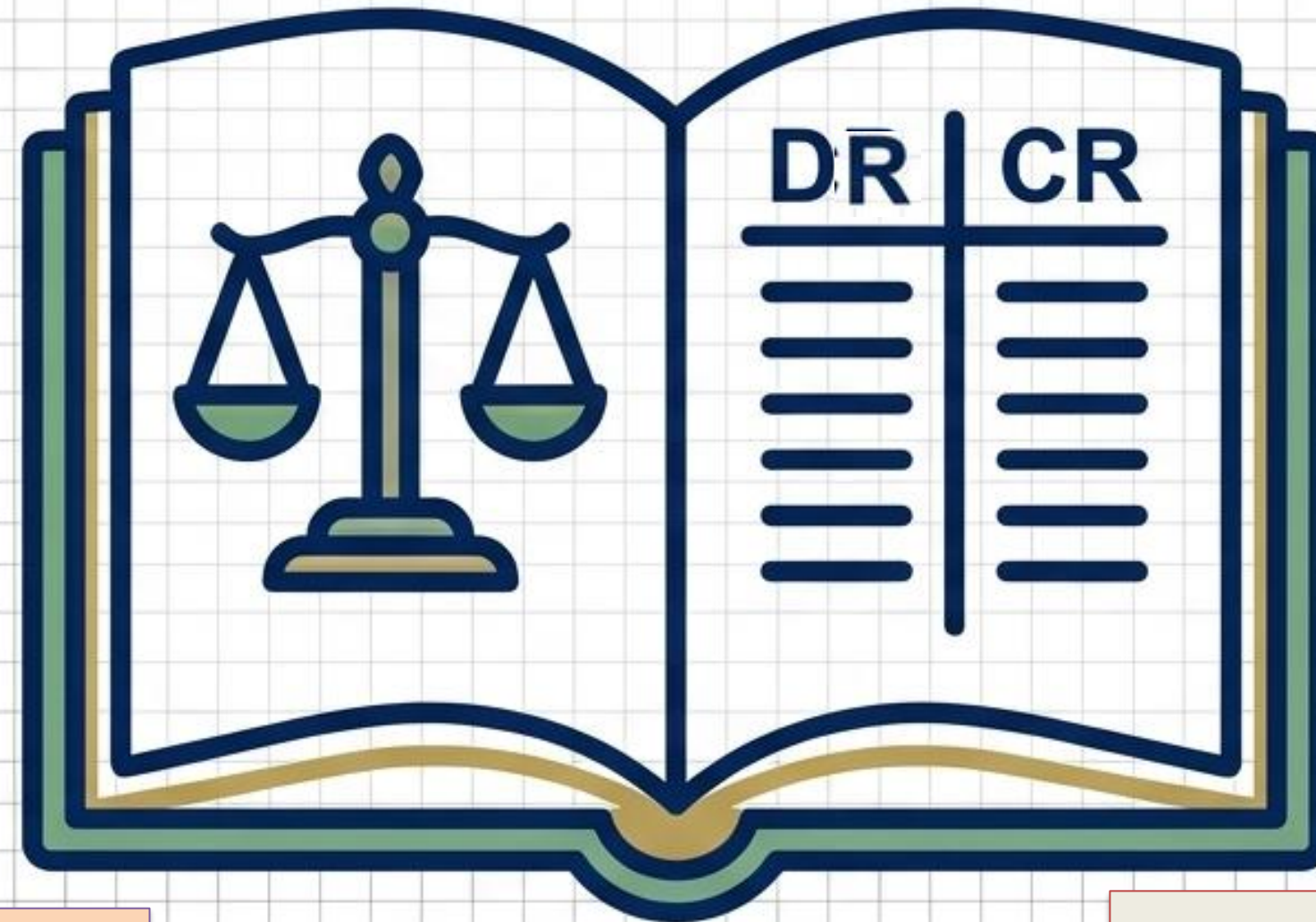


Overview of

Formats for Financial Statements of NPOs



23rd May 2026
CAQ of ICAI at EIRC of ICAI

CA Amitesh Agarwal
madanlalassociates2@gmail.com

Dilemma for NPO Format of Financial Statements

Technical Guide on NPO

VS

Guidance Note on Non-Corporate Entities

????????????????



FAQ on Guidance Note on Non Corporate Entities Financial Statements

Question 6: XYZ Foundation is a not-for profit organisation working to uphold the rights of children in India. It prepares financial statements that are subject to audit. Whether the Guidance Note on Financial Statements of Non-corporate Entities is required to be applied while preparing financial statements of XYZ foundation?

Response: This Guidance Note is relevant for the purpose of preparation of the financial statements of Non-Corporate Entities as per Question 2 of these FAQs.

As regards Not for Profit Organisations, ICAI has issued a '*Technical Guide on Accounting for Not-for-profit organisations*' (<https://resource.cdn.icai.org/74188asb60123.pdf>) to recommend uniform accounting principles in accordance with the Accounting Standards and other generally accepted accounting principles in India for the preparation and presentation of financial statements of NPOs to meet the common information needs of the various stakeholders.

Formats for NPOs have been specifically recommended in the Technical Guide on NPOs and the same are relevant for the purpose of preparation of financial statements of NPOs.

Hence, in the given case, for preparation of financial statements of XYZ foundation, the Technical Guide on Accounting for NPOs is relevant.

The Foundation: General Instructions

Mandatory principles for NPO financial statement preparation (Part I).



Accrual Basis

Statements must reflect transactions when they occur, not just when cash changes hands.
Legal form yields to economic substance.



True & Fair View

The overarching mandate. Treatment and presentation are governed by substance, ensuring absolute transparency.



Consistency

Accounting policies must apply consistently year-over-year. Corresponding previous year figures (comparatives) are mandatory.



Materiality & Rounding

< 100Cr Gross Income:
Round to nearest hundreds, thousands, lakhs, or millions.

> 100Cr Gross Income:
Round to nearest lakhs, millions, or crores.

Rounding off is optional
NOT MANDATORY

TG on Preparation of Financial Statements under CASH BASIS of Accounting (Feb24- ASB-ICAI)

Announcement: *Mandatory Application of Accounting Standards in respect of Certain Non-corporate Bodies:*

“ ...

3. According to Accounting Standard 1, *Disclosure of Accounting Policies*, ‘accrual’ is one of the fundamental accounting assumptions. The Standard requires that if any fundamental accounting assumption is not followed in the preparation and presentation of financial statements, the fact should be disclosed. Accordingly, in respect of individual/bodies covered by para 1 above, the auditor should examine whether the financial statements have been prepared on accrual basis. In cases where the statute governing the enterprise requires the preparation and presentation of financial statements on accrual basis but the financial statements have not been so prepared, the auditor should qualify his report. On the other hand, where there is no statutory requirement for preparation and presentation of financial statements on accrual basis, and the financial statements have been prepared on a basis other than ‘accrual’ the auditor should describe in his audit report, the basis of accounting followed, without necessarily making it a subject matter of a qualification. In such a case the auditor should also examine whether those provisions of the accounting standards which are applicable in the context of the basis of accounting followed by the enterprise have been complied with or not and consider making suitable disclosures/qualifications in his audit report accordingly.”

Please refer **Appendix B** for the complete Announcement.

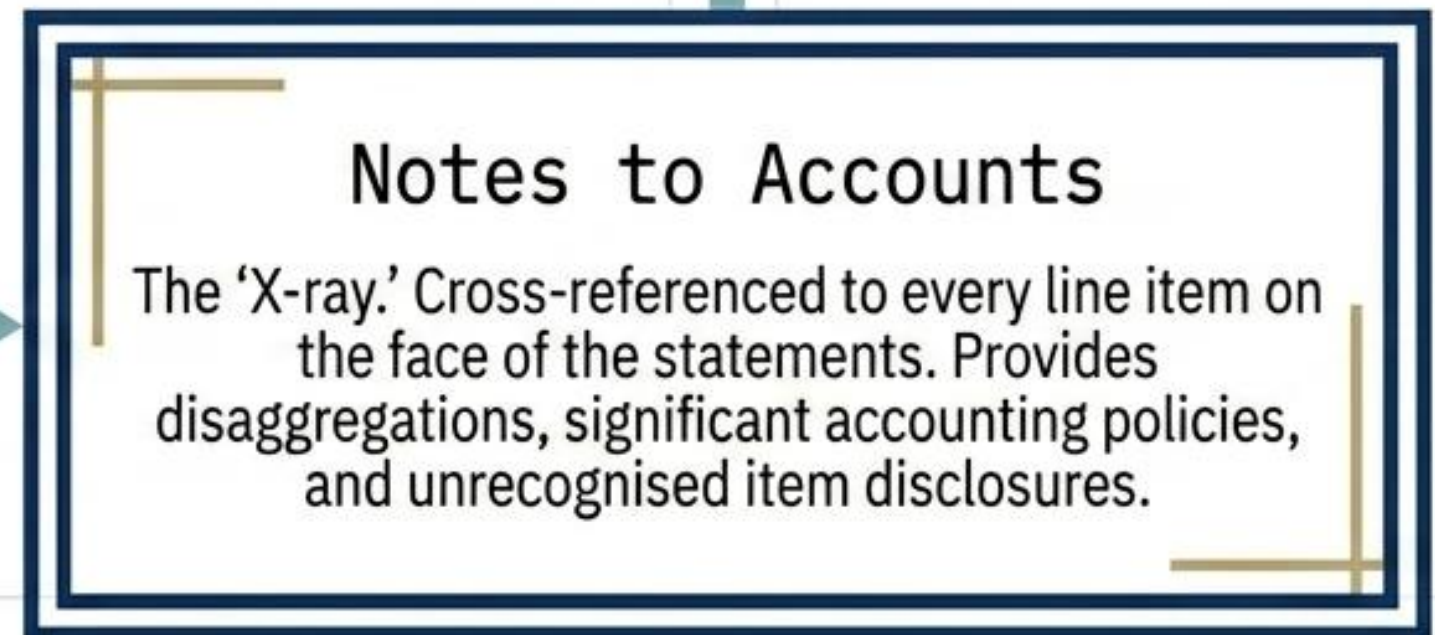
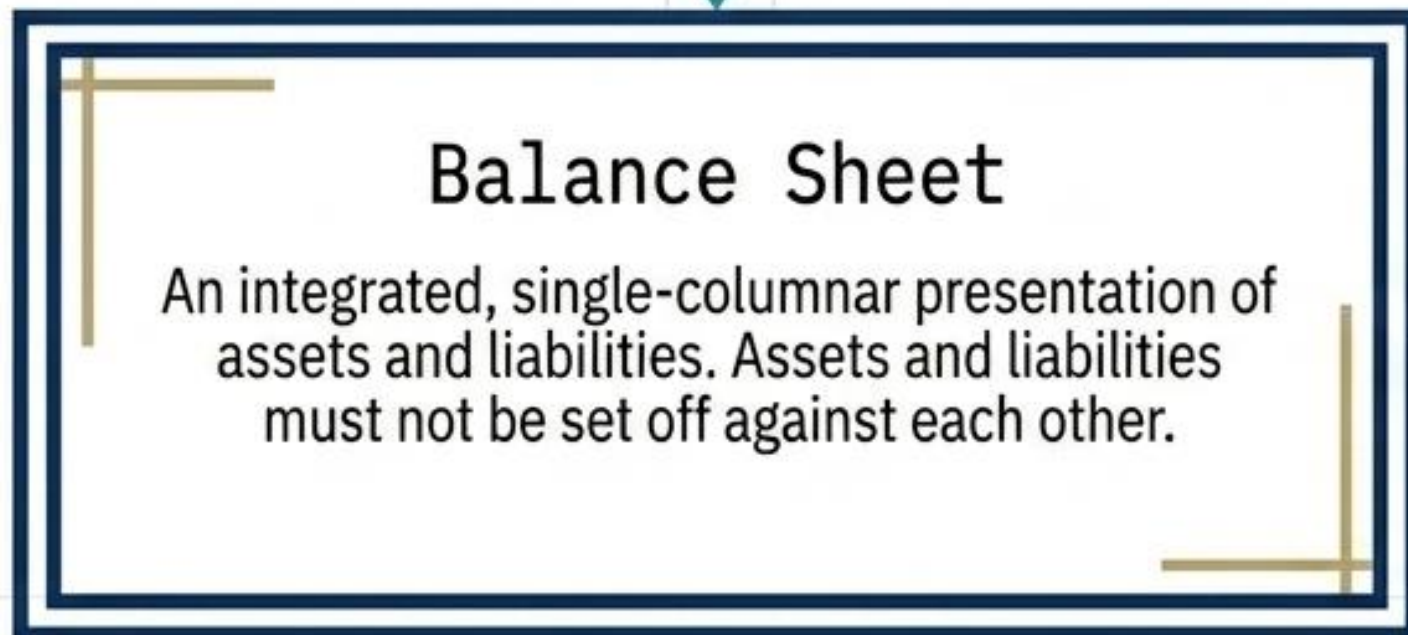
The Architecture of NPO Financials

RECEIPT & PAYMENTS – OPTIONAL - but in case the Bye laws/ Regulations requires the same to be prepared-

Mandatory R&P for Societies regd under WB Societies Regn Act



Surplus/Deficit flows directly into the General Fund.



General Instructions: At a Glance

#	Instruction	Requirement / Detail
1	Format Nature	RECOMMENDED formats; may be modified to comply with applicable statute / AS
2	Additional Disclosures	Format disclosures are IN ADDITION TO, not substitution of, AS disclosures
3	Basis of Accounting	Financial statements MUST be prepared on ACCRUAL BASIS
4	Accounting Policies	Statement of significant accounting policies to be included in the Balance Sheet
5	Consistency	Policies applied consistently year to year; changes disclosed with quantum
6	Substance over Form	Treatment governed by economic substance, NOT merely legal form
7	Materiality	Due consideration to materiality of each item in BS / I&E
8	Notes to Accounts	Cross-reference each BS and I&E line item to relevant Note; balance between detail and aggregation
9	Rounding Off- OPTIONAL	< ₹100 Cr: round to nearest hundreds/thousands/lakhs; ≥ ₹100 Cr: to nearest lakhs/crores
10	Comparatives	Previous year figures MANDATORY for ALL items (except first-year financial statements)
11	Terminology	Terms used in formats per applicable Accounting Standards
12	Cash Flow	Prepare Cash Flow Statement (AS 3) wherever applicable

Balance Sheet Macro-Structure

I. SOURCES OF FUNDS

(1) NPO Funds: The net worth of the organization (Unrestricted + Restricted).

(2) Non-Current Liabilities: Long-term obligations (Borrowings, Provisions, Other).

(3) Current Liabilities: Short-term obligations (Borrowings, Payables, Provisions, Others).

II. APPLICATION OF FUNDS

(1) Non-Current Assets: Long-term value (Property, Plant, Equipment, Intangibles, Long-Term Investments, and Others).

(2) Current Assets: Highly liquid value (Current Investments, Inventories, Receivables, Cash/Bank, and Others).

Rule: The presentation must remain integrated. Multi-columnar balance sheets are not permitted.



Format of Balance Sheet:

	Particulars	Note	31 March 2025	31 March 2024
I	Sources of Funds			
1	NPO Funds	3		
(a)	Unrestricted Funds			
(b)	Restricted Funds			
			-	-
2	Non-current liabilities			
(a)	Long-term borrowings	4	-	-
(b)	Other long-term liabilities	5	-	-
(c)	Long-term provisions	6	-	-
			-	-
3	Current liabilities			
(a)	Short-term borrowings	4	-	-
(b)	Payables	7		
(c)	Other current liabilities	8	-	-
(d)	Short-term provisions	6	-	-
			-	-
	Total		-	-

II	Application of Funds			
1	Non-current assets			
(a)	Property, Plant and Equipment and Intangible assets	9		
(i)	Property, Plant and Equipment			
(ii)	Intangible assets			
(iii)	Capital work in progress			
(iv)	Intangible asset under development			
(b)	Non-current investments	10	-	-
(c)	Long Term Loans and Advances	11	-	-
(d)	Other non-current assets (specify nature)	12	-	-
			-	-
2	Current assets			
(a)	Current investments	10	-	-
(b)	Inventories			
(c)	Receivables	13	-	-
(d)	Cash and bank balances	14	-	-
(e)	Short Term Loans and Advances	11	-	-
(f)	Other current assets	15	-	-
			-	-
	Total		-	-

- **Financial statements** include balance sheet as at the end of the financial year, income and expenditure account for the financial year, cash flow statement for the financial year (where applicable) and other statements and explanatory notes which form part thereof.
- **Government grants** are assistance by Government in cash or kind to NPO for past or future compliance with certain conditions. They exclude those forms of Government assistance which cannot reasonably have a value placed upon them and transactions with Government which cannot be distinguished from normal transactions of an NPO.
- **Unrestricted funds** are contributions received or funds generated by an NPO, the use of which is **NOT restricted by the contributor(s)**.
- **Restricted funds** are contributions received by an NPO, the use of **which is restricted by the contributor(s)**.

Diagnostic Matrix: Anatomy of NPO Funds

 Unrestricted Funds (Discretionary Use)		
Corpus	General Fund	Designated Funds
Non-reducible funds contributed by founders/promoters.	All resources not accounted for elsewhere. Absorbs the annual Surplus/Deficit. Includes non-depreciable asset grants with no obligations.	Self-imposed, internally earmarked funds for specific future commitments.
 Restricted Funds (Externally Bound)		
Endowment Funds	Asset-Tied Funds	Revenue-Tied Funds
Stipulation that only the income earned on the fund can be used, not the principal.	Funds related to assets still to be acquired, or deferred income balances for specific	Funds restricted to specific items of revenue expenditure not yet incurred.
movement of each fund (both for restricted & unrestricted) with opening balance, during the year movement and closing to be shown mandatorily		

Unrestricted Funds

- Funds with no external conditions on their use.
- Can be used for any general purpose of the NPO (e.g., admin, salaries, operations etc.)
- **Examples:**
 - General donation without condition
 - Interest income on general corpus



Categories of Unrestricted Funds

1. Corpus:

Corpus refers to funds contributed by founders/promoters of the NPO.

2. General Fund:

- General Fund includes all financial resources except those required to be accounted for in another fund, i.e., it includes funds which neither have any restriction on their use nor have been designated for any specific purpose.
- Grants and donations relating to non-depreciable assets, e.g., freehold land, which do not require fulfilment of any obligation, are included under this head.
- It is the accumulated surplus of income over expenditure not earmarked for any specific purpose.

Categories of Unrestricted Funds

3. Designated Funds:

- Funds that are earmarked by the management or governing body of the NPO for a specific future purpose or project.
- These are not externally restricted (i.e., not by donors), but internally allocated from unrestricted or general funds.



Restricted Funds

- Funds received with specific conditions imposed by donors or contributors.
- Restricted fund can only be used for the specific purpose/project as stated.
- **Examples:**
 - Grant for building a school
 - Donation to run a healthcare campaign

Disclosure Item	What to Show	Basis / Instruction
Definition	Funds contributed by founders / promoters of the NPO	Permanent capital; NOT available for distribution
Opening Balance	Balance at beginning of year	Mandatory; comparative for prior year
Additions during year	Corpus donations received during the year	Cash + non-monetary (at fair value)
Closing Balance	Balance at end of year	= Opening + Additions
Presentation in BS	Under 'Unrestricted Funds' on Sources side	Separate from General Fund
Special Treatment	Corpus donations go DIRECTLY to Balance Sheet	NOT routed through I&E Account
Non-monetary Corpus	Recognised at fair value; quantitative details disclosed	Fair value method to be disclosed

Restricted / Designated Fund Movement — Standard Note Format

Note - 3 NPOs Funds

Sr. No.	Particulars	As at 1st April 20XX (Opening Balance)	Funds transferred/received during the year	Funds Utilised during the year	As at 31st March 20XX (Closing Balance)
(A)	Unrestricted Funds				
1	Corpus Funds				-
2	General Funds				-
3	Surplus/ Deficit of I&E				-
4	Designated Funds				-
(B)	Restricted Funds				-
	XXXX				-
	XXXXXX				-
	XXXXXX				-
	XXXXXX				-
					-
			-	-	-

Specify nature and name of each designated and Restricted funds

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

- Unrestricted funds refer to funds contributed to an NPO with no specific restrictions. The obligation of an NPO while accepting an unrestricted donation or grant is to ensure its usage for the general purposes of the NPO.
- All incomes (donations, legacies, investment income, fees, etc.) not subject to external restrictions are part of unrestricted funds.
- The unrestricted funds can be further classified into three categories viz., *corpus*, *designated funds* and *general fund*
- **Corpus** is unrestricted funds which comprise of non-reducible funds of capital nature, contributed by founders/promoters of the NPO. It can be increased by additional contribution by the founders/ promoters in furtherance of the objects of the NPO.
- **Designated funds** are unrestricted funds which have been **set aside by the management** of the NPOs for **specific purposes** or to meet specific future commitments. These are also called earmarked funds . Unlike restricted funds, any designations are self-imposed and are not normally legally binding. The NPO can lift the designation whenever it wishes and reallocate the funds to some other designated purpose
- **General fund**: Unrestricted funds other than ‘designated funds’ and ‘corpuses’ are part of the ‘General Fund’.

Restricted funds are contributions received by an NPO, the use of **which is restricted by the contributor(s)**. These funds are subject to certain conditions and obligations set out by the contributors and agreed to by the NPO when accepting the contributions. **The restriction may apply to the use of the monies received or income earned from the investment of such monies or both. Funds, the use of which is subject to legal restrictions are also considered as restricted funds.**

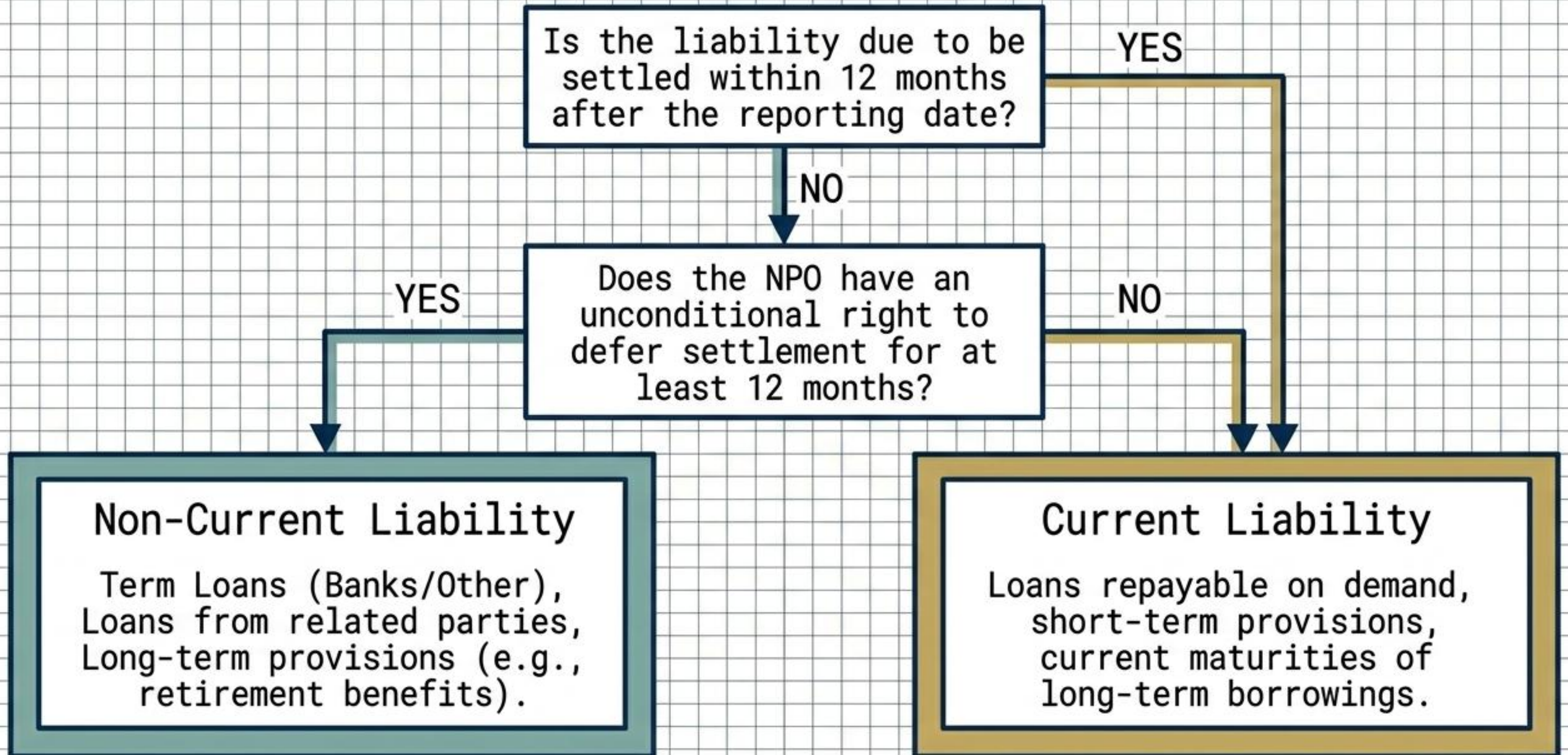
Endowment funds **are another form of restricted funds**. Endowment funds are those funds which have been received with a stipulation from the contributor/donor that the amount received should not be used for any purpose. Only the income earned from these funds can be used either for general purposes of the NPO or for specific purposes, depending on the terms of the contribution made. Usually, the amount received is invested outside the NPO as per the terms of the contribution, if any

Current vs. Non-Current Classification — Decision Rules

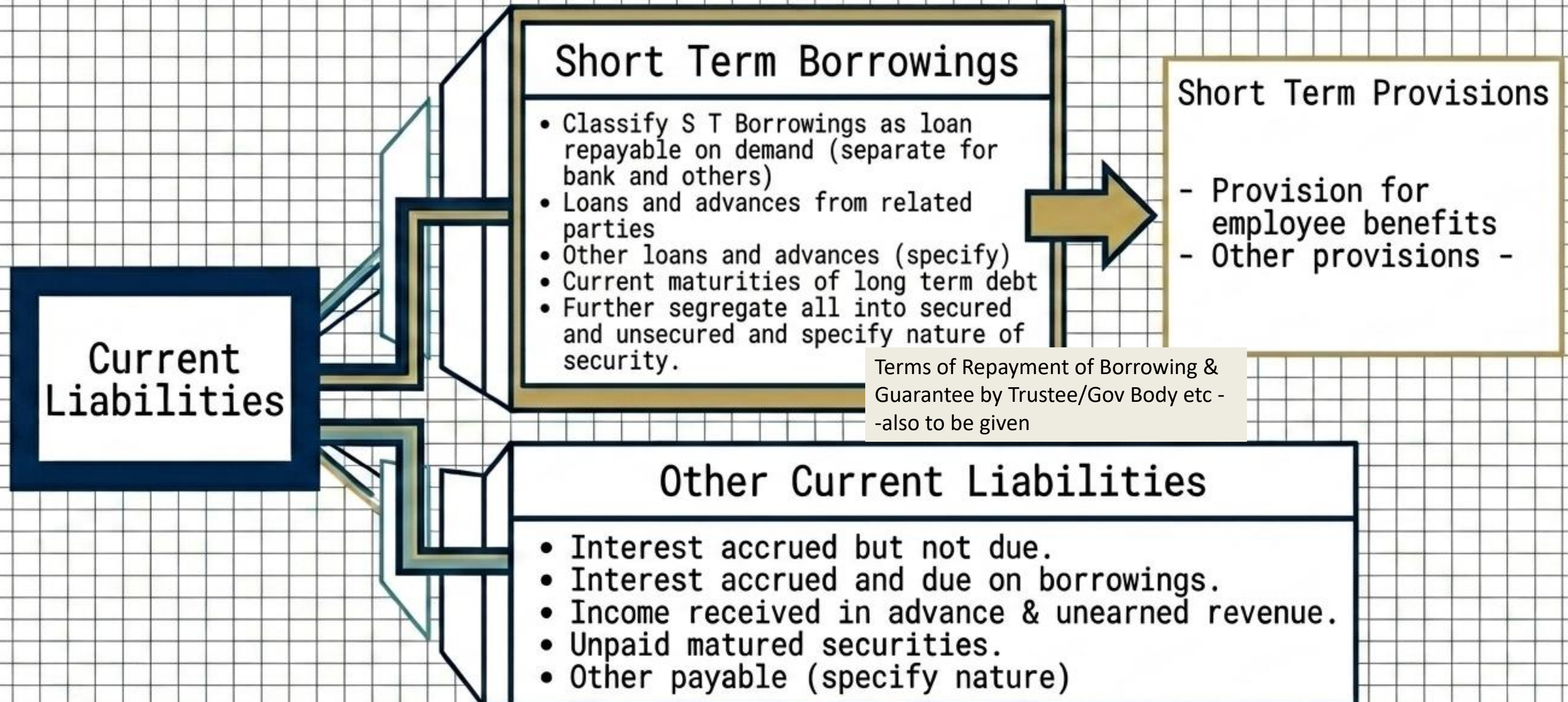
CLASSIFICATION RULES

Item Type	Classified as CURRENT if:	Classified as NON-CURRENT if:
ASSET	(a) Expected to be realised within 12 months after reporting date, OR (b) Is cash or cash equivalent NOT restricted for 12+ months	Does NOT meet any current criteria — all other assets are non-current
LIABILITY	(a) Due to be settled within 12 months after reporting date, OR (b) NPO does NOT have unconditional right to defer settlement for 12+ months	Does NOT meet any current criteria — all other liabilities are non-current

Classifying Liabilities: Current vs. Non-Current

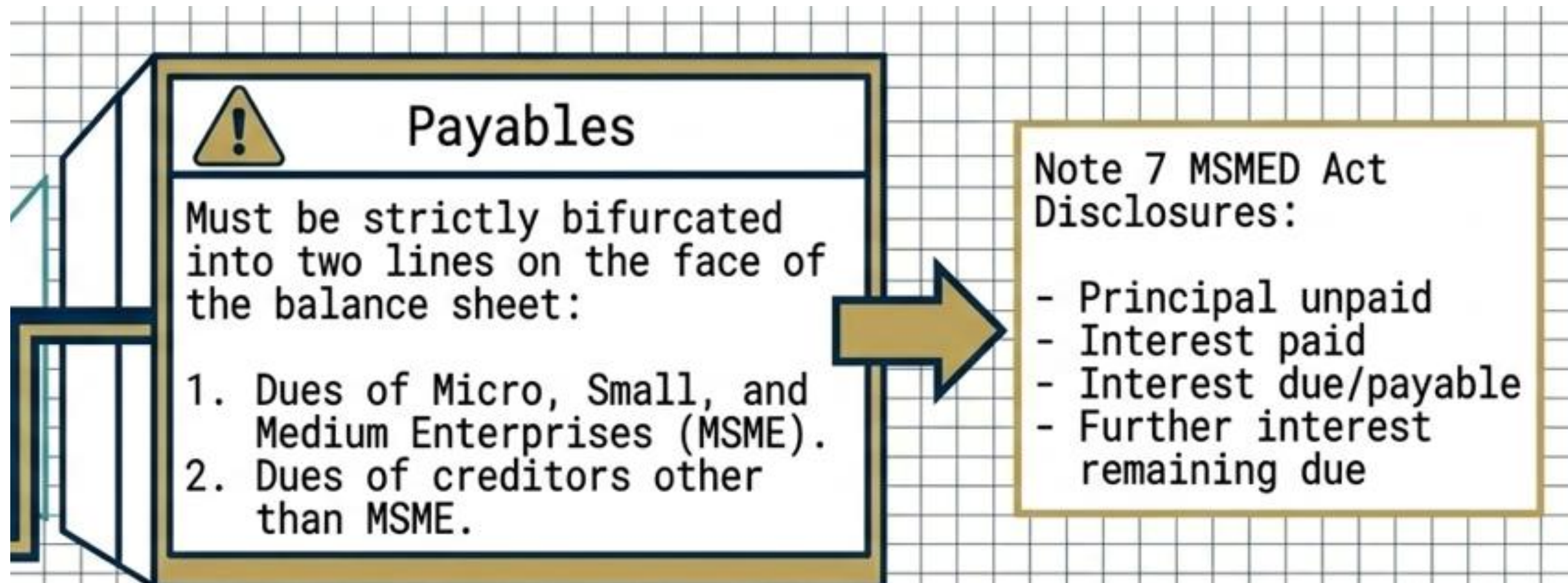


Dissecting Current Liabilities & Payables

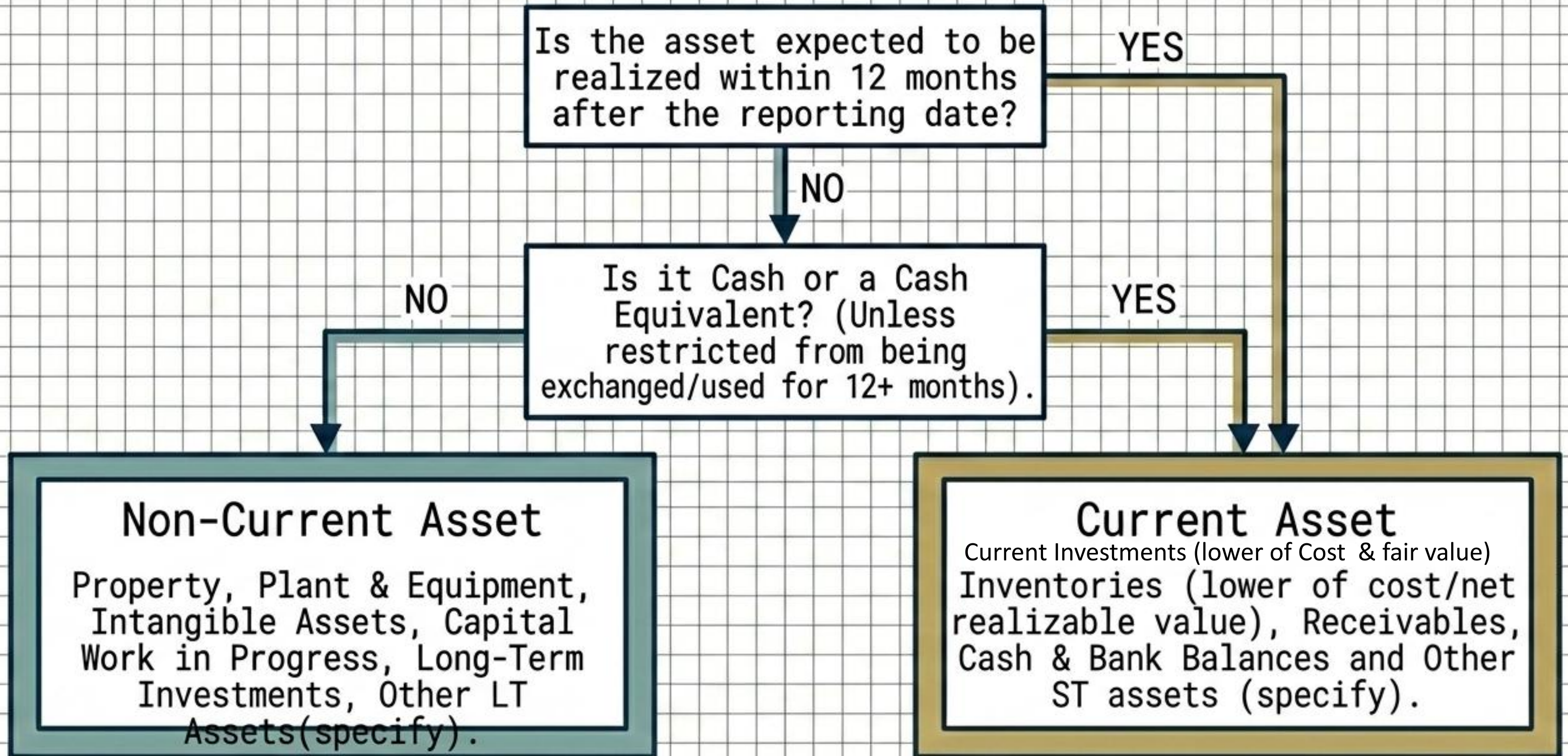


Current Liabilities

Breakup of payables- as per Illustrative Format of Financial Statements of NPO –



Classifying Assets: Current vs. Non-Current



Balance Sheet — Non-Current Liabilities: Line Items & Note Requirements

NON-CURRENT LIABILITIES

Head	Sub-Classification Required	Key Note Disclosures
Long-Term Borrowings	(a) Term Loans — From banks / From other parties (b) Loans & advances from related parties	<ul style="list-style-type: none"> • Sub-classify as SECURED vs UNSECURED • Nature of security to be stated for each • Interest-free borrowings shown SEPARATELY from interest-bearing • Interest accrued and due included in sub-head • Terms of repayment may be stated
Other Long-Term Liabilities	Specify nature of each item	Any amounts payable after 12 months not covered elsewhere
Long-Term Provisions	(a) Provision for employee benefits — Retirement benefits (gratuity, pension) — Leave encashment (b) Others (specify nature)	Actuarial valuation disclosure per AS 15 (level-based) Open/close reconciliation per AS 29

Balance Sheet — Current Liabilities: Line Items & Note Requirements

CURRENT LIABILITIES

Head	Sub-Classification Required	Key Note Disclosures
Short-Term Borrowings	(a) Loans repayable on demand — From banks — From other parties (b) Loans & advances from related parties (c) Other loans & advances (specify)	<ul style="list-style-type: none"> • Secured vs Unsecured; nature of security • Current maturities of long-term borrowings disclosed SEPARATELY • Related party loans with full details
Payables	Trade payables and other payables	
Other Current Liabilities	(a) Interest accrued but not due on borrowings (b) Interest accrued AND due on borrowings (c) Income received in advance (d) Unpaid matured securities & interest (e) Other payables (specify nature)	Each category shown separately; nature specified for others
Short-Term Provisions	(a) Provision for employee benefits — Retirement benefits — Leave encashment (b) Others (specify nature)	Nature of provision, expected timing, movements; per AS 29

Deep Dive: Property, Plant & Equipment (PPE)

CA Amitesh Agarwal
madanlalassociates2@gmail.com

1	[Opening Gross Block]	+	[Additions]	-	[Disposals/Adjustments]	=	[Closing Gross Block]
	<i>Minus</i>						
3	[Opening Depreciation]	+	[Additions]	-	[Disposals/Adjustments]	=	[Closing Accumulated Depreciation]
4	Equals → [Net Block]						



Special NPO Disclosures (Notes to Accounts)

Donated Assets Assets received free of cost as non-monetary grants must be disclosed separately. Fair value and quantitative details must be disclosed in the notes upon receipt and at balance sheet dates (or at least every three years).

Restrictions: Any restrictions on the utilization of specific classes of assets must be explicitly noted.

Practical issue if Income Tax Block Depreciation method followed by Concern

Deep Dive: Investments & Receivables



Investments

Valuation Rule:

- Current Investments: Carried at lower of cost or fair value.
- Long-Term Investments: Carried at cost, reduced only for non-temporary diminution in value.

Required Sub-classifications:

Central Govt Securities, State Govt Securities, Other Securities, Investment Property.

Quoted vs Unquoted:

Aggregate amount of quoted investments (and their market value) must be disclosed separately from unquoted.





Receivables

Aging Rule:

Aggregate amount outstanding for > 6 months from due date must be stated separately.

Quality Classification (Mandatory):

1. Secured, considered good. 
2. Unsecured, considered good.
3. Doubtful (with separate allowance for bad/doubtful receivables). 

Long Term Loans & Advances	Short Term Loans & Advances
<p>Capital Advances- Advances to contractors / suppliers for PP&E acquisition</p>	<p>Loans & Advances to Related Parties Loans to trustees, related entities, key personnel (giving full details)</p>
<p>Loans & Advances to Related Parties Loans to trustees, related entities, key personnel (giving full details)</p>	<p>Other Loans & Advances – Specify nature Security deposits, advance tax, loans to employees, others (specify nature)</p>
<p>Other Loans & Advances – Specify nature Security deposits, advance tax, loans to employees, others (specify nature)</p>	
<p style="text-align: center;">ALL above items must ALSO be sub-classified as: (i) Secured, considered good (ii) Unsecured, considered good (iii) Doubtful</p> <p style="text-align: center;">Allowance for bad and doubtful loans and advances shall be disclosed separately.</p>	

Balance Sheet — Current Assets: All Line Items & Note Requirements

Line Item	Sub-Classification on Face	Key Note Disclosures
Current Investments	(a) Central Govt Securities (b) State Govt Securities (c) Other Securities	Valued at LOWER of cost & fair value (individual or category basis) Aggregate quoted investments with market value
Inventories	Items for sale: Lower of cost & NRV Items for free distribution: separate line; lower of cost & replacement cost Non-monetary grant items: disclose fair value	Fair value of non-monetary grant inventories on BS date
Receivables (Donations & Grants)	(a) Donations & grants receivable (b) Others (specify) — Secured good / Unsecured good / Doubtful	Receivables > 6 months separately stated Allowance for bad and doubtful receivables shown SEPARATELY Only include where (i) conditions will be met AND (ii) receipt reasonably certain
Cash and Bank Balances	Cash equivalents: Bank balances, Cheques/drafts, Cash on hand Other bank balances: Earmarked deposits, Margin money, FDs (<12 months original maturity)	Earmarked balances per fund disclosed separately Margin money and lien deposits separately FDs > 3 months but < 12 months org maturity separately classified as cash and cash equivalent
Short-Term Loans & Advances	(a) Loans/advances to related parties (b) Others (specify) — Secured good / Unsecured good / Doubtful	Allowance for doubtful L&A disclosed separately Related party details mandatory
Other Current Assets	All-inclusive: interest accrued on investments, prepaid expenses, others (specify)	Nature of each significant item to be specified

Format of Income and Expenditure :

	Particulars	Note	31 March 2025			31 March 2024		
			Unrestricted Funds	Restricted Funds	Total	Unrestricted Funds	Restricted Funds	Total
I	Income							
(a)	Donations and Grants							
(b)	Fees from Rendering of Services							
(c)	Sale of Goods							
II	<u>Other Income</u>	16				-	-	
III	Total Income (I+II)					-	-	

IV	Expenses:							
(a)	Material consumed/distributed	17					-	-
(b)	Donations/contributions paid							
(c)	Employee benefits expense	18					-	-
(d)	Depreciation and amortization expense	19					-	-
(e)	Finance costs	20					-	-
(f)	Other expenses	21					-	-
(g)	Religion/charitable expenses							
(h)	Other Expenses (specify nature)							
	Total expenses						-	-
V	Excess of Income over Expenditure for the year before exceptional and extraordinary items (III- IV)						-	-
VI	Exceptional items (specify nature & provide note/delete if none)						-	-
VII	Excess of Income over Expenditure for the year before extraordinary items (V-VI)						-	-
VIII	Extraordinary Items (specify nature & provide note/delete if none)						-	-
IX	Excess of Income over Expenditure for the year (VII-VIII)						-	-

IX

**Excess of Income
over Expenditure for
the year (VII-VIII)**

Appropriations

**Transfer to funds,
e.g., Building fund**

Transfer from funds

**Balance transferred
to General Fund**

The accompanying
notes are an integral
part of the financial
statements

-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-

Income & Expenditure (I&E) Architecture

Total Income (Donations, Fees, Sales, Other)

(Minus)

Total Expenses

- Material Consumed
- Employee Benefits
- Depreciation
- Finance Costs
- Other

(Equals)

Excess of Income over Expenditure (Surplus/Deficit)

The Mandatory Structure:

NPOs must present a three-column format on the face of the I&E account to clearly delineate funding sources:

Unrestricted Funds	Restricted Funds	Total
-----------------------	---------------------	-------

(Note: Previous year comparatives are also required for each)

Recognizing Income

Donations and Grants (The Assurance Rule)



Do not recognize merely upon receipt of a promise. Recognize only when there is reasonable assurance that:

1. The NPO will comply with all attached conditions and obligations.
2. The donations/grants will actually be received.

Fees from Services

Recognized based on performance (proportionate completion or completed service contract).

Sale of Goods

Recognized when significant risks and rewards of ownership transfer and collection is reasonably expected.

Other Income

Interest (time proportion), Dividends (when right to receive is established), Net gain on sale of investments.

Structuring Expenditures

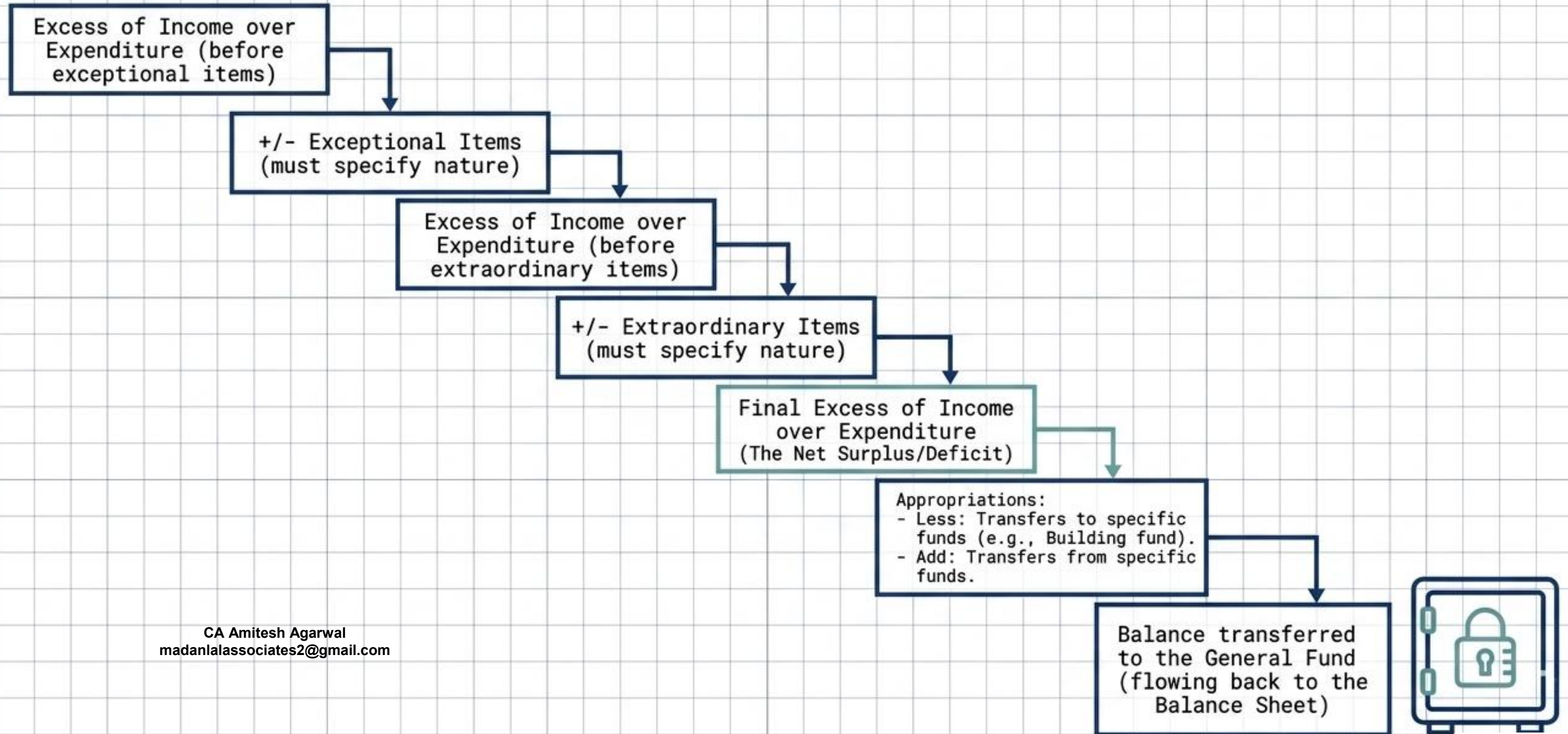
Materials Consumed/Distributed Must show Opening Inventory + Purchases - Closing Inventory. (Separate items distributed free/nominally).	Employee Benefits Must separately disclose Salaries/Wages, Provident Fund contributions, and Staff Welfare.	Depreciation & Amortization Charged systematically over useful life.
Finance Costs Interest expense, other borrowing costs, FX translation losses.	Separate Disclosure <ul style="list-style-type: none">• Consumption of Stores and Spares• Power & fuel• Rent• Insurance• Rates & taxes• Repair to building• Repair to machinery• Misc expenses	Other Expenses Bifurcated into Religious/Charitable expenses vs. Administrative/Other.



The 1% Rule

Any single item of income or expenditure exceeding 1% of the NPO's gross income OR Rs. 1,00,000 (whichever is higher) MUST be disclosed separately in the notes.

The Waterfall to Surplus: Closing the I&E



Accounting for Impact: The 2023 Guide to NPO Financial Reporting

Issued by the ICAI, this technical guide establishes a unified framework for NPOs to ensure transparency, accountability, and comparability. It mandates a shift toward accrual-based accounting and provides specific guidance on handling diverse funding sources through fund-based accounting.

The Accounting Foundation



MANDATORY ACCRUAL BASIS

All NPOs must maintain books on an accrual basis for transparency and scientific accuracy.



PURPOSE-DRIVEN ENTITY

Entities serving social causes that do not distribute surplus as profit to members.

Financial Reporting & Fund Management

	UNRESTRICTED	RESTRICTED	TOTAL
INCOME			
EXPENDITURE			

THREE-COLUMN INCOME REPORTING

Income and Expenditure accounts should distinguish between Unrestricted, Restricted, and Total funds.



FUND-BASED ACCOUNTING FOCUS

Financials must clearly separate resources with donor-imposed restrictions from general operational funds.



ESSENTIAL FINANCIAL STATEMENTS

NPOs are required to prepare a Balance Sheet, Income & Expenditure, and Cash Flow.



Accounting Standards Revised Classification MSME & Large Entity

FUND CATEGORIES & CHARACTERISTICS

UNRESTRICTED FUNDS



Includes Corpus and General Funds usable at the NPO's discretion.

RESTRICTED FUNDS



Subject to specific donor-imposed conditions or legal obligations.

ENDOWMENT FUNDS



Stipulated by donors that only the earned income can be utilized.

Thank You

CA Amitesh Agarwal

madanlalassociates2@gmail.com

8981272847