2003, that are relevant to the Foundation:

IAS 10	:	Events After the Balance Sheet Date
IAS 37	:	Provisions, Contingent Liabilities and Contingent Assets

The Foundation's adoption of these new accounting standards did not have any material effects on the financial statements, hence, did not result in any adjustments to the financial statements of the current and prior years.

In 2003 and prior years, the Foundation adopted the new pronouncements that became effective in those years.

Impact of New Accounting Standards Effective in 2004

The following new accounting standards will be effective subsequent to calendar year 2004 and are applicable to the Foundation:

- IAS 12, *Income Taxes*. This new standard, which becomes effective for periods beginning on or after January 1, 2004, prescribes the accounting treatment for current and future tax consequences of the future recovery or settlement of the carrying amount of assets or liabilities that are recognized in the balance sheet of an entity and transactions and other events of the current period that are recognized in the entity's financial statements. The Foundation will adopt IAS 12 starting January 1, 2005 as required, and is currently evaluating the impact of the adoption of IAS 12 on the Foundation's financial statements.
- IAS 17, *Leases*. This new standard prescribes the accounting policies and disclosures to be applied to finance and operating leases. A finance lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset. IAS 17 requires a lessee to recognize finance leases as assets and liabilities in its balance sheet. As of December 31, 2004, the Foundation has existing leases covering certain office premises that are presently accounted for as operating leases. Based on the initial evaluation of the Foundation, such leases will not qualify as finance leases under IAS 17. Hence, the Foundation believes that its adoption of IAS 17, in the year 2005, will not have material effects on the Foundation's financial statements.

New Accounting Standards Effective in 2005

The Foundation adopts the following applicable revised and new accounting standards effective January 1, 2005:

- IAS 1, Presentation of Financial Statement
- IAS 8, Accounting Policies
- IAS 16, Property, Plant and Equipment
- IAS 17, Leases
- IAS 19, Employee Benefits
- IAS 21, The Effects of Changes in Foreign Exchange Rates
- **IAS 36, Impairment of Assets**
- IAS 39, Financial Instruments: Recognition and Measurement

The adoption of the above revised IAS will not result in substantial changes in the Foundation's accounting policies.

International Financial Reporting Standards

IFRS 1 *First time Adoption of International Financial Reporting Standards*

In general, IFRS 1 requires an entity adopting IFRSs for the first time (a first-time adopter) to comply with each IFRS that has come into effect at the reporting date for its first IFRS financial statements. IFRS 1 requires that a first-time adopter prepare an opening IFRS statement of assets, liabilities and head office account at the date of transition to IFRSs (the beginning of the earliest period for which it presents full comparative information under IFRSs in its first IFRS financial statements). IFRS 1 grants limited exemptions from these requirements in specific areas where the cost of complying with them would also likely to exceed the benefits to users of financial statements. IFRS 1 also prohibits retrospective application of IFRSs in some areas, particularly where retrospective application would require judgments by management about past conditions after the outcome of a particular transaction is already known. Further, IFRS 1 requires disclosures that explain how the transition from previous GAAP to IFRSs affected the entity's reported financial position, activities and cash flows.

The impact of the adoption of the above accounting Standard could not be reasonably estimated as of December 31, 2004.

Cash and cash equivalents

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Receivables

Receivables are stated at net realizable value based on review of all outstanding accounts at balance sheet date. Bad debts are written off in the year they are identified.

Farm inventories and supplies

These are valued at the lower of cost or net realizable value. Cost is determined using specific identification method for farm inventories and first-in, first-out method for supplies. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

Growing crops

Costs related to planting materials and growing crops are capitalized and recorded as property and equipment account in the balance sheets and are being amortized over the total estimated useful lives of 15 to 20 years (see Note 7).

Breeders

Costs related to breeders are capitalized and recorded as property and equipment account in the balance sheets and are being amortized over the total estimated useful lives of 15 to 25 years (see Note 7).

Livestock

Costs related to livestock are capitalized and recorded as property and equipment account in the balance sheets and are being amortized over the total estimated useful lives of 10 to 15 years (see Note 7).

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization and any impairment in value. The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred. When assets are sold, retired or otherwise disposed of, their cost and related accumulated depreciation and amortization and impairment losses are removed from the accounts and any resulting gain or loss is charged to current operations.

Property and equipment acquired for a project through restricted contributions are recorded as grants expenses. A corollary entry is prepared to recognize it as Foundation's asset with corresponding credit to Restricted Net Asset (Property and Equipment Fund) unless specified that only upon completion shall the ownership of the asset be vested to the Foundation.

Depreciation is computed on the straight-line basis over the estimated useful lives of the assets as follows:

Land improvements	5 years
Building and improvements	25 years
Furniture, fixtures and other equipment	3-10 years
Transportation equipment	5 years
Hatchery facilities and other properties	25 years

Amortization of building improvements is computed based on the estimated useful lives of the assets, or the remaining life of the building, whichever is shorter.

Fully depreciated and amortized assets are retained in the accounts until they are no longer in use and no further charge for depreciation and amortization is made with respect to those assets.

Investments

Investments are initially recorded at cost at the time of acquisition, which is generally measured by the purchase price of the security, or the fair value of the asset given up or the security received in the exchange and other costs directly related to the acquisition. Subsequent to acquisition, the carrying values of the investments are determined as follows:

- Investment in trust funds – These are carried at the lower of its aggregate cost, including accumulated realized earnings, or market value at balance sheet date. The excess of aggregate cost over market value is accounted for as valuation allowance and is charged to operations. Investments in bonds and other interest-bearing instruments are carried at cost adjusted for discount or premium through periodic amortization charges or credits to income, less any needed provision for permanent impairment in value.
- Investment in shares of stock of a subsidiary company – This is accounted for at cost since the subsidiary company has not been operational since its incorporation on March 30, 1992. The Foundation will shift to equity method of accounting for this investment once the investee company becomes operational.

Impairment of Assets

The carrying values of property and equipment and investments are reviewed for impairment when events or changes in circumstances indicate that their carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash generating units are written down to their recoverable amount. The recoverable amount of property and equipment and investments is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Impairment losses are recognized in the statement of support, income and expenditures.

If there is any indication at the balance sheet date that an impairment loss recognized for an asset in prior years may no longer exist or may have decreased, the Foundation estimates the recoverable amount of that asset and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss.

Revenue and Expense Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Foundation and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

- Revenue from restricted support is recognized upon fulfillment of the donor-imposed conditions attached to the support and/or to the extent that expenses are incurred. Revenue from unrestricted support is recognized upon receipt of the support and expenses are reported when incurred. Restricted support for which restrictions and conditions have not yet been met, are classified as deferred support. At project completion date, any excess funds in deferred support are to be returned to the donors unless otherwise agreed by both parties to be retained by the Foundation and therefore credited to unrestricted support.
- Investment income, which primarily consists of interest and other income, are recognized as they accrue (taking into account the effective yield on the asset).

Program/Project expenses and other expenses are recognized when incurred.

Pension Costs

The Foundation has a defined benefit pension plan covering all regular full time employees. The pension plan is tax-qualified, noncontributory and administered by a trustee. The cost of providing benefits under the plan is determined using the projected unit credit actuarial valuation method, which utilizes the normal cost, actuarial accrued liability and unfunded actuarial liability concepts. Past service cost and actuarial gains and losses are recognized over the expected remaining working lives of the employees covered by the plan.

Foreign Currency Transactions

The accounting records of the Foundation are maintained in local currency. Foreign currency transactions during the year are translated into local currency at exchange rates which approximate those prevailing on transaction dates. Foreign currency monetary assets and liabilities at the balance sheet date are translated into local currency at exchange rates which approximate those prevailing on that date. Exchange gains and losses are charged to current operations.

Borrowing Costs

Borrowing costs relating to small enterprise fund facility are recognized as expenses in the period in which they are incurred.

Provisions

Provisions are recognized when the Foundation has present obligation (whether legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

3. CASH AND CASH EQUIVALENTS

This account is broken down as follows:

	<u>2004</u>	<u>2003</u>
Restricted		
Cash	xx,xxx,xxx	xx,xxx,xxx
Unrestricted:		
Cash	xx,xxx,xxx	x,xxx,xxx
Short-term placements	-	xx,xxx,xxx
	<u>xx,xxx,xxx</u>	<u>xx,xxx,xxx</u>
	<u>xx,xxx,xxx</u>	<u>xx,xxx,xxx</u>

Restricted cash represents available funds for projects undertaken under grants and support with donor-imposed restrictions.

Cash accounts with the banks generally earn interest at rates based on daily bank deposit rates. Short-term placements have an average maturity of 15 days and effective annual interest rates ranging from 5% to 7% in 2003.

4. RECEIVABLES

This account consists of:

	<u>2004</u>	<u>2003</u>
Accounts/Loans Receivables	X,XXX,XXX	-
Contribution Receivables (from donors)	X,XXX,XXX	X,XXX,XXX
Advances to officers and employees	X,XXX,XXX	X,XXX,XXX
Others	X,XXX,XXX	X,XXX,XXX
	<u>XX,XXX,XXX</u>	<u>X,XXX,XXX</u>
Allowance for doubtful accounts	(X,XXX,XXX)	(X,XXX,XXX)
	<u>XX,XXX,XXX</u>	<u>X,XXX,XXX</u>

5. OTHER CURRENT ASSETS

This account is broken down as follows:

	<u>2004</u>	<u>2003</u>
Input Tax	X,XXX,XXX	X,XXX,XXX
Others	XXX,XXX	XX,XXX
	<u>X,XXX,XXX</u>	<u>X,XXX,XXX</u>

6. INVESTMENTS

The details of this account follows:

	<u>2004</u>	<u>2003</u>
Trustee-managed funds	XXX,XXX,XXX	XXX,XXX,XXX
Time deposit	XX,XXX,XXX	XX,XXX,XXX
Investment in shares of stock of a subsidiary company	X,XXX,XXX	X,XXX,XXX
	<u>XXX,XXX,XXX</u>	<u>XXX,XXX,XXX</u>
Allowance for decline in value	(X,XXX,XXX)	(X,XXX,XXX)
	<u>XXX,XXX,XXX</u>	<u>XXX,XXX,XXX</u>

Trustee-managed funds are composed of investments in securities and other debt instruments administered by certain banks.

Time deposit represents a dollar-denominated placement with a certain bank that will mature in 2024 with an option to put in 2006 and has an effective annual interest rate of 9.5% in 2004 and 2003.

7. PROPERTY AND EQUIPMENT

A reconciliation of the carrying amounts at the beginning and end of 2004 and the gross carrying amounts and the accumulated depreciation and amortization of property and equipment are shown below:

	Land and Improvements	Furniture, Fixtures and Building and Improvements	Hatchery Facilities and Other Equipment	Transportation Equipment	and Other Properties	Construction in Progress	Total
Balance at January 1, 2004 net of accumulated depreciation and amortization	xx,xxx,xxx	x,xxx,xxx	x,xxx,xxx	x,xxx,xxx	x,xxx,xxx	x,xxx,xxx	xx,xxx,xxx
Additions	x,xxx,xxx	xx,xxx	x,xxx,xxx	xx,xxx	x,xxx,xxx	x,xxx,xxx	xx,xxx,xxx
Disposals	-	-	(xx,xxx)	-	-	-	(xx,xxx)
Reclassifications	-	-	-	-	x,xxx,xxx	(x,xxx,xxx)	-
Depreciation and amortization charges for the year	(xx,xxx)	(x,xxx,xxx)	(x,xxx,xxx)	(xxx,xxx)	(x,xxx,xxx)	(-)	(x,xxx,xxx)
Balance at December 31,2004, net of accumulated depreciation and amortization	<u>xx,xxx,xxx</u>	<u>x,xxx,xxx</u>	<u>x,xxx,xxx</u>	<u>x,xxx,xxx</u>	<u>x,xxx,xxx</u>	<u>x,xxx,xxx</u>	<u>xx,xxx,xxx</u>
January 1, 2004							
Cost xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx	x,xxx,xxx	x,xxx,xxx	x,xxx,xxx	xx,xxx,xxx	
Accumulated depreciation and amortization	(x,xxx,xxx)	(xx,xxx,xxx)	(xx,xxx,xxx)	(x,xxx,xxx)	(x,xxx,xxx)	-	(xx,xxx,xxx)
Net carrying amount	<u>xx,xxx,xxx</u>	<u>x,xxx,xxx</u>	<u>x,xxx,xxx</u>	<u>x,xxx,xxx</u>	<u>x,xxx,xxx</u>	<u>x,xxx,xxx</u>	<u>xx,xxx,xxx</u>
December 31, 2004							
Cost xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx	x,xxx,xxx	x,xxx,xxx	x,xxx,xxx	xx,xxx,xxx	
Accumulated depreciation and amortization	(x,xxx,xxx)	(xx,xxx,xxx)	(xx,xxx,xxx)	(x,xxx,xxx)	(x,xxx,xxx)	-	(xx,xxx,xxx)
Net carrying amount	<u>xx,xxx,xxx</u>	<u>x,xxx,xxx</u>	<u>x,xxx,xxx</u>	<u>x,xxx,xxx</u>	<u>x,xxx,xxx</u>	<u>x,xxx,xxx</u>	<u>xx,xxx,xxx</u>

Property and equipment which are fully depreciated and are still in use amounted to xx.x million and x.x million in 2004 and 2003, respectively.

In 2004, the Foundation retired furniture, fixtures and other equipment with a total cost of x,xxx,xxx and accumulated depreciation of x,xxx,xxx. The resulting loss on retirement was charged against the Other Income - Net account in the 2004 statement of activities.

Depreciation and amortization charges amounting to x,xxx,xxx and x,xxx,xxx in 2004 and 2003, respectively, were offset against the Other Income - Farm Expenses - Net (see Note 13).

In 2004 and 2003, the Foundation acquired property and equipment amounting to x,xxx,xxx and x,xxx,xxx, respectively, through donations.

8. OTHER NON-CURRENT ASSETS

This account consists of:

	<u>2004</u>	<u>2003</u>
Loans Receivable – net of current portion:		
Unrestricted	x,xxx,xxx	x,xxx,xxx
Restricted (see Note 4)	xx,xxx,xxx	xx,xxx,xxx
	<u>xx,xxx,xxx</u>	<u>xx,xxx,xxx</u>
Allowance for doubtful accounts	(xx,xxx,xxx)	(xx,xxx,xxx)
	<u>xx,xxx,xxx</u>	x,xxx,xxx
Staff training and development and other funds (see Note 10)	x,xxx,xxx	x,xxx,xxx
Refundable deposits	xxx,xxx	xxx,xxx
Land held for sale	xxx,xxx	xxx,xxx
Others	x,xxx,xxx	xxx,xxx
	<u>xx,xxx,xxx</u>	<u>x,xxx,xxx</u>

Loans receivables are charged an annual interest ranging from 3% to 18% to cover the administrative costs of servicing the projects.

When loans to project proponents from restricted funds are subsequently collected without the donor-imposed restrictions, the same are recorded as unrestricted grants and other contributions. Reflows of loans without donor-imposed restrictions are generally used to support similar programs for which the original grants to the Foundation were intended.

9. PAYABLES AND ACCRUED EXPENSES

The components of payables and accrued expenses follow:

	<u>2004</u>	<u>2003</u>
Accounts payable	XX,XXX,XXX	XX,XXX,XXX
Accrued expenses	XX,XXX,XXX	XX,XXX,XXX
Payable to regulatory agencies	X,XXX,XXX	X,XXX,XXX
Others	XXX,XXX	XXX,XXX
	<u>XX,XXX,XXX</u>	<u>XX,XXX,XXX</u>

10. DEFERRED SUPPORT/RESTRICTED FUND

Deferred support represents support received applicable to succeeding years, certain details of which are on the attached Schedule 1 of donors ranked on the basis of restricted funds received for the year ended December 31, 2004. The funds are to be used only for the specific projects and in compliance with the terms and conditions of the support. Of the total deferred support, xx,xxx,xxx and xx,xxx,xxx had already been appropriated by the Board as of December 31, 2004 and 2003, respectively, and are already committed for release to specific projects.

In general, unused funds at the end of the project are returned to the donors unless otherwise agreed. Certain funds and reflows, therefore, of completed projects may be transferred to unrestricted grants and other contributions upon approval of the Board.

11. DESIGNATED RESTRICTED NET ASSETS

The designated net assets is broken down as follows:

	<u>Reserve for Future Projects</u>	<u>Reserve for Project Completion</u>	<u>Reserve for Training</u>	<u>Unpaid Committed Grants</u>	<u>Advances to Project Proponents</u>	<u>Total</u>
Balance at beginning of year	-	xxx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx	x,xxx,xxx	xxx,xxx,xxx
Designations for the year:						
Approved	x,xxx,xxx	-	x,xxx,xxx	xx,xxx,xxx	-	xx,xxx,xxx
Disbursed	-	-	(x,xxx,xxx)	(xx,xxx,xxx)	-	(xx,xxx,xxx)
Collected	-	-	-	-	(xx,xxx)	(xx,xxx)
Closure of savings of completed projects	-	-	-	(xxx,xxx)	-	(xxx,xxx)
Reversal of prior year's appropriations	-	-	-	(xxx,xxx)	-	(xxx,xxx)
Reclassifications	xxx,xxx,xxx	(xxx,xxx,xxx)	(xx,xxx,xxx)	-	-	-
Balance at end of year	<u>xxx,xxx,xxx</u>	<u>-</u>	<u>-</u>	<u>xx,xxx,xxx</u>	<u>x,xxx,xxx</u>	<u>xxx,xxx,xxx</u>

The Board approves designation of reserve for future projects annually. The fund and its earnings can be made available to deserving projects.

In 2004, the reserve for project completion and reserve for training were consolidated into reserve for future projects.

12. OTHER INCOME - NET

The components of this account follow:

	<u>2004</u>	<u>2003</u>
Foreign currency gains	X,XXX,XXX	X,XXX,XXX
Rental of facilities - net	X,XXX,XXX	X,XXX,XXX
Contracts – net	X,XXX,XXX	-
Interest income from banks	XXX,XXX	XXX,XXX
Dividend income	XX,XXX	XX,XXX
Recoveries on decline in value of investment	-	X,XXX,XXX
Miscellaneous - net	XXX,XXX	XXX,XXX
Farm expenses – net	<u>(X,XXX,XXX)</u>	<u>(X,XXX,XXX)</u>
	<u>X,XXX,XXX</u>	<u>XX,XXX,XXX</u>

13. GENERAL AND ADMINISTRATIVE EXPENSES

The General and Administrative Expenses of the Foundation are the following:

	<u>2004</u>	<u>2003</u>
Salaries and wages	X,XXX,XXX	X,XXX,XXX
Employees welfare	X,XXX,XXX	X,XXX,XXX
Transportation and travel	X,XXX,XXX	X,XXX,XXX
Light and water	X,XXX,XXX	X,XXX,XXX
Security and janitorial	XXX,XXX	XXX,XXX
Postage, telephone and cable	XXX,XXX	XXX,XXX
Repairs and maintenance	XXX,XXX	XXX,XXX
Office supplies	XXX,XXX	XXX,XXX
Property insurance	XXX,XXX	XXX,XXX
Taxes and licenses	XXX,XXX	XXX,XXX
Dues and assessments	XXX,XXX	XXX,XXX
Professional fee	XXX,XXX	XX,XXX
Miscellaneous	<u>XX,XXX</u>	<u>XX,XXX</u>
	<u>XX,XXX,XXX</u>	<u>XX,XXX,XXX</u>

14. RETIREMENT PLAN

The Foundation maintains a trustee-managed and non-contributory retirement plan, which took effect in January 1, ____, covering all of its regular full-time employees. The normal retirement age is 60 with a minimum of 10 years of credited service. The plan also provides for an early retirement at age 50 with a minimum of 10 years of credited service and late retirement after age 60, both subject to the approval of the Foundation's Board. Normal retirement benefit is an amount equivalent to 150% of the final monthly covered compensation (average monthly basic salary during the last 12 months of credited service) for every year of credited service. Total retirement benefit expense shown as part of the Project Expenses and General and Administrative Expenses accounts in the statement of activities, amounted to x.x million and x.x million in 2004 and 2003, respectively.

Based on the latest actuarial valuation report as of March 31, 2004, the fair value of the plan assets exceeds the actuarial present value of retirement benefits, based on the assumed rate of return of 7.9%, by about 0.xx million. Actuarial valuations are made every two years to update the retirement benefit costs and the amount of contributions.

The annual contribution to the retirement plan covers the current service costs and the amortization of the past service cost.

15. TAX EXEMPTION

The Foundation, as a non-stock, non-profit corporation, organized and operated exclusively for research and scientific purposes, is exempt from income tax. However, income derived from its properties, real or personal, or from any of its activities conducted for profit regardless of the disposition made of such income, is subject to tax.

As required by the IAS 12, Accounting for Income Taxes, the Foundation is supposed to recognize deferred income tax assets for the tax effects of temporary differences brought about by net loss carry over, provision for doubtful accounts and probable loan losses and the unrealized foreign exchange gain and/or losses on the Foundation's incidental taxable activities. However, since the Foundation does not expect to be in a taxable position in the future relative to its incidental taxable activities, recognition of the deferred income tax assets in the books has not been made in the accounts for the years ended December 31, 2004 and 2003.

EXAMPLE OF CASH FLOW STATEMENT USING THE DIRECT METHOD

ESP Institute	
Statement of Cash Flows	
for the fiscal year ended June 30, 2xxx	
Cash flows from operating activities:	
Cash received from service recipients	XXXXXXXXXX
Cash received from donors	XXXXXXXXXX
Cash collected on contributions receivable	XXXXXXXXXX
Interest and dividends received	XXXXXXXXXX
Interest paid	(XXXXXXXXXX)
Cash paid to employees and suppliers	(XXXXXXXXXX)
Donations given	(XXXXXXXXXX)
Net cash provided by operating activities	<u>XXXXXXXXXX</u>
Cash flows from investing activities:	
Purchases of equipment	(XXXXXXXXXX)
Proceeds from sale of investments	XXXXXXXXXX
Investments made	(XXXXXXXXXX)
Net cash used by investing activities	<u>(XXXXXXXXXX)</u>
Cash flows from financing activities:	
Proceeds from contributions restricted for:	
Investment in endowment	XXXXXXXXXX
Investment in plant	XXXXXXXXXX
Investment subject to annuity agreements	<u>XXXXXXXXXX</u>
Other financing activities:	
Interest and dividends restricted for reinvestment	XXXXXXXXXX
Payments on notes payable	(XXXXXXXXXX)
Payments on long-term debt	(XXXXXXXXXX)
Net cash used by financing activities	<u>(XXXXXXXXXX)</u>
Net increase in cash and cash equivalents	XXXXXXXXXX
Cash and cash equivalents at beginning of year	<u>XXXXXXXXXX</u>
Cash and cash equivalent at end of year	<u>XXXXXXXXXX</u>
Reconciliation of change in net assets to net cash provided	
By operating activities:	
Change in net assets	XXXXXXXXXX
Adjustments to reconcile change in net assets to net cash	
Used by operating activities:	
Depreciation	XXXXXXXXXX
Actuarial loss on annuity obligations	XXXXXXXXXX
Increase in accounts and interest receivable	(XXXXXXXXXX)
Decrease in contribution receivable	XXXXXXXXXX
Decrease in accounts payable	XXXXXXXXXX
Decrease in grants payable	(XXXXXXXXXX)
Contributions restricted for long-term investment	(XXXXXXXXXX)
Interest and dividends restricted for long-term investment	(XXXXXXXXXX)
Net unrealized and realized gains on long-term investment	<u>(XXXXXXXXXX)</u>
Net cash provided by operating activities	<u>(XXXXXXXXXX)</u>
Supplemental data for non-cash investing and financing activities:	
Gift of equipment	<u>XXXXXXXXXX</u>

7. CHART OF ACCOUNTS

The Chart of Accounts is designed to have a uniform classification and interpretation of financial transactions. It facilitates the recording and summarizing of transactions and the preparation of financial reports.

Every organization has a unique chart of accounts based on the nature of its operation, organizational structure, and flow of operations. However, the major account categories of an NPO are:

Assets
Current Assets
Non-current Assets
Other Assets
Liabilities
Current Liabilities
Non-current Liabilities
Other Liabilities
Net Assets
Restricted
Unrestricted
Revenues
Support
Grant and Donations
Unrestricted
Restricted
Membership Fees and Contributions
Income
Financial Income
Other Income
Expenses
Program/Project expenses
Administrative Expenses
General expenses
Human resource development (includes Training Expenses)
Fund-raising expenses

** The details of each category shall be filled up by the respective NPOs.*

Important Note

The Chart of Accounts is a form of organizational policy, and therefore, everyone in the NPO should be acquainted with it. It is the backbone of an NPO's accounting of its financial transactions.

Sample Chart of Accounts

For the purpose of presenting an example, below is a sample chart of accounts of ABC Foundation.

ABC FOUNDATION, INC.			
CHART OF ACCOUNTS			
ACCOUNT NUMBER	ACCOUNT NAME	ACCOUNT CLASSIFICATION	W/ SL (Y/N)
1-00-000	ASSETS		
1-10-000	CURRENT ASSETS	Current Assets	N
1-10-100	Cash and cash equivalents	Current Assets	N
1-10-110	Cash on hand	Current Assets	N
1-10-120	Cash in bank	Current Assets	N
1-10-121	Cash in bank - XY Bank C/S	Current Assets	N
1-10-122	Cash in bank - MNO Bank C/S	Current Assets	N
1-10-130	Revolving fund - Head Office	Current Assets	N
1-10-140	Revolving fund-Regional Office	Current Assets	N
1-10-160	Short-term investments	Current Assets	N
1-10-200	Receivables	Current Assets	N
1-10-210	Contributions Receivable	Current Assets	Y
1-10-220	Accounts Receivable	Current Assets	Y
1-10-221	Allowance for doubtful accounts	Current Assets	Y
1-10-230	Other receivables	Current Assets	Y
1-10-231	Advances to officers & staff	Current Assets	Y
1-10-233	Advances to partner NPO's	Current Assets	Y
1-10-236	Accounts Receivable-others	Current Assets	Y
1-10-237	Accrued income	Current Assets	N
1-10-238	Accrued interest receivable-investments	Current Assets	Y
1-10-239	Accrued interest receivable-proponents	Current Assets	Y
1-10-300	Prepayments and other current assets	Current Assets	N
1-10-311	Prepayments	Current Assets	Y
1-10-312	Deferred assets	Current Assets	N
1-10-313	Deferred tax credit	Current Assets	N
1-10-400	Farm Inventory and supplies	Current Assets	Y
1-10-500	NON-CURRENT ASSETS	Non-Current Assets	N
1-10-510	Long-term Investments-ABC Bank	Non-Current Assets	N
1-10-520	Long-term Investments-AUBank	Non-Current Assets	N
1-20-000	Property & Equipment	Non-current Assets	N

1-20-100	Land	Non-current Assets	N
1-20-110	Land improvements	Non-current Assets	N
1-20-111	Accum. depreciation- land improvements	Non-current Assets	N
1-20-200	Building	Non-current Assets	N
1-20-201	Accumulated depreciation - building	Non-current Assets	N
1-20-210	Building improvements	Non-current Assets	N
1-20-211	Accumulated depreciation - building improvements	Non-current Assets	N
1-20-300	Office equipment - HO	Non-current Assets	N
1-20-301	Accumulated depreciation - office equipment - HO	Non-current Assets	N
1-20-310	Office equipment - RO	Non-current Assets	N
1-20-311	Accumulated depreciation - office equipment - RO	Non-current Assets	N
1-20-400	Furnitures & fixtures - HO	Non-current Assets	N
1-20-401	Accumulated depreciation - furniture & fixtures - HO	Non-current Assets	N
1-20-410	Furnitures & fixtures - RO	Non-current Assets	N
1-20-411	Accumulated depreciation - furniture & fixtures - RO	Non-current Assets	N
1-20-500	Transportation equipment - HO	Non-current Assets	N
1-20-501	Accumulated depreciation - transpo equipment - HO	Non-current Assets	N
1-20-510	Transportation equipment - RO	Non-current Assets	N
1-20-511	Accumulated depreciation - transpo equipment - RO	Non-current Assets	N
1-10-600	OTHER ASSETS	Other Assets	N
1-10-501	Refundable deposits	Other Assets	Y
2-00-000	LIABILITIES		
2-10-000	CURRENT LIABILITIES	Current Liabilities	N
2-10-110	Accounts payable	Current Liabilities	Y
2-10-120	Accounts payable - partners	Current Liabilities	Y
2-10-130	Accounts payable - staff	Current Liabilities	Y
2-10-210	Accrued expenses	Current Liabilities	Y
2-10-310	Withholding tax payable	Current Liabilities	Y
2-10-320	Deferred support, current	Current Liabilities	Y
2-20-000	NON-CURRENT LIABILITIES	Non-current Liabilities	Y
2-20-110	Long-term loans payable	Non-current Liabilities	Y
2-20-120	Deferred support, net of current	Non-current Liabilities	Y
3-00-000	NET ASSETS		N
3-20-000	UNRESTRICTED NET ASSET	Unrestricted Net Assets	N
3-20-100	_____ fund	Unrestricted Net Assets	N
3-20-200	_____ fund	Unrestricted Net Assets	N
3-10-000	RESTRICTED NET ASSET	Restricted Net Assets	N
3-10-100	_____ fund	Restricted Net Assets	N
3-10-200	_____ fund	Restricted Net Assets	N
3-10-300	_____ fund	Restricted Net Assets	N
3-10-300	Property & Equipment Fund	Restricted Net Assets	N
4-00-000	REVENUES		N
4-10-000	Grants & Donations	Support	Y
4-20-000	Membership fees and contributions	Support	Y

4-30-000	Financial Income	Income		
4-30-110		Income from Peso Investments	Income	N
4-30-111		Income from peso investments-ABC Bank	Income	Y
4-30-112		Income from Peso investments-AUBank	Income	Y
4-30-120		Income from Dollar Investments	Income	N
4-50-100	Other Income		Income	N
4-50-110		Income from past due accounts	Income	Y
4-50-120		Miscellaneous income	Income	Y
5-00-000	EXPENSES			N
5-20-000	PROGRAMS & PROJECTS		Project expenses	N
5-20-100	PROJECT DEVELOPMENT AND MONITORING (PDME)		Project expenses	N
5-20-110		PDME - Writeshops and Orientations	Project expenses	Y
5-20-130		PDME - Project Appraisals	Project expenses	Y
5-20-150		PDME - Project Monitoring	Project expenses	Y
5-20-200	PROJECT SUPPORT EXPENSES		Project expenses	N
5-20-210		Technical Assistance (PSTA)	Project expenses	Y
5-20-220		Development Communication (PSDC)	Project expenses	N
5-20-230		Research and Development (PSRD)	Project expenses	N
5-20-240		Project Audits	Project expenses	Y
5-20-250		Institutional Support (IS)	Project expenses	N
6-30-000	GENERAL AND ADMINISTRATIVE EXPENSES			
6-30-100	Admin Personnel expenses			N
6-30-101		Salaries and wages	Admin expenses	N
6-30-102		VL credits	Admin expenses	N
6-30-103		Retirement plan contributions	Admin expenses	N
6-30-104		Life insurance premium contributions	Admin expenses	N
6-30-200	Operating expenses		Admin expenses	N
6-30-201		Professional fees	Admin Expenses	N
6-30-202		Light and power	Admin Expenses	N
6-30-203		Office rental	Admin Expenses	N
6-30-204		Communications	Admin Expenses	N
6-30-205		Office supplies	Admin Expenses	N
6-30-206		Water	Admin Expenses	N
6-30-207		Property insurance and registration	Admin Expenses	N
6-30-208		Repairs and maintenance	Admin Expenses	N
6-30-209		Fuel and oil	Admin Expenses	N
6-30-210		Depreciation expense	Admin Expenses	N
6-30-211		Doubtful accounts expense	Admin Expenses	N
6-30-212		Bank service charges	Admin Expenses	N
6-30-213		Legal fees	Admin Expenses	N
6-30-213		Taxes and licenses	Admin Expenses	N
6-30-215		Transportation and travel	Admin Expenses	N
6-30-215		Miscellaneous	Admin Expenses	N
6-30-300	Human Resource Development		HRD	N
7-40-000	FUND RAISING EXPENSES		Fund Raising Costs	Y

Description of Commonly-Used Accounts

Below are descriptions of significant commonly-used NPO accounts which will serve as a guide and starting point in preparing more detailed charts of accounts of a specific NPO. As discussed earlier, an NPO should define its comprehensive chart of accounts.

ACCOUNT TITLE AND DESCRIPTION

A S S E T S

CASH AND CASH EQUIVALENTS

Cash comprises cash on hand, petty cash funds as well as local or foreign currency deposits in banks that are immediately available for use in the current operations.

Cash On Hand

This account represents undeposited cash and check collections. It is good practice to deposit collections/amounts received intact the following day. The deposit of the cash and check collections could be done simultaneously with other banking transactions.

Petty Cash Fund

This account represents cash set aside for paying incidental expenses. The size of the fund should be sufficient for at least two weeks' requirements. The fund shall be initially set at a fixed amount and subsequently increased or decreased depending on the needs of organization.

This account is debited for the amount set up when the fund is established and for any subsequent increase in the size of the fund. A credit to this account is made when the amount of fund is decreased.

The maximum amount that can be paid out of the fund is set. Disbursements exceeding the set limit should be made through checks. Replenishments of the fund are made through checks and should be made weekly or as soon as the actual balance becomes low.

Cash in Bank

This account is credited for all collections/amounts deposited and other transactions credited by the bank. It is debited for all check disbursements or withdrawals and debit memos from the bank. A separate bank account should be set up for each program as required by donors.

At the end of each month, cash in bank balance per general ledger is reconsidered with the balance shown in the bank statements or savings account passbooks.

Cash equivalents

This account represents funds available for current operational requirements, which are temporarily invested with financing institutions on a short-term arrangement. These short-term highly liquid investments are readily convertible to cash with maturities of three months or less.

RECEIVABLES

Receivables are generally defined as claims held against others for future receipt of money, goods or services.

Receivables arise when adopting the accrual method of accounting. This is significant to NPOs because the collection from these transactions provides funding for programs and services. There are two basic considerations in recognizing receivables of this nature: first, a receivable (and the related revenue) should be recognized when the NPO actually earns the revenue and the right to receive the money; second, that the receivables are ultimately collectible, i.e., enforceable on the part of the NPO.

Receivables are valued at the outstanding balance at which they are to be collected. The amount is reduced by an estimated allowance for doubtful accounts determined based on net realizable value of the receivables.

Other receivables include cash advances for operating expenses, salary loans, and other advances to officers and staff. This category also includes advances to individuals or organizations that are not intended for the normal operations of the NPO.

Because these receivables come from the operational fund of the NPO, intended for the delivery of programs and services, these are expected to be collected or can be an offset to other activity costs. No allowance for doubtful accounts is recognized for this type of receivables.

Advances to Officers and Employees

The Advances to Officers and Employees account represents cash and other forms of advances (like telephone bills etc.) to the officers and employees, subject to liquidation or payroll deductions.

Accounts Receivable-Others

This represents claims arising out of advances by the program to other programs for which it expects reimbursement.

Loans Receivable-Term Loan

These are loans made to borrowers beyond one year but not exceeding 3 years, inclusive of the 6 month grace period on principal payment. Payments (Principal and Interest) of these loans are amortized on a monthly, quarterly or semi-annual basis. Interest is computed based on the diminishing balance.

Loans Receivable- Bridge Financing

These are short-term loans made to borrowers for a maximum period of six (6) months with no grace period. Payment (Principal and Interest) is made on time, upon maturity.

Loans Receivable-Credit Line

These are loans made to borrowers for a maximum period of one (1) year during which period loan draw downs are made. Draw downs are revolving and can be paid depending on the borrowers' request or capacity to pay over a chosen term period, i.e., 30 days, 60 days, 90 days, etc., but which should not exceed the term of the credit line.

Allowance for Doubtful Accounts

To cover possible losses due to default in payment of loans, a portion of the outstanding balance shall be provided with allowance for doubtful accounts at year-end. The allowance provision shall be based on the age of the amount that remains unpaid.

Allowance for doubtful accounts shall be provided in an amount equal to the total receivables reasonably estimated to be doubtful of collection. The amount of allowance should be based on past experiences and on continuing review of receivable aging reports and other relevant factors.

INVENTORY

Inventory comprises materials or supplies to be consumed in the process of rendering services. These may be manufactured or donated goods for distribution to beneficiaries. Inventories will be recognized as assets if the future economic benefits associated with the inventory will flow to the organization and the cost can be reliably measured. Inventories held for distribution are to be valued based on historical cost; while inventories held for production, should stated based on fair value.

PREPAID EXPENSES

Prepaid Expenses account represents expenditures, often recurring, paid in advance for benefits yet to be received such as insurance, rent, interest and others. The account is debited for the portion of expenses paid in the current month but which applies to the succeeding months. Credit to this account is made for the portion of the expenses that has expired.

INVESTMENTS

Investments are assets not directly identified with the operating activities of the NPO. Investments are expected to provide the revenues needed for operations over the long term. Investments may be classified either as temporary investments or long-term investments. Short-term investments imply that the investments may be converted to cash within a relatively short period and that they are funds available for current operations. Long-term investments are acquired in accordance with financial policies looking to the accumulation of funds.

Investments acquired with the intention of disposing the same after one year or less from the acquisition are to be classified as current investments. Investments classified as current, as distinguished from cash equivalents are those that are acquired with original maturities of more than three months but not exceeding one year.

Investments acquired with the intention of keeping the same for more than a year from the acquisition date are to be classified as long-term investments.

PROPERTY AND EQUIPMENT

Property and Equipment are tangible assets with an estimated useful life beyond one year, used in the conduct of the business and not intended for sale in the ordinary course of business. Assets of this nature include:

- a. property not ordinarily subject to depreciation such as land used for office sites;
- b. property subject to depreciation or amortization such as buildings, office and transportation equipment, furniture and fixtures, and improvement to leased facilities.

Each class of assets is debited for additional acquisitions made and credited for disposals, retirements or write-offs. Acquisition of property and equipment is recorded using the asset method.

Property and equipment may be acquired through purchase, construction, grant or donation. Property and equipment acquired from a restricted grant or donation will be recognized as an asset at its net book value, when ownership is passed on with a corresponding credit to Property and Equipment Fund. In case the ownership of the property remains with the donor until the fulfillment of certain requirements, a disclosure in the financial statements of these possessed but not owned assets should be made in the financial statements.

ACCUMULATED DEPRECIATION

Depreciation is the cost of using up the future economic benefit or service potential of fixed assets.

Except for non-exhaustible assets such as land and art collections, all fixed assets are depreciated on a rational and systematic basis over the life of the asset.

Depreciation may be physical or functional. *Physical depreciation* is related to a depreciable asset's wear and tear and deterioration over a period. *Functional depreciation* arises from obsolescence or inadequacy of the asset to perform efficiently.

All property and equipment, except land, are subject to a depreciation allowance. The method and rate of depreciation to be used should be applied consistently from year to year.

Depreciation allowance is credited to the related accumulated depreciation of the capital assets. This account is debited for amounts previously provided for on assets sold, disposed, retired or written-off.

LIABILITES

Current liability is used principally to designate obligations whose liquidation is reasonably expected to require the use of existing resources properly classified as current assets or the creation of another current liability.

Long-term liability represents the portion of any long-term obligation maturing or scheduled to mature after an uninterrupted period extending beyond one year from the date of the statement of financial position.

Accounts Payable-Trade

The Accounts Payable-Trade account represents the total of unpaid bills due to suppliers and others at the end of each month for support, services and/or materials received but not yet paid for.

This account is credited for purchases of materials, supplies and equipment on credit, or for services received which remain unpaid at the end of each month and debited for payments made and discounts granted by suppliers.

Accounts Payable-Employees

Employees' Payables account includes unpaid salaries and bonuses, vacation leave credits incurred during the year.

Accrued Expenses

The Accrued Expenses account represents estimated amounts due for services and/or supplies/materials already received but which remain unpaid for at the end of the month or at year end, such as salaries and wages, rent and interest, which are credited to this account. Subsequent payments or reversal of previous liability set up in the preceding month are debited to this account.

Advances from Officers/Employees

The Advances from Officers account represents cash or other forms of advances made by the officers/employees.

This account is credited for the amount advanced by the officers/employees and debited for any payment made to them.

Other Current Liabilities

Other payables include other liabilities incurred which amount are readily determined from available documents, i.e., billings, amounts withheld from employees, or other parties for taxes and for contributions to pension funds. It also includes other liabilities that cannot be properly classified under other specific current liabilities account groupings in the chart of accounts.

Deferred Revenue/Support

This account is credited when cash is received prior to either having earned the revenue or the right to keep the revenue. It is debited when earned and the corresponding credit to revenue or support is made.

Funds Held in Trust

This refers to funds held in trust for various project proponents provided by donors in which the NPO is only the custodian of the funds, and has no control over its use. Funds-held-in-trust occurs when an entity-the *donor*- deposits an amount, that is intended for a specified beneficiary, to the recipient NPO's bank account. The NPO is not the donee and therefore, this account should be treated as a liability.

However, if the donor explicitly grants the recipient organization variance power or if the recipient organization and the specified beneficiary are financially interrelated organizations, the recipient organization should recognize the amount as a contribution received. NPOs are financially interrelated if (a) one organization has the ability to influence the operating and financial decisions of the other and (b) one organization has an ongoing economic interest in the Net Asset of the other.

NET ASSETS

Unrestricted Funds or General Funds

This is used to record activities that are supported by resources over which the NPO has discretionary control and the principal sources of which are donations from donors, membership dues, and unrestricted investment/interest, income. Its use is not restricted even though their use may be limited in other respects, such as by contract or by board designation. Any excess of revenues over expenditures forms part of the Unrestricted Net Asset.

Restricted Funds

This is used to record the Foundation's activities which are supported by resources whose use is limited to specific operations by donors. The principal sources of restricted funds are contributions from donors, contracts, grants, endowment income and other sources where resource providers stipulate the specific operating purposes for which the resources have to be used. Its economic benefits neither expire with the passage of time nor can be removed by the organization.

Restricted Funds may be Temporarily Restricted Funds or Permanently Restricted Funds. The former is limited by either a donor-imposed time period or purpose restrictions while the latter has to be maintained in perpetuity or permanently as instructed by the donor as in the case of an endowment fund.

Property and Equipment Fund

This is used to record Property and Equipment acquired from restricted funds. The cost of acquisition is deducted from the grant and a corollary entry is recorded recognizing the property and equipment as assets with a credit to Property and Equipment Fund (a net asset account).

REVENUES

Revenues represent actual or expected cash inflows (or the equivalent) that have occurred or will materialize as a result of the entity's ongoing central or major operations during the period

Each source of revenue generally refers to an inflow that is distinct from all others.

Grants

This refers to funds (or equivalent) given by donors for a specific program/project with certain conditions relating to the operating activities of the NPO.

Grants, including non-monetary grants, valued at fair value, should not be recognized until there is reasonable assurance that:

- a. the NPO will comply with the conditions attaching to them; and
- b. the grants will be received.

Mere receipt of the grant is not conclusive evidence that the conditions attached to the grant have been or will be fulfilled.

Grants should be recognized as revenue or support over the periods necessary to match them with the related costs or expenses incurred for the purpose for which they are intended.

Donations

This refers to unrestricted contributions in cash or in kind or services from donors to be used in accomplishing the purposes for which the NPO has been created or organized and over which the Board has discretionary control.

Non-Cash Donations/Contributions

Contributed services should be recognized in the financial statements if the services received meet these criteria:

- Create or enhance the value of an activity
- Required specialized skills are provided by individuals or organizations possessing those skills and would typically be purchased if not provided by way of donation.

Non-cash assets received by NPOs should be recorded as contributions at their fair market value, at the time the service or asset is received, in the same way that cash contributions are recorded.

Other Income

This account represents income earned from sources other than from operations. Examples include interest from savings accounts and other money market placements or investments, gain on sale of fixed assets and foreign exchange gain or losses and other miscellaneous items.

EXPENSES

A. Functional reporting, as its name implies, describes the activity for which the NPO incurs an expense. Expenses may be classified per function, as follows:

1. Program/Project Expense
2. Administrative Expenses, further classified as:
 - a. General expenses
 - b. Human resource development
3. Fund raising expenses

Program/Project Expenses

This refers to all program implementation costs or those expenses relating to program/project service activities that result in services (or goods) being given to beneficiaries or members that fulfill the basic mission of the NPO. There can be more than one category of program services.

Program/Project Support Activities Expenses

This pertains to expenses incurred for activities necessary to support or assist program implementation which include capability building, information management, policy advocacy, networking of project proponents, partnership building, investment promotion, project development, assessment, approval, monitoring, and evaluation; and provision of technical assistance for NPO's/PO's, among others.

Administrative Expenses

General expenses relate to activities such as oversight management, general record keeping, office maintenance, and similar expenses.

Human resource development pertains to expenses incurred for the purpose of developing and consolidating the NPOs' board of trustees, management, and staff such as those expenses incurred for staff training and development.

Fund raising Expenses

These are expenses incurred in encouraging donors to support the NPO.

Important Note

Personnel and other costs traceable to a specific program should be classified as Program Expenses while administrative personnel and overhead costs are part of Administrative Expenses.

- B. Natural classification of expenses, as distinguished from functional classification, indicates the type of expenses incurred by an NPO, such as salaries, rent, electricity, depreciation. While functional classification reflects the activity (function) for which the NPO incurred the expenses, natural classification indicates the type (nature) of the expense that is incurred.

Expenses should be recorded and reported using the functional and natural classification of expense where the latter becomes a sub-category of the former.

GAINS OR LOSSES

Revenues of NPOs increase their Net Assets, expenses decrease Net Assets. All other transactions that increase or decrease the net assets of an NPO are referred to as gains or losses, respectively. Gains and losses are auxiliary to the NPO's revenues and expenses.

In presenting gains and losses, the Net Basis should be used, i.e., only the net gain or loss arising from a single set of transactions is presented. Gains and losses from foreign exchange are presented as either net gain or loss.

JOINT COSTS

These are expenses incurred by an NPO for activities involving two or more different programs and support services. Cost allocation is proper if the purpose, audience and content criteria are met that indicate that the joint activity included two or more programs or support services. Allocation of costs may use any of the following methods but should be applied consistently for the same type of transaction:

- a. Physical units method, which allocates costs based on the physical materials that make up the joint cost.
- b. Relative direct method, which allocates joint costs in relation to the direct costs of each of the activities.
- c. Stand alone cost method, which allocates joint costs to each component of the joint activity on a ratio that estimates the costs that would have been incurred had each activity been performed separately.

III

SPECIFIC ACCOUNTS

8. CASH AND CASH EQUIVALENTS

8.1 Description

Cash and cash equivalents are defined as cash on hand, deposits in banks and short-term highly liquid instruments readily convertible to known amounts of cash and which are subject to insignificant risks of changes in value. Cash equivalents are temporary investments, usually in the form of time deposits in banks and other financial institutions with original maturity of three months or less from date of acquisition, which NPOs places very temporarily, while awaiting proper disbursement to fund approved projects.

Cash on hand accounts consist of currency, coins or negotiable instruments such as bank checks or postal money orders, in the custody of the cashier. This may consist of receipts of donations or collection of receivables or advances, in the form of cash or check, received awaiting deposit. This account should be treated as temporary account and should be zeroed-out regularly when the cash on hand items are deposited. Because of the vulnerability of cash to theft or misappropriation, the NPO should adopt a policy to minimize cash on hand and to deposit receipts or collections regularly or upon reaching a pre-defined amount.

Cash in bank accounts consist of deposits, either in savings or checking accounts, in banks which have been identified by the Board of Trustees as the NPO's depository banks. Grants and donations or funds from various funders or donors, or collections of receivables or advances should be deposited in specific bank accounts for easier identification and monitoring. The NPO should also identify a bank account from which disbursements can be withdrawn by check, and replenishment done through transfers from depository banks. Restricted funds should also be segregated from unrestricted funds.

8.2 Cash Transaction Cycle

- a. Receipt of cash or check from donors, funding agencies or collections of receivables or advances
- b. Deposit to bank accounts

- c. Disbursement for expenses or release of funds to agencies or beneficiaries for approved projects
- d. Liquidation by agencies or by beneficiaries and receipt of excess funding

Sample entries for different types of cash receipts and disbursements and other cash transactions:

1. Receipt of grant

Cash in bank – PDB SA # 110	100,000	
Grant from ABC		100,000

To record first remittance from ABC

2. Collection of donations

Cash on hand	1,000	
Donations		1,000

To record collection of donation

3. Collection of receivables

Cash on hand	500	
Receivable – resigned employee		500

To record collection of receivable from a resigned employee

4. Collection of excess from operational advances upon liquidation

Cash in bank – PDB CA # 111	1,000	
Transportation expense	350	
Meals expense	750	
Advances for liquidation - MPS		2,000

To record receipt of excess cash upon liquidation of advances by MPS for his visit to BBI project.

5. Receipt of excess funds from training project

Cash in bank – PDB SA # 110	1,900	
Training expense		8,100
Training fund		10,000

To record receipt of excess funds from training project.

6. Deposit of cash on hand for collections received late in the previous day

Cash in bank – PDB CA # 111	1,500	
Cash on hand		1,500

To close cash on hand balance of previous day and to record deposit in bank.

7. Sample semi-monthly expenses, such as payroll

Salaries and wages	45,000	
SSS and Medicare premiums expense	5,000	
Cash in bank – PDB CA # 111		52,000
Withholding tax payable		4,500
SSS and Medicare premiums payable		2,500
HDMF premiums payable		1,000

To record payroll charges for the first half of the month.

8. Transfer of funds from savings to current account

Cash in bank – PDB CA #111	47,000	
Cash in bank – PDB SA #110		47,000

To record transfer of funds from savings to current account with PDB.

9. Recording of interest income

Cash in bank – PDB SA #110	500	
Interest income		500

To record interest income for the month based on the bank reconciliation made.

10. Recognition of foreign exchange gain or loss

Cash in bank – PDB DSA #112

Foreign exchange gain

Important Notes:***Cash Disbursements***

Disbursements made by an NPO should be made in accordance with a budget or annual workplan. In addition, they should undergo a process involving the preparation of a voucher, properly supported by invoices, contracts and other documents, and approved for payment by authorized officers. The voucher should also indicate the accounts to be charged as specified in the budget or workplan. A check is then prepared and approved and signed by officers or signatories authorized in a resolution by the Board of Trustees.

Bank Reconciliation

Maintaining bank accounts entails monthly reconciliation of the NPO's book balance with the bank balance as reflected in the passbook in the case of a savings account, and in the bank statement in the case of the checking account. The bank sends monthly bank statements together with the paid checks. To reconcile, deposits and fund transfers and withdrawals in the bank statements should be compared with the deposit and withdrawal slips, debit and credit memos from the bank and entries in the cash receipts and cash disbursements books. Open items should be summarized in a bank reconciliation statement, and followed up in the following month. Long outstanding items should be the subject of further scrutiny.

8.3 Petty Cash Fund/ Revolving Fund

Small disbursements not paid by checks are paid using petty cash funds or revolving funds. The NPO should determine what day-to-day, small expenses are incurred, the amounts and frequency of incurrence to form a basis for establishing the so-called petty cash or revolving fund. The purpose is to enable the NPO to meet these operational expenses without going through the rigors of check preparation. The fund should be just enough, not too small that replenishment has to happen very often, but not too big that it allows such fund to lie idle for long enough to invite unauthorized borrowings by the custodian or anyone close to him.

Expenses should be authorized by the immediate superior of the requesting party and should be presented with the supporting documents in amounts not to exceed a certain pre-defined level. The fund to be established shall remain fixed in the books. It shall be replenished upon reaching a minimum level with the presentation of a summary of expenses submitted to the custodian for payment together with the supporting documents. The total amount of the expenses and the cash left with the custodian should always equal the amount of the petty cash/ revolving fund. Details of the expenses shall be recorded and the supporting documents shall be properly stamped “PAID” to prevent double payment.

1. Upon establishment of the fund

Petty cash fund	3,000	
Cash in bank – PDB CA #111		3,000

To record establishment of a petty cash fund.

2. Upon replenishment

(enumerate various specific expenses)	2,700	
Cash in bank – PDB CA #111		2,700

To record replenishment of petty cash fund and various expenses.

8.4 Foreign Currency Accounts and Foreign Exchange Transactions

Not all funds or donations or grants that an NPO receives are in local currency, in fact, because NPOs usually receive funding from foreign sources, these are usually in the form of foreign currencies – i.e., US Dollars, Euro, or Japanese Yen. This requires the opening and maintenance of foreign currency accounts in the NPO’s depository banks. In addition, the NPO also has to comply with the provisions of IAS 21, “The Effects of Changes in Foreign Exchange Rates”. This Standard is applied in accounting for transactions and balances in foreign currencies, in translating the results and financial position of foreign operations that can possibly be included in an NPO’s financial statements by consolidation, proportionate consolidation or the equity method, and in translating an NPO’s results and financial position into a presentation currency.

Presentation currency would mean the currency in which the financial statements are presented.

Definition of foreign currency transaction

A foreign currency transaction is a transaction that is denominated or requires settlement in a foreign currency, including transactions arising when an entity, or an NPO, buys or sells goods or services whose price is denominated in a foreign currency; or borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency; or otherwise acquires or disposes of assets, or incurs or settles liabilities, denominated in foreign currency.

ILLUSTRATION

Missioni Foundation, an Italian group formed to assist agricultural research in Asia, grants Southern Philippines Research, Inc. (SPRI) US\$1,000 donation on April 4, 2005. Upon receipt of the donation, SPRI opens and maintains its dollar-denominated savings account with its bank, but has to record it in its books of accounts in Philippine Peso. And when it withdraws dollars or its money in foreign currency, and converts it into Philippine Peso, SPRI has to follow certain accounting rules emanating from IAS 21.

In the case cited above, a foreign currency transaction occurs when SPRI receives donation in US dollars, How to recognize it in its books shall be answered in the following discussion.

a. Initial Recognition

A foreign currency transaction shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency (Philippine Peso) and the foreign currency (US Dollar) at the date of transaction (April 4, 2005).

Journal entries

April 4	Cash in bank – PDB DSA #112	56,000	
	Grants		56,000

To record US\$1,000 grant from Missioni assuming that the spot exchange rate is P56 to a US dollar.

b. Suppose SPRI withdraws US \$200 on April 6, 2005 on which the spot exchange rate is P55.80 to a US dollar, it will make the following entry:

April 6	Cash in bank – PDB SA #110	11,160	
	Cash in bank – PDB DSA #113		11,160

To record withdrawal of US \$200 at P55.80 exchange rate.

- c. Supposing SPRI allots P8,000 for a research project and spends the Peso balance for operations, it makes another entry:

April 7	Project Expense	8,000	
	Administrative Expense	3,160	
	Cash in bank – PDB SA #110		11,160

To record project and administrative expenses.

- d. Reporting at balance sheet date

There is no problem with the dollar depository bank at month-end, it will reflect in the SPRI's passbook the dollar value of its deposit, which is US \$800. But in its books of accounts and financial statements, SPRI should state foreign currency monetary items, which include cash, at the closing rate and recognize a foreign exchange gain or loss for the exchange difference between the initial recognition rate and the closing rate.

Let us say, the closing rate is P56.10 as of April 30, 2005, SPRI shall translate its US \$800, which is equivalent to P44,880, SPRI compares it with the general ledger balance of its dollar-denominated savings account and recognizes a difference of P40 as foreign exchange gain.

The following entry should be made:

April 30	Cash in bank – PDB DSA #113	40	
	Unrealized foreign exchange gain		40

To recognize unrealized foreign exchange gain.

Thus, the initial financial statements should look like the following:

SPRI

Balance Sheet
April 30, 2005

Current Assets	
Cash and cash equivalents	<u>P44,880</u>
Net Asset	<u>P44,880</u>

SPRI

Statement of Activities
For the Month Ended April 30, 2005

Revenues	
Grants	P56,000
Unrealized Foreign Exchange Gain	40
Expenses	
Project Expenses	(8,000)
Administrative Expenses	<u>(3,160)</u>
Excess of Revenue over Expenses	<u>P44,880</u>

9. RECEIVABLES

9.1 Description

A receivable is recognized first, when the NPO actually earns the revenue, the grant or donation, and the right to receive the money; and second, when the receivables are ultimately collectible or enforceable on the part of the NPO. The recognition of a receivable is recorded in the general journal and in the receivable subsidiary ledgers, while collection is recorded in the cash receipts book.

Receivables are stated at the net realizable value, or the amount certain of collection. Management should continually assess collectibility and determine possible losses from non-collection of unpaid receivable.

9.2 Contributions Receivable

An NPO recognizes the certainty of a grant or donation based on the commitment of the donor and the fulfillment by the NPO of the conditions set by the donor and sets up a receivable. Receivable is collected either totally or partially. The NPO continually assesses the collectibility of the unpaid receivable, and determines whether it should set up a provision for doubtful accounts or not.

Practical Example:

On March 15, 2005, Evita Peron Foundation (EPF) committed through a **contract**, to donate to Ilocos Agricultural Research, Inc. (IARI), P10,000 to be credited to IARI's bank account with PDB at the end of the month.

March 15	Contribution receivable	10,000	
	Grant		10,000

To record receivable from EPF

On March 31, IARI checked its balances with PDB and found out that P8,000 was credited to its savings account

March 31	Cash in bank – PDB SA # 110	8,000	
	Contributions receivable		8,000

To record collection of receivable from EPF.

IARI received no further notice from EPF that it would fulfill its commitment. On June 30, 2005, the Board of Trustees of IARI decided to recognize the probability that it may no longer collect the balance of P2,000 and advised management to set up an allowance for that amount.

June 30	Provision for doubtful accounts	2,000	
	Allowance for doubtful accounts		2,000
	<i>To set up an allowance for doubtful accounts</i>		

9.3 Accounts Receivable

Accounts receivable are funds that individuals or other organizations owe the NPO due to services provided or goods sold. For example, a not-for-profit day care center may provide services to a local government for children whose day-care the government is paying for. Once the services are provided, the NPO has a receivable from the local government until it is paid for those services. Also, an NPO may bill its members for services that have been provided and are due to the members but have not yet been paid.

Pro-forma Entries:

Date	Accounts receivable – C.B.A.	1,000	
	_____ income (or fees)		1,000
	<i>To record billing of _____ services rendered to C.B.A. for the month of March.</i>		
Date	Cash	1,000	
	Accounts receivable – C.B.A.		1,000
	<i>To record collection of AR from CBA per billing statement number ____.</i>		

9.4 Advances and Other Receivables

Other receivables consist of cash advances for operating expenses, salary loans and other advances to officers and staff. This category also includes advances to individuals or organizations that are not intended in the normal operations of the NPO. Because these receivables come from the NPO's operational fund, intended for the delivery of programs and services, these receivables should be collected or may be offset against other activity costs' fund approved projects.

Cash Advances

Officers attending to assigned projects may be given specific amounts of cash advances which they can spend for the duration of their visit to these projects. These advances are computed based on the NPO's administrative and financial policies. Upon their return to the office, they should liquidate their advances by presenting a summary of their actual expenses together with the excess money, or a computation of the amount the NPO still owes them. This is not a problem though when advances equal the actual expenses.

Practical Example:

IARI is based in Laoag City. On April 1, 2005, Mr. Expedito Salazar, a project officer of IARI obtained a cash advance for his out-of-town meeting with EPF directors to be held in Manila. A PDB check amounting to P10,000 was issued to him.

April 1	Advances to officers and employees	10,000	
	Cash in bank – PDB CA # 111		10,000

To record advances to Mr. Salazar for his trip to Manila.

Assumption A. Actual Expenses < Cash Advance Amount

On April 15, Mr. Salazar came home from his assignment and prepared a liquidation of his expenses, as follows:

Transportation	P2,000
Meal allowance	675
Hotel accommodation	4,500
Laundry	<u>500</u>
Total expenses	7,675
Cash advance	<u>10,000</u>
Advances still due	<u>P2,325</u>

Assuming that Mr. Salazar pays in cash and IARI deposits it to PDB, the entry would be:

April 15	Cash in bank – PDB CA # 111	2,325	
	Transportation expense	2,000	
	Meal allowance	675	
	Hotel accommodation	4,500	
	Laundry	500	
	Advances to officers and employees		10,000

To record expenses incurred by Mr. Salazar and receipt of excess cash upon liquidation.

Assumption B. Actual Expenses < Cash Advance Amount

In case Mr. Salazar spent more than his cash advance and prepared instead the following liquidation summary:

Transportation	P3,000
Meal allowance	1,450
Hotel accommodation	6,000
Laundry	<u>800</u>
Total expenses	11,250
Cash advance	<u>10,000</u>
Refundable amount	<u>P1,250</u>

The entry would instead be as follows:

April 15	Transportation expense	3,000	
	Meal allowance	1,450	
	Hotel accommodation	6,000	
	Laundry	800	
	Advances to officers and employees		10,000
	Accounts payable – Expedito Salazar		1,250

To record expenses incurred by Mr. Salazar and amount payable to him for his trip to Manila.

Salary Loans

Another form that receivables may take are personal loans given by an NPO to its officers and employees. This is done with the blessing of the Board of Trustees and is governed by policies that are uniformly applicable to all.

Practical Example:

On April 30, 2005, Mr. Francisco Santos obtained a loan from IARI in the amount of P12,000 bearing interest rate of 1% a month. Amortization is through payroll deduction for a period of 12 months. A promissory note would be prepared to document the arrangement.

The entry would be:

April 30	Salary loans receivable	12,000	
	Cash in bank – PDB CA#111		12,000

To record loans granted to F. Santos

On May 30, when the first monthly deduction was made from his payroll, the entry would be:

May 30	Salaries and wages	45,000	
	SSS, Medicare and Pag-ibig premiums expense	1,270	
	Salary loans receivable		1,000
	Interest income		120
	Withholding tax payable		9,962
	SSS and Medicare premiums payable		1,920
	HDMF premiums payable		200
	Cash in bank – PDB CA#111		33,068

To record salaries of F. Santos and his first monthly loan and interest deduction for his salary loan.

The same entry will be made until the loan is repaid by F. Santos, except for the amount of interest income which is to be computed based on the outstanding balance of his loan.

There are times when the employee would make a loan from the Social Security System (SSS) with the same arrangement, that is, payment would be through monthly salary deduction. In this case, there would be no entry for the loan, but the monthly deduction would be a credit to SSS loans payable. The NGO is obliged to remit the amount deducted to the SSS.

The entry would be:

May 30	Salaries and wages	45,000	
	SSS, Medicare and Pag-ibig premiums expense	1,270	
	SSS loans payable		1,000
	Withholding tax payable		9,962
	SSS and Medicare premiums payable		1,920
	HDMF premiums payable		200
	Cash in bank – PDB CA#111		33,188

To record salaries of F. Santos and his first monthly loan SSS salary loan deduction.

On June 10, the NGO remitted the amount to the SSS.

June 19	SSS loans payable	1,000	
	SSS premiums payable		1,420
	Cash in bank – PDB CA#111		2,420

To record remittances to SSS for salary loans and premiums for the month of May 2005.

10. INVENTORIES

10.1 Description

IAS 2 describes inventories as assets that are held for sale in the ordinary course of business; in the process of production for such sale; or in the form of materials or supplies to be consumed in the production process or in rendering services.

Normally, the NPOs' inventory comprised material or supplies to be consumed in the process of rendering services. Some NPOs may manufacture goods for the purpose of distributing these to the beneficiaries.

IAS 2, which prescribes that inventories be valued at a lower cost or net realizable value, shall guide NPOs with regards to the issues raised. Based on the framework, all the resources should be recognized as assets if they meet the definition of assets and the recognition criteria. However, there are two specific situations where an NPO holds an inventory: if an NPO has inventories held for distribution and if inventories are held for production.

10.2 Inventories Held for Distribution

In many instances, NPOs purchase goods or receive donated goods that are intended for distribution to beneficiaries. However, at balance sheet date, some of the items may still be in the possession of the NPO because, for one reason or another, these may have to be released after the balance sheet date. ***The remaining inventory should be valued based on historical cost.***

Illustrative Entries:

On December 10, 2005, OPN Foundation purchased clothes and canned goods to be given to the victims of floods and typhoons amounting to 100,000.

Dec 10	Relief goods	100,000	
	Cash in bank		100,000

*To record purchase of clothes and canned goods
for victims of floods and typhoons*

On December 11, 2005, OPN launched campaigns for people to support its relief operations. Immediately, it received 200,000 worth of various donated goods from several donors.

Dec 11	Relief goods	200,000	
	Donations received		200,000

To record of various goods received for victims of floods and typhoons.

From December 12 to 31, 2005, OPN distributed the relief goods to the intended beneficiaries amounting to 250,000. The remainder, 50,000 worth of goods which are still with OPN will be distributed in the following month/s in other areas.

Dec 31	Relief operations expenses - Goods	250,000	
	Relief goods		250,000

To record distributed goods to victims of floods and typhoons.

NOTE: The balance of relief goods inventory should be stated at 50,000 (100,000 plus 200,000 less 250,000)

10.3 Inventories Held for Production

In some instances, instead of purchasing goods for its beneficiaries, NPOs engage in the process of production. For example, an NPO may produce organic fertilizers to be distributed to farmers practicing sustainable agriculture concepts. In this case, the practice of production accounting should be followed in as far as costing is concerned. Purchases of raw materials, recognition of labor, application of overhead costs should be similar to that of production accounting. At balance sheet, however, the remaining raw materials, work-in-process, and finished goods have to be valued in the balance sheet or statement of financial position. ***Inventories held for production should be stated based on fair value.***

11. INVESTMENTS

Accounting of investments in NPOs is similar to that of other types of organizations. In many NPOs, investments form a significant part of their assets, especially those arising from endowments, in which the NPO invests funds in perpetuity. The income from the investments is then used by the NPO for its operations. Sometimes, the Board designates certain funds to be set aside as long-term investments which may be used to assist the NPO in collecting funds for use in major projects. However, some investments of NPOs are so liquid and have such maturities that they are classified as cash equivalents rather than investments.

Basically, there are two things to consider in accounting for investments: valuation and the recognition of investment income/gain (or loss).

Initial Recognition

Upon placement of the investment, the asset is recorded at the face amount of the investment instrument which is acquired in exchange of another asset, usually cash.

Entry:

Investment in _____	100,000	
Cash		100,000

To record investment in _____.

Period-End

Investments (stocks, bonds, etc.) are reported in the statement of financial position at their fair value. Supposing that the fair value of the above investment on September 30, is 110,000, the entry on September 30, should be:

Investment in _____	10,000	
Unrealized gain(loss) from investment		10,000

To record unrealized gain from investment based on its fair value on Sep 30.

Assuming that there may be a decrease in fair value in the succeeding period, such that the investment is valued at 105,000 only on December 31, the unrealized loss from investment should be recognized.

Unrealized gain(loss) from investment	5,000	
Investment in _____		5,000

To record unrealized loss from investment based on its fair value on Dec 31.

The unrealized gain(loss) should be presented at the net amount for the entire period. In the above example, the unrealized gain is 5,000 (10,000 less 5,000)

Income

Periodically, income from investments is recorded in the books of the NPO based on the declaration by the issuer of the investment instrument, e.g. dividend income.

Entry:

Cash		
(or other form of asset as the case may be)	2,000	
Income from investment		2,000

To record _____ income from investment in _____.

Important Note: The overall income and gain (net of losses) should be credited to the intended project fund or operations as defined by either the specific donor or the governing board.

12. PROPERTY & EQUIPMENT AND DEPRECIATION

12.1 Description

Per IAS 16, property, plant and equipment (PPE) are tangible assets that are expected to be used during more than one period and that are held for use in the operations of the organization. PPE are recognized when it is probable that the future economic benefits associated with the asset will flow to the organization and its cost can be reliably measured. The asset is initially measured at cost and subsequently can be measured at cost or on revaluation basis.

In the business sector, the asset method is prescribed because of the principles of fair presentation of balance sheet and “matching principle”, i.e., only the depreciated portion of the property and equipment is recognized as an expense because only this is portion was consumed in generating income during the accounting period. This is basically the reason why all available accounting standards prescribe the asset method.

12.2 Acquisition of PPE by NPOs

NPOs receive grants intended for specific purpose/s. In many cases, the grant is intended for the purchase of property or equipment. The donor will require the accounting of its grant against its intended use. To properly monitor the specific grant activities, the acquisition will be deducted against the said grant, thereby presenting the actual grant balance at the end of the period. The matching of grant against its intention is achieved here. However, for a fair presentation of the financial position of the NPO, the property and equipment should be reflected in the balance sheet.

These two accounting objectives should be met – matching of source against its intention and fair presentation of balance sheet. Sometimes, only one of these is reflected in the financial statements.

Acquisitions from Unrestricted Funds

The asset method is proposed as this is the prescribed method in the current pronouncements.

Entry upon Acquisition

Property and equipment	50,000	
Cash		50,000

To record acquisition of _____ equipment

Provision of Depreciation

Depreciation expense	10,000	
Accumulated depreciation		10,000

To record depreciation for the period.

Upon Retirement, Sale or Disposal

Assuming that after 80% of its cost is fully-depreciated or its net book value is only 10,000, the equipment was sold at 12,000. The entry to close the equipment accounts and to recognize the sale is:

Cash	12,000	
Accumulated depreciation	40,000	
Property & equipment		50,000
Gain from sale of equipment		2,000

To record the sale of _____ equipment.

If, on the other hand, the selling price is lower than the net book value, say 9,000, the loss from sale (1,000) should be debited.

In some instances, the old equipment is donated to another NPO or to beneficiaries.

Donation	10,000	
Accumulated depreciation	40,000	
Property & equipment		50,000

To record donation of _____ equipment to _____.

Acquisitions from Restricted Funds

When property and equipment are acquired from restricted grant funds, it is proposed to treat property and equipment as follows:

To meet the requirements of fair presentation of balance sheet and proper matching of sources against its intentions, the accounting entries and presentation should provide for both. Corollary entries are made to record the acquisition as deduction from grant and recognizing the property as asset and crediting to Property and Equipment Fund (a net asset account). Depreciation will then be charged against the Property and Equipment Fund.

It is worthwhile to note that the above treatment of property and equipment requires a *separate budget for capital outlay is formulated and approved.*

Example: Purchase of a computer set charged against ABC grant

a. Acquisition

In ABC Operational Fund

	Dr	Cr
Office Equipment Acquisition or Capital Outlay or Fund Transfer to Property & Equipment Fund	5,000.00	
Cash		5,000.00

In Property & Equipment Fund

Office Equipment (as Asset)	5,000.00	
Property and Equipment Fund		5,000.00

Note: The above two sets of entries should be made at the same time for every property acquisition.

Presentation in the Statement of Changes in Net Asset

	Restr. Fund ABC	Property & Equipt Fund	<u>TOTAL</u>
Office Equipment Acquisition or Capital Outlay or Fund Transfer to Property & Equipment Fund	(5,000)	5,000	-

b. Depreciation

This is an expense of the Property & Equipment Fund; it is not an expense of the grant fund (ABC) because the total amount of the acquisition has been deducted from the ABC fund already.

	Dr	Cr
Depreciation Expense	1,000.00	
Accumulated Depreciation		1,000.00

To record depreciation for the period

Presentation in the Statement of Activities

	<u>Property & Equipt Fund</u>
EXPENSES:	

Depreciation Expense	1,000.00

Presentation in the Statement of Financial Position

	<u>Property & Equipt Fund</u>
ASSETS	

Office Equipment	5,000.00
Less: Accumulated Depreciation	1,000.00
	<u>4,000.00</u>
Net Book Value	<u>4,000.00</u>
	<u>4,000.00</u>
NET ASSETS	
Net Asset	<u>4,000.00</u>

c. Disposition of Property

This is recorded and presented following the reciprocal of the above entries, i.e., to close the cost of the property, related accumulated depreciation, and the net book value under the Property and Equipment Fund. Proceeds or cash value, if any, is recognized as Other Income in the Operational Fund (not in the Property and Equipment Fund).

12.2 Ownership

Another issue here is the question of transfer of ownership from the donor to the NPO. In some instances, transfer of ownership from the donor to the NPO is deferred until the end of the project term or is dependent on meeting the agreement within the project period.

Property and equipment should be recognized at the time of ownership. The value of the property can be based on historical cost less depreciation or re-valued at the time of transfer of ownership. In the case of a property acquired from restricted grant/donation and ownership of the property remains with the grantor/donor until the fulfillment of certain requirements, then there should be a disclosure in the financial statements that there are these assets that are in the possession of the NPO but not yet in its name.

12.3 Valuation of Received Donated Properties

Many NPOs receive donated property and equipment; however, the historical record of the property may not be readily available, so donated properties are usually valued at fair value at the time of donation or transfer of ownership.

12.4 Depreciation Method

There are various methods of depreciation. Every method has its own justification. Generally for NPOs, the straight-line method is used over the estimated useful life of the property as most properties are identified with its usage over a specific period. An option is to use the written-down value or impaired value method.

12.5 Impairment of Assets

Impairment of assets shall be guided by IAS 36.

13. LIABILITIES

13.1 Description

A liability is a present obligation of the NPO arising from past transactions or events, the settlement of which is expected to result in an outflow of resources from the organization embodying economic benefits or service potential. Liabilities may include: amounts payable to suppliers for the purchase of goods or services; accounts withheld from employees or other parties for taxes and for contributions to the SSS or to pension funds; accruals of expenses; deposit and advances from suppliers, officers; debt obligations for borrowed funds.

Recognition and treatment of the above-mentioned forms liabilities in an NPO is very similar to that of the business organizations. However, a very specific type of liability in an NPO arises from the recognition of a grant received, or portion thereof, that is intended for future period/s. Other specific types of liability are “pass-through accounts” or “funds-held-in-trust”.

Because these two types of liability are peculiar to NPOs, they are discussed separately below.

13.2 Deferred Grant

Deferred grants represent support received that is applicable to succeeding years. The funds are to be used only for the specific projects and in compliance with the terms and conditions of the support. Under this category, unused funds at the end of the project are returned to the donors.

Since this is related directly to the accounting of grant received, discussions and examples are “deferred” and presented under Chapter 16.1 – Grants and Donations.

13.3 Accounts Payable

Accounts payable represent amounts that are owed by the NPO to individuals or other organizations because of services provided or goods purchased from these entities.

For example, a supplier delivered office supplies and equipment to the NPO accompanied by a billing statement with specific terms of payment and delivery receipt. After the NPO accepted the goods, the NPO prepares these entries:

Date	Office supplies	10,000	
	Office equipment	50,000	
	Accounts payable - AAA		60,000
	<i>To record purchase of office supplies and equipment to be paid after 30 days.</i>		

After 30 days, the NPO paid AAA for the goods received

Date	Accounts payable - AAA	60,000	
	Cash		60,000
	<i>To record payment of AR to AAA per billing statement number ____.</i>		

13.4 Other Liabilities

Other liabilities such as collections of employee contributions to SSS, mutual funds, and taxes from employee compensation which are later on remitted to the respective agencies are treated as liabilities upon collection or deduction from the payroll. These are subsequently closed upon paying or remitting the amounts.

In NPOs, amounts refundable to employees arising from the liquidation of cash advances, i.e., actual expense is greater than the original cash advance amount, also fall under this category.

These liabilities are credited upon incurrence and debited when paid. Sample entries related to this type have been presented in Chapter 9.4.

13.5 Long-term Liabilities

Long-term liabilities are obligations of the NPO to be paid over several years or at least after more than one year. NPOs usually incur these when there are cash flow problems such as delayed remittance from donors. Long-term liabilities may also be incurred when the NPO is engaged in a long-term project, such as construction of a building, in which cash inflows from sources or donors are expected to be received over several years. The NPO borrows funds to finance the construction and repay these from the expected cash inflows.

Pro-forma Entries

Upon Incurrence

Cash (or other form of asset received)	500,000	
Long-term loans payable		500,000

To record loan received for the _____

Re-classifying the Short-term Portion of the Loan at Period-End. Periodically, the maturing portion of the loan is re-classified under Current Liabilities.

Long-term loans payable	100,000	
Loans payable – Current		100,000

To recognize the current portion of loans payable to _____

Interest expense related to the loans should also be recognized at period-end.

Interest expense	10,000	
Interest payable		10,000

To recognize the interest expense on the loans to _____ for the period.

Payment of Maturing Portion of the Principal and the Interest

Loans payable –Current	100,000	
Interest payable	10,000	
Cash		110,000

To record partial payment of loans to _____ and payment of interest payable.

14. AGENCY TRANSACTIONS/ FUNDS HELD IN TRUST

These are advances made to an organization for custody which would later be used for a specific purpose not necessarily administered by the organization. The AICPA⁵ calls this type of transaction Agency Transaction, some European NPOs call it Pass-Through Accounts, and some Asian NPOs call it Funds-Held-in-Trust.

These are “resources received in transactions in which an NPO is acting as an agent, trustee, or intermediary for a resource provider.” In the AICPA Audit and Accounting guide, it is provided that these *agency transactions* when received “should be reported as increases in assets and liabilities and distributions to third party recipients should be reported as decreases in these accounts. Amounts held under agency transactions should be included as liabilities in the Statement of Financial Position. Cash received and paid in such a transaction should be reported as cash flows from operating activities in a Statement of Cash Flows.”

Agency transactions/Funds-held-in-trust are part of liabilities. The NPO is not the donee; therefore, this account should be treated as a liability. However, if the donor explicitly grants the recipient organization variance power, i.e., unilateral power to redirect the use of the transferred assets to another beneficiary, or if the recipient organization and the specified beneficiary are financially interrelated organizations, the recipient organization should recognize the amount as a contribution received. NPOs are financially interrelated if (a) one organization has the ability to influence the operating and financial decisions of the other and (b) one organization has an ongoing economic interest in the net asset of the other.

Transactions that fall under this type should be properly disclosed.

⁵ AICPA = American Institute of Certified Public Accountants

15. PROVISIONS AND CONTINGENCIES

Provisions are recognized as liabilities (assuming that a reliable estimate can be made) because they are present obligations and it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligations.

Contingent Liabilities are not recognized as liabilities because they are either:

- a. A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the organization.
- b. A present obligation that arises from past events but not recognized because it is not probable that an outflow of resources will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

The basic principles and requirements stated in IPSAS 19 and IAS 37 should be adopted. Basically, provisions are recognized as a liability if a reliable estimate can be made; contingent liabilities are not recognized as liability, however, disclosures about the contingent liabilities are required.

16. CONTRIBUTIONS AND INCOME

16.1 Grants and Donations

There is no provision in the IAS for Grants Received by NPOs. The AICPA Audit and Accounting Guide on Contributions may also be a reference. Contributions are defined as “transactions in which one entity makes an unconditional voluntary transfer to another entity without directly receiving equal value in exchange.” The transfer may involve cash or any other asset such as securities, land, buildings, use of facilities or utilities, material and supplies, intangible assets, services, and unconditional promises to give those items in the future”.

In determining whether a transaction is a contribution or not, the guide provides that the organization needs to assess the extent of discretion it has over the asset received and whether it has given up assets, rights, or privileges approximately equal to the assets, rights, or privileges received. If it has little or no discretion, the transaction is an agency transaction (discussed separately in 4.13). If it has discretion over the asset’s use, the transaction is a contribution, an exchange or a combination of the two.

Accounting for donations and grants is one of the major and specific issues for NPOs.

Unrestricted Grants and Donations

Unrestricted grants and donations should be treated as Revenue of the NPO. Project grants are treated as revenues for the period and presented as such in the statement of activities. Project expenses are deducted from the grant resulting in excess or deficit which will then be added or deducted from the Net Asset. However, unless otherwise stipulated in the agreement with the grantor, grant and the resulting net asset should be treated as Restricted Fund. Many NPOs treat grants as revenue because these are the principal sources of resources for its operations.

Illustration:

On July 1, 2005 Pinoy Tayo Foundation, Inc. received a grant from International Good Governance Institute (IGGI) for Php 1,000,000.

Journal Entries to record the above transactions in the books of Pinoy Tayo:

	<u>Debit</u>	<u>Credit</u>
Cash in Bank	1,000,000.00	
Grant – IGGI		1,000,000.00

Pinoy Tayo Foundation, Inc.	
Statement of Activities	
For the year ended December 31, 200X	
Revenues	Php 1,000,000

Restricted Grants and Donations

Case 1: Many grants and donations have a stipulation that unspent portion shall be returned, or effectively returned, to the grantor/donor thereby creating a possibility of resource outflow. In this case, grants and donations are recognized as a liability - Deferred Grant - upon receipt. Periodically, a portion of the Deferred Grant is recognized as revenue based on the expenses incurred for the period. This method follows the proposition that the NPO earns its revenue based on its activities or performance, as expressed in its expenses. The revenue is always equal to expenses; unspent portion of the grant remains as a liability.

Illustration

On July 1, 2005, Pinoy Tayo Foundation, Inc. received a grant from Concerned Poverty Removal (CPR) Inc. in the amount of Php 2,000,000.00. Based on their Grant Agreement an amount of Php 1,100,000.00 shall be spent for January 2006 for Monitoring and Evaluation (M&E) Activities.

a. To record the receipt of the grant on July 1, 2005

	<u>Debit</u>	<u>Credit</u>
Cash in Bank	2,000,000.00	
Grant – CPR		900,000.00
Deferred Grant		1,100,000.00

Note : The Grant of PhP 900,000.00 will be shown in the Statement of Activities for the calendar year ended December 31, 2005 under the caption REVENUE; the unspent portion of the Grant which is PhP 1,100,000.00 at the end of the calendar year 2005 will be shown in the Statement of Financial Position under the caption LIABILITIES.

- b. To record the expenses incurred for M&E activities on January 25, 2006.

	<u>Debit</u>	<u>Credit</u>
M&E expenses	1,100,000.00	
Cash in Bank		1,100,000.00

- c. To record the recognition of the Deferred Grant as Revenue in 2006.

	<u>Debit</u>	<u>Credit</u>
Deferred Grant	1,100,000.00	
Grant – CPR		1,100,000.00

Case 2: For grants and donations that are treated as non-exchange transactions, the asset-liability approach can be adopted since the IASB and IPSASB have both taken this approach to recognize the revenue arising from non-exchange transactions.

16.2 Contributions in Kind

Contributions in kind may be in the form of goods, equipment, use of facilities, and services rendered.

Valuation

Non-Cash Contributions are valued at fair value if the fair value can be measured reliably, but whenever this is not possible, any of the following alternatives, which should be disclosed in the notes to financial statements were suggested:

- a. Quoted market prices for similar assets
- b. The assets replacement cost
- c. Independent appraisal of the asset's fair value
- d. Other valuation techniques, such as discounting the estimated future cash flows.

Fair Value means “the amount for which an asset could be exchanged, or a liability settled between knowledgeable, willing parties in an arm’s length transaction” If the contributions have no value, these should not be recognized. “No value” means that these cannot be used by the Organization.

Illustration

Pinoy Tayo Foundation, Inc. received an equipment from CPR with the following information:

Equipment	Php 1,000,000.00
Accumulated Depreciation	400,000.00
Book Value	600,000.00
Fair Value as independently appraised	700,000.00

To record the above receipt of equipment:

	<u>Debit</u>	<u>Credit</u>
Equipment	700,000.00	
Grant – CPR		700,000.00

Contributed Services are reported as contribution revenue and as assets or expenses on the following conditions:

- a. if the services create or enhance a non-financial asset
- b. if the service would typically be needed to be purchased
- c. if the service requires specialized skills
- d. if these services are provided by individuals with such skills

For contributed services that do not meet the criteria above, such as “walk-in” volunteer services, it is recommended that these are disclosed in the notes to financial statements.

Illustration:

Mr. Pedro Tubig, had approached the Executive Director of Pinoy Tayo Foundation and had offered his services as a Hydro Engineer Specialist for the Water Distribution Project of Pinoy Tayo Foundation for free, as part of his Good Samaritan work. The latest proposal received by Pinoy Tayo from a private Hydro Specialist Company was Php 300,000.00 for the consultancy.

To record the Non-cash contribution/donation:

	<u>Debit</u>	<u>Credit</u>
Consultancy – Hydro Specialist	300,000.00	
Non-cash contribution/donation		300,000.00

16.3 Membership Fees

Imagine the following situation: a new professional membership organization is offering a one-year membership fee for 6,000.00. How should this organization account for these revenues? In accrual accounting, an organization recognizes that it has rights to payments that have not yet been received. These rights are called ***Accounts Receivable***. The organization also recognizes that it does not have rights to cash that has been received in advance or providing the related services. These amounts are called ***Deferred Revenue***.

In the above example, the 6,000.00 membership fee is for one year’s worth of services, or 500.00 a month. Under both cash and accrual accounting, the cash increases by 6,000.00 when the membership fee is received. With cash accounting, the full 6,000.00 is shown as revenue on the day that the cash is received. In contrast, an organization using accrual accounting would recognize the revenue as it was earned, which would be

500.00. In the first month, the organization would have just 500.00 in revenue, and the remaining 5,500.00 would be shown as deferred revenue. Each month, an additional 500.00 would be recognized as revenue, reducing the deferred revenue.

RELATED LITERATURE on GOVERNMENT GRANTS

At this point, this Accounting Guide presents illustrations on Government Grants, as some NPOs may have transactions regarding this item. IAS 20 defines government grants as “assistance by government in the form of transfers of resources to an enterprise in return for part or future compliance with certain conditions relating to the operating activities of the enterprise”.

Government grants, including non-monetary grant at *fair value*, should be recognized when there is reasonable assurance that:

- a. The enterprise will comply with the conditions attaching to them.
- b. The grants will be received.

Classification of government grants:

- a. Grants related to assets – These are government grants whose primary condition is that an enterprise qualifying for them should purchase, construct or otherwise acquire long-term assets. Subsidiary conditions may also be attached restricting the type or location of the assets or the periods during which they are to be acquired or held.
- b. Grants related to income – These are government grants other than those related to assets.

Accounting for government grants

1. Income approach – Government grants should be recognized as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. In other words, the grant is taken to income over one or more periods. This is the more **acceptable** approach.
2. Capital approach – Government grants should be credited directly to shareholders’ equity. The reason for this is that government grants are not earned but represent an incentive provided by government without related costs. This does not apply to NPOs.

Illustration A:

Community Based Network (CBN) receives a grant of 30,000,000.00 from the National Government, through the Department of Environment and Natural Resources, for the purpose of reforestation of the portion of Sierra Madre Mountains over the period of

three years. The reforestation expenses that will be incurred by CBN are as follows:

First year	4,000,000.00
Second year	6,000,000.00
Third year	<u>10,000,000.00</u>
	<u>20,000,000.00</u>

The standard provides that “grants” in recognition of specific expenses should be recognized as income over the period of the related expense.

Accordingly, the grant of 30,000,000.00 is allocated as income over three years in proportion to the costs incurred.

First year

	Debit	Credit
Cash	30,000,000.00	
Deferred income – government grant		30,000,000.00
To record the grant received from DENR		
Deferred income – government grant	6,000,000.00	
Income from government grant		6,000,000.00
To record the deferred income (4/20 x 30,000,000.00)		
Reforestation expenses	4,000,000.00	
Cash		4,000,000.00
To record the 1 st year reforestation expense		

Second year

Deferred income – government grant	9,000,000.00	
Income from government grant		9,000,000.00
To record the 2 nd year deferred income (6/20 x 30,000,000.00)		
Reforestation expenses	6,000,000.00	
Cash		6,000,000.00
To record the 2 nd year reforestation expense		

Third year

Deferred income – government grant	15,000,000.00	
Income from government grant		15,000,000.00
To record the 3 rd year deferred income (10/20 x 30,000,000.00)		
Reforestation expenses	10,000,000.00	
Cash		10,000,000.00
To record the 3 rd year reforestation expense		

Illustration B

Coco Power receives a grant of 50,000,000.00 from the Australian government for the construction of a virgin coconut oil facility with an estimated cost of 80,000,000.00 and useful life of 5 years.

The standard provides that “grants related to *depreciable assets* should be recognized as income over the periods and in proportion to the depreciation of the related assets.”

Accordingly, the grant of 50,000,000.00 should be allocated as income over 5 years. The pertinent entries in the first year are:

	Debit	Credit
1. Cash	50,000,000.00	
Deferred income – government grant		50,000,000.00
2. Building	80,000,000.00	
Cash		80,000,000.00
3. Depreciation	16,000,000.00	
Accumulated depreciation (80,000,000 / 5)		16,000,000.00
4. Deferred income – government grant	10,000,000.00	
Income from government grant (50,000,000 / 5)		10,000,000.00

Illustration C

PhilCoco is granted a large tract of land in Mindanao by the national government. The fair value of the land is 60,000,000. The grant requires that PhilCoco should construct a coco-diesel refinery on the site. The cost of the refinery is estimated to be 100,000,000.00 and the useful life is 20 years.

The standard provides that “grants related to *non-depreciable assets* requiring fulfillment of certain conditions should be recognized as income over the periods which bear the cost of meeting the conditions.”

Accordingly, the grant of 60,000,000.00 should be allocated over 20 years. The pertinent entries in the first year are:

	Debit	Credit
1. Land	60,000,000.00	
Deferred income – government grant		60,000,000.00
2. Refinery	100,000,000.00	
Cash		100,000,000.00
3. Depreciation	5,000,000.00	
Accumulated depreciation (100,000,000 / 20)		5,000,000.00
4. Deferred income – government grant	3,000,000.00	
Income from government grant (60,000,000 / 20)		3,000,000.00

Illustration D

PeoplesRehab receives grant of 50,000,000.00 from the USA government to compensate for massive losses incurred because of a recent tsunami.

The standard provides that “a government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the enterprise *with no further related costs* should be recognized as income of the period in which it becomes receivable, as an extraordinary item if appropriate.”

Accordingly, the grant of 50,000,000.00 is recognized as income immediately as follows:

Cash	50,000,000.00	
Income from government grant		50,000,000.00

Since the tsunami losses suffered are extraordinary in nature, the income from the government grant should be presented also as an extraordinary item.

17. EXPENSES

17.1 Description

Expenses are gross decreases in assets or gross increases in liabilities (or a combination of both) recognized and measured from rendering services, delivering or producing goods, or carrying out other activities that constitute the NPOs ongoing major or central operations. While revenues increase net assets, expenses decrease the net assets of an NPO.

When determining the net excess or deficit for the period, the following pervasive principles are considered:

- a. Associating cause and effect – where costs are recognized on the basis of a presumed direct association with specific revenue which means that costs are charge to expense in the period that the revenue with which they are associated is recognized.
- b. Systematic and Rational allocation – wherein the absence of a direct means of associating cause and effect, some costs are associated with specific accounting periods as expenses on the basis of an attempt to allocate costs in a systematic and rational manner among the periods in which benefits are provided.
- c. Immediate recognition – the cost is immediately expensed.

17.2 Classification of NPO Expenses

Natural Classification of Expenses

This refers to the enumeration of expenses that includes expense categories such as salaries, rent, electricity, etc. This may not reflect the services, programs, projects of an NPO which reflect its goals and objectives.

Functional Classification of Expenses

Expenses are classified in relation to the major classification – programs/projects, administrative, fund-raising. This practice classifies all costs according to different functions of the NPO.

It is recommended that for NPOs, expenses must be presented by functional classification in the Statement of Activities. Functional reporting, as its name implies, describes the activity for which the NPO incurs an expense. The functional classification of expenses is as follows:

- a. Program/Project expenses
- b. Administrative expenses, which are further classified as:
 - General expenses
 - Human resource development (includes Training Expenses)
- c. Fund-raising expenses

Definitions of Functional Classification:

- a. Program/Project Expenses – relate to those program service activities that result in services (or goods) being distributed to beneficiaries or members that fulfill the basic mission of the NPO. An organization can have more than one category of program services.

Program services expenses are those amounts specifically expended in support of activities that directly advance the organization’s nonprofit mission. In other words, if an organization exists to promote the development of a cure for AIDS, amounts spent in grants to AIDS researchers is a program services expense.

- b. Administrative Expenses

General Expenses – relate to activities such as oversight management, general record keeping, office maintenance, and similar expenses.

Human Resource Development – pertains to expenses incurred for the purpose of developing and consolidating the NPO’s board of trustee, management and staff.

- c. Fund-Raising Expenses – are those expenses incurred in encouraging donors to contribute to the NPO. Fundraising expenses are those amounts used to bring in additional revenue, typically (but not only) through public donations. An example of fundraising expenses are the costs of printing and mailing to the general public flyers that encourage them to support the organization’s mission by sending a donation.

Important Note:

Personnel and other costs traceable to a specific program should be part of program costs. Administrative personnel and overhead costs are part of Administrative expenses.

Practical Examples

a. Conducted training to co-operators and the following expenses were incurred:

Training Venue	Php 10,000
Travel and Transportation of co-operators	5,000
Accommodations and meals	45,000
Lecturers Honoraria	<u>15,000</u>
Total	<u>Php 75,000</u>

	<u>Debit</u>	<u>Credit</u>
Project Expenses – Co-operators Training	75,000	
Cash		75,000

b. Professional fees paid for Writers – 20,000

	<u>Debit</u>	<u>Credit</u>
Project Expenses – Professional Fees	20,000	
Cash		20,000

c. Supplies and materials were procured for 10,000

	<u>Debit</u>	<u>Credit</u>
Administration Expenses – Supplies & materials	10,000	
Cash		10,000

d. The Project pays the monthly rental - 40,000

	<u>Debit</u>	<u>Credit</u>
Administration Expenses – Office rent	40,000	
Cash		80,000

e. Paid salaries of Project management staff 200,000

	<u>Debit</u>	<u>Credit</u>
Administration Expenses – Personnel cost	200,000	
Cash		200,000

f. Conducted staff development training – total expenses = 50,000

	<u>Debit</u>	<u>Credit</u>
Human Resource Dev't – Staff Development training	50,000	
Cash		50,000

g. Incurred fund-raising expenses, raffle tickets - 20,000

	<u>Debit</u>	<u>Credit</u>
Fund Raising Costs – Materials	20,000	
Cash		20,000

A Schedule of Expenses using the functional classification can be presented in this format:

ACCOUNTS	PROGRAM/ PROJECT EXPENSES	ADMIN EXPENSES	FUND- RAISING EXPENSES	TOTAL
Sub-total				
<i>Sub-total</i>				
TOTAL				

17.3 Allocation of Joint Costs

This addresses a situation where a cost incurred by an NPO relates to two or more different activities. The cost is allocated and reflected in the financial statements, with a particular impact on the functional reporting in the statement of activities.

Joint costs and indirect costs are allocated to programs and support services. There are three criteria permitting cost allocation:

- a. Purpose criterion
- b. Audience criterion
- c. Content criterion

Purpose criterion is met if the purpose of the joint activity includes two or more programs or support services.

Audience criterion is met if the target audience or beneficiaries includes two or more programs or support services.

Content criterion is met if the joint activity supports program or support services

There are ways of allocation. However, ***the adopted allocation method should form part the accounting policies of the NPO and should be applied consistently for the same type of transaction until the policy is revised.*** The following are some of the methods:

- a. Physical units method. This method allocates costs based on the physical materials that make up the joint costs.
- b. Relative direct method. This method allocates joint costs in relation to the direct costs of each of the activities.

18. GAINS AND LOSSES

Revenues of NGOs increase their net assets, expenses decrease Net Assets. All other transactions that increase or decrease the net assets of a not-for-profit organization are referred to as gains or losses, respectively. Gains and losses are auxiliary to the NGO's revenues and expenses, they are not major or central operations.

Many NPOs derive gains and incur losses from foreign exchange transactions, sale of property, re-valuation of investment securities, and other incidentals.

Presentation

In presenting gains and losses, the Net Basis should be used, i.e., only the net gain or loss arising from a single set of transactions is presented.

For example, gains and losses from foreign exchange are presented as either net gain or loss.

Total foreign exchange gain for the period	100,000
Total foreign exchange losses for the period	(75,000)
Net foreign exchange gain	<u>25,000</u>

The net amount of 25,000 gain should be reflected in the Statement of Activities with a corresponding note to financial statements regarding the incurrence of the net gain.

IV

OTHER RELEVANT ASPECTS OF NPO ACCOUNTING

19. CONSOLIDATED FINANCIAL STATEMENTS

There are instances in the life or existence of an NPO, when it creates another company to carry out its mission to be of service to mankind. What happens is that it becomes the sole owner or incorporator, of a new company or corporation which specifies in its articles of incorporation the very objectives that the NPO wants it to achieve. Thus, the NPO becomes the parent company and the newly formed company or corporation constitutes its subsidiary, or its wholly-owned subsidiary. In other words, the NPO is now in control of this company, meaning the NPO shall have the power to govern its financial and operating policies so as to obtain benefits from its activities, as clearly defined by IAS 27, “Consolidated and Separate Financial Statements”.

Definition of Terms:

Consolidated financial statements are the financial statements of a *group* presented as those of a single economic entity.

A group is a *parent* and all its *subsidiaries*.

A parent is an entity that has one or more subsidiaries.

A subsidiary is an entity, including an unincorporated entity, such as a partnership, that is *controlled* by another entity (known as the parent).

Control is the power to govern the financial and operating policies of an entity i.e. a subsidiary, so as to obtain benefits from its activities. A corporation becomes a subsidiary when another corporation acquires a controlling interest in its outstanding voting stock. Ordinarily, one corporation gains control of another corporation directly by acquiring a majority (more than 50%) of its voting stock.

IAS 27 states that a parent shall present consolidated financial statements in which it consolidates its investment in subsidiaries in accordance with its provisions.

Control also exists even if the parent owns less than 50% of the voting power of another corporation when there is power over more than half of the voting rights by virtue of an agreement, or to govern the financial and operating policies by the NPO

under a statute or agreement. Control is also evidenced by power of the NPO to remove or appoint the majority of the board members or to cast the majority of votes at meetings of the board.

A. Acquisition cost is equal to the fair values of the identifiable assets and liabilities acquired

ABC Organization, an NPO, pays 90,000 for 100% of the outstanding voting stock of XYZ Corporation, a Rural Bank, on January 1, 2000. At the end of the year, XYZ Corporation's net income and dividends are as follows:

		2000																																																							
	Net income	25,000																																																							
	Dividends	15,000																																																							
<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 45%; text-align: left; border-bottom: 1px solid black;">In the books of ABC (Parent)</th> <th style="width: 5%;"></th> <th style="width: 45%; text-align: left; border-bottom: 1px solid black;">In the books of XYZ Corporation (Subsidiary)</th> </tr> </thead> <tbody> <tr> <td>Investment in XYZ Corporation</td> <td style="text-align: right;">90,000</td> <td>Cash</td> <td style="text-align: right;">90,000</td> <td></td> </tr> <tr> <td>Cash</td> <td style="text-align: right;">90,000</td> <td>Capital stock</td> <td></td> <td style="text-align: right;">90,000</td> </tr> <tr> <td colspan="5" style="padding-left: 20px;">To record the acquisition of the outstanding voting stock of XYZ Corporation</td> </tr> <tr> <td>Investment in XYZ Corporation</td> <td style="text-align: right;">25,000</td> <td></td> <td></td> <td style="text-align: right;">NO ENTRY</td> </tr> <tr> <td>Share in subsidiary net income</td> <td style="text-align: right;">25,000</td> <td colspan="3" style="padding-left: 20px;">To record the sale of the outstanding voting stock</td> </tr> <tr> <td colspan="5" style="padding-left: 20px;">To record 100% share in XYZ Corporation's net income</td> </tr> <tr> <td>Cash</td> <td style="text-align: right;">15,000</td> <td>Retained earnings</td> <td style="text-align: right;">15,000</td> <td></td> </tr> <tr> <td>Investment in XYZ Corporation</td> <td style="text-align: right;">15,000</td> <td>Cash</td> <td></td> <td style="text-align: right;">15,000</td> </tr> <tr> <td colspan="5" style="padding-left: 20px;">To record receipt of cash dividends from XYZ Corporation</td> </tr> <tr> <td colspan="5" style="padding-left: 20px;">To record issuance of cash dividends to ABC Corporation</td> </tr> </tbody> </table>					In the books of ABC (Parent)		In the books of XYZ Corporation (Subsidiary)	Investment in XYZ Corporation	90,000	Cash	90,000		Cash	90,000	Capital stock		90,000	To record the acquisition of the outstanding voting stock of XYZ Corporation					Investment in XYZ Corporation	25,000			NO ENTRY	Share in subsidiary net income	25,000	To record the sale of the outstanding voting stock			To record 100% share in XYZ Corporation's net income					Cash	15,000	Retained earnings	15,000		Investment in XYZ Corporation	15,000	Cash		15,000	To record receipt of cash dividends from XYZ Corporation					To record issuance of cash dividends to ABC Corporation				
In the books of ABC (Parent)		In the books of XYZ Corporation (Subsidiary)																																																							
Investment in XYZ Corporation	90,000	Cash	90,000																																																						
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To record issuance of cash dividends to ABC Corporation																																																									

In addition, ABC maintains a savings deposit with XYZ Corporation amounting to 7,500.

In the books of ABC (Parent)		In the books of XYZ Corporation (Subsidiary)		
NO ENTRY		Cash	7,500	
		Deposit liabilities		7,500
Just a transfer from "Cash on hand" to "Cash in bank".				
To record receipt of deposits from ABC Corporation				

The building facilities of XYZ Corporation are being rented from ABC. Monthly rental amounts to 1,000.

<u>In the books of ABC (Parent)</u>		<u>In the books of XYZ Corporation (Subsidiary)</u>	
Cash	12,000	Rent expense	12,000
Rent income	12,000	Cash	12,000
To record rental income received from XYZ Corporation during the year		To record rental expense paid to ABC Corporation during the year	

Certain advances are made by ABC from XYZ Corporation amounting to P5,500.

<u>In the books of ABC (Parent)</u>		<u>In the books of XYZ Corporation (Subsidiary)</u>	
Cash	5,500	Advances to ABC Corporation	5,500
Advances from XYZ Corporation	5,500	Cash	5,500
To record receipt of cash advances from XYZ Corporation		To record issuance of cash advances to ABC Corporation	

At the end of the year, ABC and XYZ prepare their separate financial statements. In addition, ABC shall prepare consolidated financial statements, and this is done by combining the financial statements of the parent and its subsidiaries line by line by adding together like items of assets, liabilities, equity, income and expenses.

To clearly carry this out, a worksheet shall be prepared to present the financial statements of the Parent or ABC in the first 2 columns, and the financial statements of the subsidiary or XYZ in the next 2 columns, or on the 3rd and 4th columns.

In order that the consolidated financial statements present financial information about the group as that of a single economic entity, the following elimination entries are then taken:

1. The carrying amount of ABC's investment in XYZ
 - a. Share in subsidiary net income 25,000
 Investment in XYZ Corporation 25,000
 To eliminate ABC Corporation's share in XYZ Corporation's net income to bring the investment account to its beginning-of-the-period balance
 - b. Investment in XYZ Corporation 15,000
 Dividends 15,000
 To eliminate the cash dividends from XYZ Corporation to bring the investment account to its beginning-of-the-period balance
 - c. Capital stock – XYZ Corporation 90,000
 Investment in XYZ Corporation 90,000
 To eliminate reciprocal equity and investment balances

The above elimination entries shall be presented in the next 2 columns, or on the 5th and 6th columns, along the same line of the accounts of both ABC and XYZ. Thus, in the first entry, share in subsidiary net income shall be debited along the line of “Share in Subsidiary Net Income” in the Statement of Operations of ABC Corporation, while Investment in XYZ Corporation shall be credited to “Investment in XYZ Corporation” in the Balance Sheet of ABC Corporation. As one can see, the investment account is reduced by P25,000, and later by the elimination entries on dividends and reciprocal equity and investment accounts, until the Investment account is reduced to zero.

2. Intra-group balances, transactions, income and expenses shall be eliminated in full

d. Advances from XYZ Corporation	5,500	
Advances to ABC		5,500
To eliminate intercompany balances		
e. Deposit liabilities	7,500	
Cash		7,500
To eliminate ABC savings deposit with XYZ Corporation		
f. Rent income	12,000	
Rent expense		12,000
To eliminate inter-company income and expenses		

Following the procedures done in the first set of elimination entries for Investment, Advances from XYZ Corporation shall be debited to the corresponding liability account in the Balance Sheet of ABC Corporation and Advances to ABC Corporation shall be credited to the corresponding asset account in the Balance Sheet of XYZ Corporation. This will totally remove the advances from the accounts of both companies.

In the same manner, Deposit Liabilities shall be debited to the same account in the Balance Sheet of XYZ Corporation, and Cash shall be credited to the same account in the Balance Sheet of ABC Corporation. This entry will reduce these accounts by the same amount.

The next step is to combine the 6 columns and this will result in the consolidated amounts that should appear in the consolidated financial statements.

IAS 27 emphasizes the following points:

1. Intragroup balances and transactions, including income, expenses and dividends, are eliminated in full. Profits and losses resulting from intragroup transactions that are recognized in assets, such as inventory and fixed assets, are eliminated in full.

2. The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements shall be prepared as of the same reporting date.
3. Consolidated financial statements shall be prepared using uniform accounting policies for like transactions and other events in similar circumstances.

In the consolidated financial statements, the consolidated net income shall equal the Parent's net income, and the consolidated equity shall equal the Parent's equity.

20. Matrix Reporting/Fund Accounting

20.1 Definition

The IAS did not mention Matrix Reporting/Fund Accounting as this is peculiar to NPOs and government institutions. Initially, the AICPA provided guidelines on this topic but eventually, SFAS 117 does not require reporting financial information by funds.

Matrix Reporting/Fund Accounting is defined as a system of recording resources whose use may be limited by donors, granting agencies, governing boards, management, or by law. To keep the books and records in a way that gave recognition to the restrictions set by the donors, some NPOs kept a series of separate funds for a variety of specific purposes. Each fund consisted of a self-balancing set of assets, liabilities and net asset accounts.

20.2 As a Method of Accounting for NPOs

Matrix Reporting/Fund Accounting reports may be considered as special-purpose financial reports and therefore not included as basic requirements in financial reporting. However, Matrix Reporting/Fund Accounting as part of the accounting system of NPOs may contribute to better NPO accounting based on the following justifications:

- Matrix Reporting/Fund Accounting is a concept peculiar to NPOs. NPOs receive funds under various terms and conditions and may be grouped in various ways based on their intent and purpose and restrictions set by donors and management. Funding sources and funding arrangements may also vary - single fund, co-funding, or multi-funding for either individual activities, individual programs, several programs or the entire organization.
- Accountability, transparency, and monitoring were on the top of the list of reasons why NPOs applied the concept of matrix reporting/fund accounting.
- Matrix Reporting/Fund Accounting is also the expression of “matching of sources against intentions” (a fundamental concept in accounting) in NPOs. In business, there should be a proper matching of costs against revenues. In the same manner, NPOs should have proper matching of funds/sources against its intentions. Fund is defined as an amount set aside for a specific purpose.
- IPSAS 18 – Segment Reporting states that reporting financial information by segments will:

- help users of the financial statements to better understand the entity's past performance and to identify the resources allocated to support the major activities of the entity; and
- enhance the transparency of financial reporting and enable the entity to better discharge its accountability obligations.

A segment is a distinguishable activity or group of activities of an entity for which it is appropriate to separately report financial information for the purpose of evaluating the entity's past performance in achieving its objectives and for making decisions about the future allocation of resources.

It is recommended, therefore, that Matrix Reporting/Fund Accounting is an accounting method for NPOs.

20.3 Dimensions of Fund Accounting

Based on the agreements with the intended user of the NPO financial statements, like funding agencies (FA), a supporting statement to the Statement of Activities showing, in a matrix form the relationship of the revenues, expenses, and Net Assets with respect to each funding source, programs, area of operation, etc., may be prepared.

It can be a relationship between Funding Agency and Programs:

	FA 1	FA 2	FA 3	Total
Research	X	X		
Education	X		X	
Training		X		
Livelihood	X			
Total				

Or between Programs and Area of Operation:

	Area1	Area2	Area3	Total
Research	X	X		
Education	X		X	
Training		X		
Livelihood	X			
Total				

Or could be Area of Operation vis-à-vis Funding Agency

	Area1	Area2	Area3	Total
FA 1	X	X		
FA 2	X		X	
FA 3		X		
FA 4	X			
Total				

Other form of relationships may be derived based on the needs of management, donors and other stakeholders. It can also be a multi-dimensional thing.

	FA 1	FA 2	FA 3	Total
Research - Area1 - Area2 - Area3				
Education - Area1 - Area2 - Area3				
Training - Area1 - Area2 - Area3				
Livelihood - Area1 - Area2 - Area3				

20.4 Specific Transactions in Fund Accounting

1. Interfund Transactions

a. Interfund Borrowings

When interfund borrowing is legally allowed, i.e., there are no restrictions for doing this and this is a result of a sound management decision, entries are made both on the disbursing and the receiving funds at the same time. This is one of the most overlooked transactions. Sometimes, records are reflected in one fund only or records are not done at the same time. This type of transaction results in an Interfund Receivable in the disbursing fund and an Interfund Payable in the receiving fund. The Interfund Receivable/Payable accounts are accounts of the individual funds but these should always have a zero balance at the total column; therefore these are offset accounts in the consolidated financial statements.

Example:

ICCO Fund temporarily borrowed 10,000.00 from 11.11.11 Fund.

In ICCO Fund's record

	Dr	Cr
Cash	10,000.00	
Interfund Payable – 11.11.11 Fund		10,000.00

> to record amount borrowed from 11.11.11 Fund

In 11.11.11 Fund's record

Interfund Receivable – ICCO Fund	10,000.00	
Cash		10,000.00

> to record amount borrowed by ICCO Fund

Presentation in the balance sheet:

	<u>ICCO</u>	<u>11.11.11</u>	<u>TOTAL</u>
Interfund Receivable(Payable)	(10,000)	10,000	-

Interfund borrowings result in Interfund receivable in the paying fund and Interfund payable in the receiving fund. These accounts only exist in individual Net Assets while these are non-account in the consolidated financial statements.

b. Expenses Paid by One Fund for Another

Another transaction is the payment of expenses, which are chargeable to another fund. As in the case of interfund borrowings, this type of transaction results in Interfund Receivable/Payable in two or more funds.

Example: For a valid reason and again from a sound management decision, a situation may arise wherein an expense, e.g. training, pertaining to 11.11.11 Fund was paid from ICCO Fund's cash account.

	Dr	Cr
<i>In ICCO Fund's record</i>		
Interfund Receivable – 11.11.11 Fund	800.00	
Cash		800.00

> to record payment of 11.11.11 Fund's training expenses

In 11.11.11 Fund's record

Training Expense	800.00	
Interfund Payable – ICCO Fund		800.00

> to record training expenses paid by ICCO Fund

Presentation in the balance sheet:

Similar to the above (item a).

c. Correcting Entries Affecting Fund/s Different from the Original Entry/ies

This occurs when previous erroneous entries were charged against or credited to a specific fund but later on it was corrected that the said entries should have been charged against or credited to another fund.

Assuming there was an error in the original entries wherein a certain expense (transportation for example) was erroneously charged against and paid from ICCO Fund, but later on determined that the activity was actually for 11.11.11 Fund.

Original Entries (erroneous)

In ICCO Fund

	Dr	Cr
Transportation Expense	100.00	
Cash		100.00

> to record payment for transportation from ____ to ____

Correcting Entries

In ICCO Fund

Interfund Receivable	100.00	
Transportation Expense		100.00

> to correct entry per Voucher Number ____;
transaction should be charged against 11.11.11 Fund.

In 11.11.11 Fund

Transportation Expense	100.00	
Interfund Payable		100.00

> to recognize transportation expense paid
from Voucher Number ____ (ICCO Fund).

d. Transfer of Fund Balance from One Category to Another

This type of interfund transfers is a mechanism in which one classification of Net Asset increases and another classification of Net Asset decreases, with no change in the total Net Assets of the NPO. These are reflected in the Statement of Activities to reflect the satisfaction of donor restrictions. When this happens, the related assets, representing the Net Asset transferred, are also transferred. The nature, circumstances, and related information of the transfer should be adequately disclosed as a note to financial statements. Most importantly, this type of transfer should be in accordance to the agreement with the donor.

Example:

When a project is closed but there is still a fund balance for the project (e.g. SPF Fund), the NPO and the Donor Agency may agree that the project fund balance can be transferred to the General Fund. (Some Donors require that any balance should be returned or forwarded to a new project being funded by the same donor). It is very important that the NPO and the Donor agree on the treatment of the balance.

	Dr	Cr
<i>In SPF Fund</i>		
Operational Fund (Net Asset)	1,200.00	
Cash		1,200.00
<p>> to close SPF project and to record transfer of fund to General Fund.</p>		
<i>In General Fund</i>		
Cash	1,200.00	
Operational Fund (Net Asset)		1,200.00
<p>> to record SPF fund balance transferred to General Fund.</p>		

Presentation in the Financial Statement

	<u>SPF</u>	<u>GenFund</u>
Operational Fund *	1,200.00	10,500.00
Fund Transfer (Note x) **	<u>(1,200.00)</u>	<u>1,200.00</u>
Operational Fund after Fund Transfer	-	11,700.00

* If the transfer was agreed and effected after the period then the Fund Transfer is reflected in the following period’s financial statement; the Fund Transfer should then be reflected as an adjustment to the Operational Fund – Beginning. If the transfer was agreed and effected within the current period then the Fund Transfer is reflected in the current period’s financial statement; the Fund Transfer should then be reflected at the bottom of the financial statement to arrive at the Operational Fund – End for the current period.

Disclosure

** The circumstances of the fund transfer as well as the related agreement and authority should be disclosed in the Notes to Financial Statements.

2. Treatment of Fixed Assets

The Property and Equipment Fund is established in the net assets of NPOs. Acquisition of property and equipment is recorded using the asset method. A corollary entry should be made to recognize the transfer of the cost of acquisition from the paying fund to the Property and Equipment Fund. Related transactions, such as depreciation and disposition of property are recorded under the Property and Equipment Fund.

A requisite of the above treatment of property and equipment is necessary to be implemented: *a separate budget for capital outlay should be formulated and approved.*

Example: Purchase of a computer set charged against ICCO grant.

a. Acquisition

	Dr	Cr
<i><u>In ICCO Operational Fund</u></i>		
Office Equipment Acquisition or Capital Outlay or Fund Transfer to Property & Equipment Fund	5,000.00	
Cash		5,000.00
<i><u>In Property & Equipment Fund</u></i>		
Office Equipment (as Asset)	5,000.00	
Property and Equipment Fund		5,000.00

Note: The above two sets of entries should be made at the same time for every acquisition of property.

Presentation in the Statement of Activities

	<u>ICCO</u>	Property & Equipt Fund	<u>TOTAL</u>
Office Equipment Acquisition or Capital Outlay or Fund Transfer to Property & Equipment Fund	(5,000)	5,000	-

Note: This is usually presented after the regular income and expense items before the Net Asset–End or may be under Extraordinary Items.

b. Depreciation.

This is an expense of the Property & Equipment Fund; it is not an expense of the grant fund (ICCO) because the total amount of the acquisition has been deducted from the ICCO fund already.

	Dr	Cr
Depreciation Expense	1,000.00	
Accumulated Depreciation		1,000.00
<p>> to record depreciation for the period</p>		

Presentation in the Statement of Activities

	Property & <u>Equipt Fund</u>
EXPENSES:	

Depreciation Expense	1,000.00
.....	

Presentation in the Balance Sheet

	Property & <u>Equipt Fund</u>
ASSETS	

Office Equipment	5,000.00
Less: Accumulated Depreciation	1,000.00
Net Book Value	<u>4,000.00</u>
NET ASSETS	
Net Assets	<u>4,000.00</u>

c. Disposition of Property

This is recorded and presented following the reciprocal of the above entries, i.e., to close the cost of the property, related accumulated depreciation, and the net book value under the Property and Equipment Fund. Proceeds or cash value, if any, is recognized as Other Income in the Operational Fund (not in the Property and Equipment Fund).

3. Grants and Donations

NPOs usually refer to grants and donations as “support”. In an NPO setting, these are treated as revenue because these are the principal sources of resources for its operations. Grants and donations should be recognized only when they can be realized and enforced by the NPO.

Example: Received a grant from ICCO amounting to 100,000.00

In ICCO Fund

	Dr	Cr	
Cash	100,000.00		
Grant (from ICCCO)		100,000.00	

> to record first remittance from ICCO.

Presentation in the Statement of Activities (or Statement of Revenues & Expenses)

 <u>ICCO Fund</u>
REVENUES	
Grant	100,000.00

4. Income distribution

Income such as interest from bank accounts, income from investments, and net gains can be distributed to appropriate fund/s based on the following hierarchy of rules:

- a. based on agreements with donor agencies
- b. accrue to the fund where the asset that derived the income is located
- c. proportionately based on approved sharing ratios
- d. general fund

If the income is distributed to two or more funds, an Interfund Receivable (Payable) may arise.

Example: ABC Fund has no separate bank account (therefore no cash in bank account) but it's grant is deposited in SCLF bank account (therefore initially, there is an Interfund Receivable-SCLF in ABC Fund and Interfund Payable-ABC in SCLF Fund). It was agreed that interest income from the bank account is distributed based on 40:60 ratio between ABC and SCLF Funds respectively.

To record the Interest Income:

	Dr	Cr
In SCLF Fund		
Cash	100.00	
Interest Income		60.00
Interfund Payable-ABC		40.00
 <u>In ABC Fund</u>		
Interfund Receivable-SCLF	40.00	
Interest Income		40.00

5. Joint Costs and Indirect Costs Allocation

The guidelines on joint costs allocation described above also apply when allocations are made in the supporting statement to the Statement of Activities showing, in a matrix form the relationship of the revenues, expenses, and net assets with respect to each funding source, programs, area of operation, etc.

Similar to the distributed income in item 4 above, if the expenses are distributed to two or more funds, an Interfund Receivable (Payable) arise when the resource or asset used (most of the time, cash) is identified with only one fund or identified with fund/s other than those affected by the expense.

Example: After determining the proper allocation method, Training Expenses were rightfully distributed against ICCO Fund, 11.11.11 Fund, and SCLF Fund with the ratio 40:35:25 respectively. Assuming that before the activity, a Cash Advance was made by the Training Coordinator (Mr. John McCartney) from ICCO Fund amounting to 10,000 for the activity. After the training, 9,000 was actually spent and 1,000 was returned to the ICCO Fund.

When the Cash Advance was made

	Dr	Cr
<i>In ICCO Fund</i>		
Cash Advance – John McCartney	10,000.00	
Cash		10,000.00
> to record cash advance of John McCartney for _____ training.		

When the Cash Advance was liquidated

In ICCO Fund

Training expenses	3,600.00	
Interfund Receivable – 11.11.11	3,150.00	
Interfund Receivable – SCLF	2,250.00	
Cash	1,000.00	
Cash Advance – John McCartney		10,000.00
> to record the liquidation of cash advance of John McCartney re _____ training.		

In 11.11.11 Fund

Training Expenses	3,150.00	
Interfund payable – ICCO		3,150.00
> to record 11.11.11's share in the _____ training as per liquidation of John McCartney dated _____, Voucher _____		

In SCLF Fund

Training Expenses	2,250.00	
Interfund payable – ICCO		2,250.00
> to record SCLF's share in the _____ training as per liquidation of John McCartney dated _____, Voucher _____		

6. Funds created from disbursements charged against Grant (e.g. Credit Revolving Fund, Capital for Income-Generating Projects)

Normally, these are treated as charges against the approved grant. Corollary entries should be made to establish the fund created. A new accounting sub-cycle is also created or established. Transactions of this accounting sub-cycle are recorded in the new fund

Example: One of the approved items in the ICCO Grant is the provision for a credit revolving fund. Initially, 10,000 was loaned to various beneficiaries.

	Dr	Cr
In ICCO Fund		
Provision for Credit Fund	10,000.00	
Cash		10,000.00
<p>> to record release of credit fund/loans to _____ beneficiaries.</p>		
In Credit Fund		
Loans Receivable (or Cash, if not immediately released)	10,000.00	
Credit Fund		10,000.00

Presentation in the Statement of Activities

	<u>ICCO</u>	<u>Credit Fund</u>	<u>TOTAL</u>
Provision for Credit Fund	(10,000)	10,000	-

Note: This is usually presented after the regular income and expense items before the Net Asset–End.

Presentation in the Balance Sheet

 <u>Credit Fund</u>
ASSETS	
Loans Receivable	10,000.00
TOTAL	10,000.00
NET ASSET	
Net Asset	10,000.00

Subsequent Transactions

Collections from the loans receivable will be recorded in the Credit Fund as debit to Cash and credit to Loans Receivable. Likewise, re-loaning from the collections (not from the grant fund) will be treated as transaction of the Credit Fund.

Additional credit fund from the grant funds (ICCO, 11.11.11, etc) is treated in the same manner as described above.

20.5 Sample System of Chart of Accounts under Fund Accounting

The Chart of Accounts is designed to be a tabular representation of the relationships of different segments. The most common segments are:

- GL Accounts
- Subsidiary Ledger Accounts

More segments may be added for further classification of accounts, as needed, as follows:

- Funding Agencies
- Programs/Projects
- Activity Accounts
- Division/Units
- Areas of Operation

Sample Coding System

Segment	No. of Digits	Format
General Ledger Accounts	6 digits	999999
Where:	First digit 9 represents the following:	
1	for Assets	
2	for Liabilities	
3	for Net Assets	
4	for Revenues and Support	
5	for Program Expenses	
6	for Administrative Expenses	
7	for Fund Raising	

Second digit (9) is the sequential numbering of sub-categories of the five major accounts described in the first digit.

Third to sixth digits follow the outlining rule for detail accounts under the sub-categories; specifically, the last two digits of Expenses accounts represent the uniform natural classification of expenses (e.g. transportation, supplies, communication, etc.)

Subsidiary Ledger Accounts	3 digits	9X9
Where:	first digit (9) represents the following:	
0	for Members	
1	for Staff	
2	for Volunteers/Interns/LDO	
3	Etc.	

X is the first letter of the surname of individuals or the name of the organization/institution

Third digit (9) is the sequential numbering of names of individuals or organizations/institutions beginning with X

Funding Agencies	2 digits	X9
Where:	X is the first letter of the name of the Funding Agency	
8	is the sequential numbering of Funding Agencies beginning	
9	with X	
Programs/Projects	2 digits	X9
Where:	X is the first letter of the name of the Program/Project	
9	is the sequential numbering of Programs/Projects beginning	
	with X	
Activity Accounts	3 digits	999
Where:	first digit (9) represents the activity group	
	second and third digits (99) is a sequential numbering of the	
	accounts	
Division/Units	3 digits	X99
Where:	X is the first letter of the name of the Division	
	99 is the sequential number of Units under Division X	
	Note: As of current set-up, some divisions do not have units	
	under them, 01 should be used for the 99 portion of the	
	code.	
Areas of Operation	2 digits	X9
Where:	X is the first letter of the name of the Area 9 is the sequential	
	numbering of Areas beginning with X	

21. Other Applicable Standards

IAS 8 states that “in the absence of a standard or an interpretation that specifically applies to a transaction, other event or condition, management shall use its judgment in developing and applying an accounting policy.

In making the judgment, management shall refer to, and consider the applicability of, the following sources in descending order:

- the requirements and guidance in Standards and Interpretations dealing with similar and related issues;
- the definitions, recognition criteria, and measurement concepts for assets, liabilities, income, and expenses in the framework.

In making the judgment, management may also consider the most recent pronouncements of other standard-setting bodies that use similar conceptual framework to develop accounting standards, other accounting literature, and accepted industry practices, to the extent that these do not conflict with the sources stated in the preceding paragraph.



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