STATEMENT

OF

FINANCIAL REPORTING

GUIDELINES

FOR

PUBLIC BENEFIT ORGANIZATIONS (PBO'S) IN KENYA

The Institute of Certified Public Accountants of Kenya (ICPAK) and with the Public Benefits Authority (NGOs Co-ordination Board) recognizes the need for locally registered Public Benefits Organisations (PBO's), currently referred as Non-Governmental Organizations (NGOs) to carry out proper financial recording and to ensure that the financial statements are presented in a format consistent with the other best practices.

This guide aims to establish and improve standards of financial accounting and reporting, for the benefit of users, preparers, and auditors of financial information. It is intended that the guide will provide consistency in the preparation of annual reports and financial statements for public benefits organisations, thus enhancing transparency of financial information

The guide is however not intended to supersede the applicable financial reporting framework [International Public Sector Accounting Standards (IPSAS) or International Financial Reporting Standards (IFRS)], but sorely to make it easier for preparers to ensure compliance with the applicable reporting framework.

We trust the financial reporting among public benefits organisations in the country to get better with the proper capacity building initiatives on the implementation of the guideline. The Institute and the Board, being key partners in this process, will therefore seek to collaborate with the public benefits organisations entities to ensure enhanced transparency in how public benefits organisations report their financial position and performance which is critical input for the development of the sector, through continuous capacity building initiatives, research and professional guidance.

CPA Edwin Makori
Ag. CHIEF EXECUTIVE

Mr. Fazul Mohamed
EXECUTIVE DIRECTOR/ SECRETARY

Dated: Thursday, 29 June 2017

ACKNOWLEDGMENTS

These guidelines are based on the work performed through an extensive comparative study of reporting guidelines of other relevant jurisdictions in the world, research and review of the best reporting practices and practical expertise. The approach adopted in developing these guidelines was consultative between the consultants/experts, the Institute of Certified Public Accountants of Kenya (ICPAK) and various Public Benefits Organisations (PBO) sector stakeholders. The manual was funded and supported by UNDP- Amkeni Wakenya as part of the larger project of ensuring transparency and accountability through standardizing reporting for PBOs in Kenya.

This SOFREP was developed by CPA Meshack Matengo and CPA Samuel Njoroge, engaged through UNDP. The NGO board and ICPAK Council acknowledge their contribution and input in development of the overall manual. The Board and Council are also grateful for the support of the various stakeholders from across the country who turned up in their numbers for the review forums and gave their views in making sure this task became a reality. Special thanks to the Technical Committee and various ICPAK chapters who gave valuable contributions through their members during the technical review and stakeholders' forums respectively.

This work would not have been a success were it not for the efforts and contributions of Henry Ochido the NGO Board head of Operations and his dedicated team. Special thanks to them for their efforts and desire to see the NGOs get the tools needed for their reporting purposes. The board and the Institute remains hopeful that with the implementation of the manual NGOs/PBOs will work towards strengthening their financial management, geared towards enhancing accountability and transparency in their financial reporting.

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ACRONYMS

AGM	Annual General Meeting
BOD	Board of Directors
IFRS	International Financial Reporting Standards
IFRIC	Financial Reporting Interpretations Committee
SIC	Standing Interpretations Committee
KES	Kenya Shillings
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
PR	Permanent Restriction
PBO	Public Benefit Organizations
SOFA	Statement of Financial Activities
SOFREP	Statement of Financial Reporting Guidelines
TR	Temporary Restriction
NGO	Non-Governmental Organizations
UR	Unrestricted

APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

The following International Financial Reporting Standards (IFRS) have been identified as being relevant to PBOs in Kenya. The requirements of these IFRS have been considered and applied to suit the operations and transactions of PBOs.

	IFRS	IPSAS
Presentation of Financial Statements	IAS 1	IPSAS 1
Inventories	IAS 2	IPSAS 12
Statement of Cash Flows	IAS 7	IPSAS 2
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Related Party Disclosures	IAS 24	IPSAS 20
Interim Financial Reporting	IAS 34	
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Agriculture	IAS 41	IPSAS 27
Presentation of Budget Information in Financial Statements		IPSAS 24

SCOPE AND APPLICATION

1.0 INTRODUCTION

The PBO Benefit Authority recognizes the need for locally registered PBO's, currently referred as Non-Governmental Organizations (NGOs) to carry out proper financial recording and to ensure that the financial statements are presented in a format consistent with the other best practices. This mandate has not been realized, as PBO's continue to have different financial reporting format to suit their needs. In the absence of harmonization of the different financial reporting, the board in the past through form 14 consolidates key information relating to PBO financial transactions. However, this is a prescriptive form that besides the financial information also includes other non-financial information.

The newly enacted Act on the Public Benefit Organizations (PBOs) under section 30 and 31 provide that organizations registered under the Act presents their financial statements in line with the Generally Accepted Accounting Principles applicable to PBOs. In compliance with these requirements, the NGO Board has come up with a reporting format that harmonizes the requirements of financial reporting as laid out in the various professional documents and the requirements of the local statutes.

The statement of financial reporting guidelines should be used together with the standards (IFRS & IPSAS) and are not meant to replace the standards.

1.1 Scope and Application of the Financial Reporting

This Statement is intended to apply to all PBOs operating in the country, regardless of their size, constitution or complexity. It provides the basis for the preparation of accrual accounts to give a true and fair view.

Each standard included should be considered in the context of its relevance and what is material to any particular PBO.

Where necessary, these guidelines should be adapted to meet

a) Any statutory requirements relating to the form and content of accounts; and

b) To the extent that the following exceed statutory requirements:

- Any requirements imposed by the PBO own governing documents (e.g. By-laws or similar); and/or;
- Any requirements imposed by agreements or contracts that may have been entered into, (e.g. donor agreements/contracts).

1.2 Objectives

The objectives of the SOFREP are intended to achieve the following:

- Enhance accountability amongst the organizations registered under the Act,
- Obtain uniformity in the financial reporting
- Enhance comparability of the various financial reporting frameworks

- Enable the board of directors to address all the requirements of good governance and accounting practices as provided out in the guidelines.

1.3 Purpose of the Financial Reporting Standards

The primary purpose of financial statements is to provide relevant information to meet the common interests of donors, members, creditors, the government and others who provide resources to PBO organizations.
External users of financial statements have common interests in assessing:

- The services the organization provides and its ability to continue to provide those services; and
- How directors discharge their stewardship responsibilities and other aspects of their performance.

The financial statement should have accompanying notes on the following:

- The amount and nature of the assets, liabilities, and net assets;
- The effects of transactions and other events on net assets;
- The inflows and outflows of economic resources during a period;
- How the organization obtains and spends cash, its borrowing and repayment of borrowing, and other factors that may affect its liquidity.

1.4 The Scope

The guideline will address the following:

- It will be applicable to organization's registered and bestowed upon to undertake public benefit activities;
- PBO's to prepare their financial statement on accrual basis;
- All PBO's from the date the SOFREP is gazetted will comply with the guidelines.

1.5 Purpose of the Board Annual Report

The directors/management committees will highlight the achievements of the organization as part of the Annual Financial Report as provided under section 30 of the Act. The report will highlight the extent to which the organizations' resources are utilized in achieving their objectives

The Board Annual Report will include:

- Information on PBO utilization of resources;
- The objectives of the PBO structures, activities and achievements;
- The PBO financial transactions during the year and of the position of its funds at the year ended.

2.0 THE STATEMENT OF FINANCIAL REPORTING AND THE LAW

The statement of financial reporting has been prepared in line with the PBO Act of 2013 and also the NGO Act of 1990. According to the PBO Act section 30, the financial statements of the PBOs will be prepared in line with the Generally Accepted Accounting Standards. PBOs registered and bestowed with the responsibility of offering the public benefit activities will be required to comply with the provisions of the act through the various sections mentioned here (refer to the act for a comprehensive layout of the provisions):

Table 1: Legal Framework

Provision of the Act	Application	Implication and Preparation of the Reports
Section 30-1	Every organization registered under this Act shall keep proper records in relation to its operations and prepare annual a statement that conforms to the Generally Accepted Accounting Standards applicable for Non-Profit Organizations	The Board of directors has responsibility to ensure that proper books of accounts are maintained through reliable accounting system.
Section 30-2	The financial statement prepared and submitted by Public Benefit Organization shall include an opinion signed by independent auditor as to whether the financial statements present fairly, in all materials respects, the organization financial position for the reporting period.	The Board of directors to ensure that registered auditors with ICPAK are mandated to undertake the exercise.
Section 31	Within six months after the end of each financial year, every public benefit organization registered under this Act shall cause to be made and submit to the Authority- Statement of its accounts audited in accordance with section (-30) 2. Certified copy of its Financial statements Report dealing generally with programme of activities of the public benefit organization during financial year	The board of directors will ensure conformity to this provision by submitting the audited financial statements by the date provided in the Act.

2.1 Summary of Financial Information

The PBO directors will ensure that financial statements include the following:

a) Statement of Fund Activities

The statement of Fund activities will be prepared on columnar form depending on the number of classes of funds that the PBO operates. The statement will show all incoming resources and all resources expended and reconciled to the fund.

In preparing the statement of fund activities, PBO's will recognize fund balances to include unrestricted fund, temporary restriction and permanent restriction.

b) Income and Expenditure Statement

The income and expenditure statement where applicable will be prepared in a format that highlights the nature of the PBO's activities. The statement will meet the legal requirement within the Act and also in compliance with the International Financial Reporting Standards. In certain circumstances the Statement of Financial Activities will also meet the legal requirements for an Income and Expenditure Account. Where the two statements are combined this should be identified in the heading of the statement

c) Statement of Financial Position

The financial position of the PBO will be prepared to conform to the various funds and assets that it continues to administer. The statement on financial position will be prepared in line with the applicable standards with accompanying notes on the level of disclosures.
The financial position of the PBO summarizes the movement of funds witnessed in the Statement of Financial Activities to reserves as per the funds nature (restriction).

d) Statement of Cash Flow

The cash flow will be prepared in line with the accounting standards; however greater emphasis on the direct method of presenting the statement to analyze different sources of funds will be preferable. The Cash flow statement will be in line with IPSAS/IFRS.

e) Notes to the Financial Statements

The notes to the financial statements will provide useful information to help in the interpretation and understanding of the activities within the financial statement. The PBO notes will be based on the requirements of the IFRS and the law. The PBO will highlight the accounting notes as reflected in the accounting policies sections.

The corresponding figures for the previous accounting period should be provided in the accounts in accordance with generally accepted accounting practice. The duration of the current and previous accounting periods should also be shown.

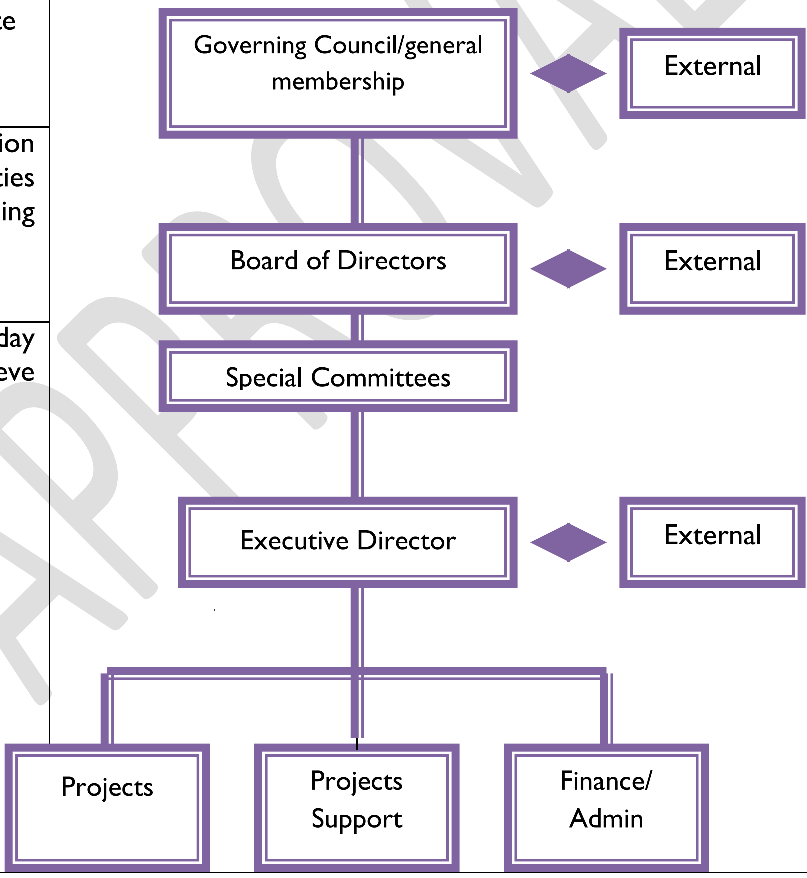
PBO/NGO will be required to give prominence to Statement of Financial Activities, the income and expenditure account (or summary), the balance sheet and the cash flow statement, as they are considered to be primary statements. These statements should be treated equally with the notes to the accounts in improving understandability of the financial statements.

MODULE 1
BOARD OF DIRECTORS ANNUAL REPORT

1.1 Governance Structure

The implementation of the guidelines assumes an effective governance structure in place. In complying with the reporting requirements, the guidelines presume that the structure applicable to most of the PBO's will be as follows:

Figure 1: Governance Structure

Role	Structure
Supreme governance body and custodian of the PBO's mandate	
Policy formulation and direction and special responsibilities delegated by the governing council.	
Operations and day to day management to achieve objectives of the PBO.	

1.2 Annual Reports

The financial statements when presented alone do not convey in-depth information about the organization's activities. It's the responsibility of the Board of directors to disclose additional information on the PBO activities. The directors' report will be guided by the provision of the law, and the governance structure within the PBO. The information for disclosure should provide other stakeholders with adequate information on the organization performance and ability to realize and fulfill members' objectives.

1.3 Board of Directors Report

The board of director's statement shall contain the following information:

a) The directors shall provide the reference of the organization and administrative details on the following:

- The name of the PBO;
- The date of registration;
- The principal address of the organization;
- The name of the directors serving at the end of the year;
- Any person who served as a director during the period and has retired;
- The Chief Executive Officer of the Organization and
- The Board of directors should provide statement on the risk exposure.

b) Structure and Governance

The report must provide the user with an understanding of how the PBO is constituted, its organizational structure, and how its board is appointed and trained. In particular, the report must explain:

- The organizational structure and, where relevant, those of its subsidiary undertakings;
- The decision making structure in place, for example which types of decisions are taken by board and which are delegated to staff;
- The policies and procedures for the induction and training of trustees;
- Relationships between the PBO and related parties, including its subsidiary undertakings, and with any other PBOs and organizations with which it co-operates in the pursuit of its charitable objectives.

c) Objectives and Activities Statements

The details will include the following:

- A summary of the objects of the documents;
- Explanation on the main objectives;
- Explanation to the strategies in achieving the objectives;
- Details of significant activities during the year.

d) Achievements and Performance

- The report must contain summary of the main achievements during the period within the society/ community that it has been undertaking its activities. The details of the report should where applicable provide indicators realized.
- Every PBO should have a clear plan on fundraising and the use of those funds.

e) Financial Review

The directors' report will contain a review of the financial position at the end of the reporting period. It should highlight uncertainties faced in realizing its objectives. If the level of uncertainty has an impact on the going concern, it should be disclosed.

Where PBO has deficit within its operations, the directors should highlight the steps that the organization intends to pursue to address the deficit.

f) Future Plans

The report should detail out activities to be carried out by directors in addressing future plans for the organization. This should provide for plans which require partnering with other organizations (or not) and on enhancing their level of fundraising to meet financial needs.

g) Funds Held as Custodian

This could arise in a situation where the organization supports other networks which either are not registered or donors' places trust in the parent organization to manage funds on behalf of the smaller organizations. The directors will provide for the following:

- The name of the organization;
- Description of the support accorded;
- The description of the assets held on their behalf and the segregation of the assets of the organization from other assets.

MODULE 2
ACCOUNTING FOR SEPARATE FUNDS (FUND ACCOUNTING)

PBO needs to account for the proper administration of the individual funds in accordance with their respective terms of trust. Accounting records must be kept in a way which will adequately separate transactions between different funds as some PBO's may hold one or more restricted funds, some of which may be permanent or expendable endowment funds.

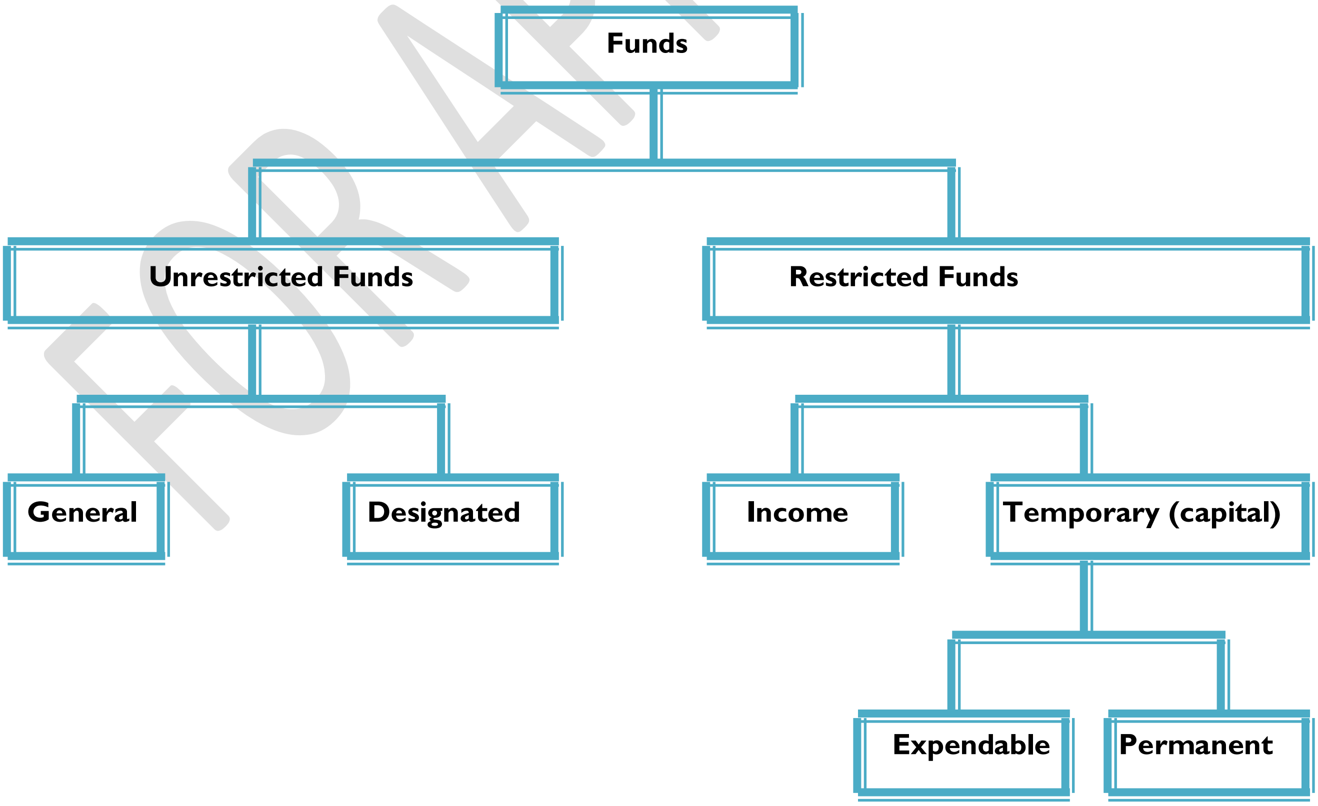
Accounting for funds should be carried out through fund accountability accounting. The fund accounting is appropriate method in accounting for all the different funds, either based on donor requirements or in line with the provision of the law.

Fund accounting distinguishes between three primary classes of fund:

a) **Unrestricted Funds**: Where the PBO will have the mandate to spend it within their budget in line with the public activities;

b) **Restricted Funds:** This can only be used for specific purposes provided by the law or by the donor. Restricted funds can be separated into Temporary restriction (income) and Permanent restriction (endowment) funds.

Figure 2: The Classes of PBO Funds



2.1 Unrestricted Funds

Unrestricted funds are spent or applied at the discretion of the board to further any of the Organization purposes. Unrestricted funds can be used to supplement expenditure made from restricted funds.

2.2 Designated Funds

The directors may earmark part of the PBO's unrestricted funds to be used for particular purposes in the future. Such sums are described as 'designated funds' and should be accounted for as part of the PBO unrestricted funds. The directors have the power to re-designate such funds within unrestricted funds. When a designation has been made at the balance sheet date, the amount of the designation may be adjusted subsequent to the year-end if more accurate information becomes available. The balance of the unrestricted fund is considered as part of unrestricted reserve.

2.3 Restricted Funds

Funds held on special condition agreed by the donor will be classified as restricted funds. The specific condition may require that the funds will not be used until the terms under which the restrictions were made have been recognized.

These will fall in to two categories:

a) **Restricted Funds (Income):** Temporary restriction based on fulfillment of a condition or applied within a reasonable period from their receipt to further a specific purpose of the PBO, upon fulfillment of a donor condition, the amount will be transferred from restricted to unrestricted.

b) **Permanent Restriction:** Relates to endowment funds or any funds set by the law without power to convert the capital to income.

2.4 Permanent Restricted Funds-Endowment

A permanent restricted fund is held indefinitely. The management of this fund is guided by:

- Income from the fund can be used in furthering the activities of the PBO within the restriction condition; and
- If there is no restriction on income; they will be added to the unrestricted income.

2.5 Management of Expenses Related to Endowment

The PBO remains restricted in carrying out payments/ expenditure from permanently restricted fund. Any expense from the fund is supposed to be charged from the management of the asset under which the fund is used. Arising from the Trust deed or any other law setting out the fund, some of the expenditure to be charged from the fund income include:

- Fees incurred in managing the investment of the endowment;
- The costs of valuation fees and expenses incurred in connection with the sale of endowed land;
- The cost of improvements to land held as an endowment investment; or
- The loss of value due to depreciation or impairment of an endowed property.

2.6 Movement of Fund Balances

The PBO management will ensure that funds between the various classes are reconciled as per table 2 below:

Table 2: A summary of the Fund Movements

Fund name	Fund balances brought forward	Income	Expenditure	Transfers	Gains and losses	Fund balances carried forward
	Kes	Kes	Kes	Kes	Kes	Kes
Fund 1						
Fund 2						
Fund 3						
Other funds						
Total funds						

MODULE 3

ACCOUNTING STANDARDS, POLICIES, CONCEPTS AND PRINCIPLES

This module explains how accounting standards, policies, concepts and principles are applied in PBO accounting.

Accounting policies provide the basis on which the accounts are prepared and explain the accounting treatment of material transactions or items in the accounts. The concept of materiality is an important consideration when selecting accounting policies. Materiality relates to the financial information provided in the accounts and an item is material when its omission or misstatement could influence the economic decisions that users make on the basis of those accounts.

This module covers:

a) Meaning of accounting standards, policies, concepts and principles;
b) Length of the reporting period;
c) Presentation currency;
d) Qualitative characteristics of financial statements;
e) Measurements of fair value;
f) Selection of accounting policies;
g) Compliance with the SOFREP;
h) Changes in accounting policies;
i) Changes in accounting estimates;
j) Correction of a prior period error; and
k) Disclosure of accounting policies.

3.1 Accounting Standards, Policies, Concepts and Principles

Accounting standards set out the basis for recognizing and measuring assets, liabilities, income and expenses and for their disclosure in accounts. PBOs preparing accounts in accordance with accounting standards will normally, in so doing, meet the relevant legal requirements for their accounts to give a true and fair view of their financial position and activities.

Accounting policies are the principles, bases, conventions, practices and rules by which transactions and items are recognized, measured and presented in the accounts. The accounting policies that a PBO adopts must follow the requirements of the accounting standard adopted unless the effect of not following a particular requirement would be immaterial or, in very rare circumstances, where to do so would conflict with the objectives of providing information useful for economic decision making by users of the accounts and/ or the legal obligation for the accounts to give a true and fair view.

The SOFREP supplements the relevant accounting standards. The SOFREP has been developed in the light of the special factors prevailing or transactions undertaken within the Not for profit sector.

In principle, it is a legal requirement for PBOs preparing their accounts on an accruals basis to adhere to the methods and principles of this SOFREP.

Accounting policies are supplemented by estimation techniques where judgment is required in measuring the value of incoming and outgoing resources and of assets and liabilities. It is essential that the accounts are accompanied by an explanation of the bases and estimation techniques used in their preparation.

PBO accounts must be prepared on a timely basis and be presented in a way that makes financial information understandable to users who have a reasonable knowledge of PBO financial management and/or accounting and a willingness to study the information with reasonable diligence.

The accounts must present financial information that is relevant, reliable, comparable and complete. Information should not be excluded simply because it is complicated; however, the preparer should also balance the cost of obtaining information with the benefit it provides both internally to management and externally to funders and other stakeholders.

Transactions and events must also be accounted for with prudence and presented in a way that represents their substance and not merely their legal form. This will require the exercise of judgment and may on occasion dictate the disclosure of more information.

3.2 Length of the Reporting Period

All PBOs must prepare a set of accounts at least annually and they should normally have a 12-month reporting period. If the accounts are prepared for a shorter or longer reporting period, the PBO must disclose:

a) That the reporting period is for less than or more than 12 months;
b) The reason for the shorter or longer accounting period;
c) The legal authority it has for the change to its reporting period; and
d) The fact that the comparative amounts presented in the accounts (including the related notes) are not entirely comparable.
e) Any change of the financial reporting period must be authorized by the organizations' board and the PBO authority/ NGO co-ordination board.
f) In the effect there is any change in reporting period; reporting should be done for the first 12 months and another report for the remainder of the period.

3.3 Presentation Currency

The presentation currency is the currency in which the accounts are denominated. All PBOs should prepare their accounts in the Kenyan currency. In situations where a PBO operates predominantly by generating and spending its cash in a different currency, a translation shall be done into Kenya shillings.

3.4 Qualitative Characteristics of Financial Statements

Qualitative characteristics are the attributes that make the information provided in the financial statements useful to users. PBOs shall ensure that the financial statements adhere to the principal qualitative characteristics of faithful representation understandability and comparability as explained hereunder.

3.5 Going Concern

PBOs normally prepare their accounts on the basis of being a going concern. The board must make their own assessment of their PBO's ability to continue as a going concern to assure themselves of the validity of this assumption when preparing their accounts. In making this assessment, a PBO's board should take into account all available information about the future for at least, but not limited to, 12 months from the date the accounts are approved.

3.6 Materiality

PBOs, in preparing their accounts, should give particular consideration to material items or transactions as their omission or misstatement could influence economic decision-making by the user of the accounts and any assessment of the stewardship of charitable funds. An omission or misstatement of a material item may result in the accounts failing to give a "true and fair view".

Materiality needs to be considered in the context of the accounts and depends on:

a) The size of the item or error;
b) The nature of the item or error;
c) The impact of its omission or misstatement on the reported gross income or total expenditure and net assets; and
d) The impact of its omission or misstatement on particular analysis headings within the statement of financial activities, statement of financial position and, statement of cash flows and on the disclosures made in the notes to the accounts.

PBOs should only disclose accounting policies that apply to material items or transactions and should avoid providing unnecessary information for non-material items or transactions.

Although accounting standards and this SOFREP need only be applied to material items or transactions, it is inappropriate to make, or leave uncorrected, immaterial departures from this SOFREP to achieve a particular presentation of an entity's financial position, financial performance or cash flows.

This SOFREP specifies when PBOs must always consider a particular item or transaction material, for example the disclosure of related party transactions. Also, as a matter of emphasis, SOFREP modules may make particular reference to materiality.

3.7 Understandability

Information provided by the financial statements should be easily understandable. However, information that might be complex but relevant should not be excluded merely on the grounds that it may be too difficult for some users to understand.

3.8 Relevance

Information must be relevant to the decision-making needs of users. Information has the quality of relevance when it influences, in normal circumstances the economic decisions and in the case of PBO's the socio economic decision of users, by helping them evaluate past, present or future events or confirming or correcting their past evaluations. The relevance of information is judged by its nature and materiality.

3.13 Faithful Representation

Information provided must also portray faithfully the transactions and other events that it either purports to represent or could reasonably be expected to represent. Most financial information is subject to some risk of being less than a faithful representation of that which it purports to portray. This is due to inherent difficulties either in identifying the transactions and other events to be measured, or in devising and applying measurement and presentation techniques that can convey correctly the messages that correspond with those transactions and events.

3.15 Comparability

The measurement and display of the financial effect of similar transactions and other events must be consistent throughout any accounting period and over the tenure of the PBO, Accounting policies employed in the preparation of the financial statements, any changes in those policies and the effects of such changes must be disclosed in the financial statements.

It is not appropriate for an enterprise to continue to account for a transaction or other event in the same manner, if the policy adopted is not in keeping with the qualitative characteristics of relevance and reliability. It is also inappropriate to continue, without change, existing accounting policies when more relevant and reliable alternatives exist. Users may wish to compare the financial position, performance and changes in financial position of the PBO over time. It is therefore important that the financial statements show corresponding information for the preceding periods.

3.16 Offsetting

PBO must not offset assets and liabilities, or income and expenses, unless required or permitted by this SOFREP or the relevant accounting standard. Offsetting does not include making provisions for the impairment of inventory or for bad debts. Similarly, a PBO should report any gains and losses on the disposal of its fixed assets by deducting the carrying amount of the asset and related selling expenses from the proceeds of the disposal.

3.17 Choice of Reporting Standards

According to PBO act 2013 section 30(1), every public benefit organization registered under this Act shall keep proper books of accounts and other records in relation to its operations and activities and shall, subject to subsection (2), prepare annually a statement of accounts in a form which conforms to the standards of the generally accepted accounting practice applicable to not for profit organizations.

Section 2 of the PBO act 2013 further says that, the financial statements prepared and submitted by a public benefit organization, shall include an opinion signed by an independent auditor as to whether the financial statements present fairly, in all material respects, the organization's financial position for the reporting period.

In preparing the PBO's accounts, the PBO must:

a) Apply the relevant requirements of the accounting standards adopted (IFRS & IPSAS);
b) Select accounting policies that comply with the adopted accounting standards and
c) Apply the recommendations of this SOFREP

3.18 Alternative Measurements to Fair Value

For certain items in the accounts, the standards permit a choice between measurement at historical cost or fair value. The standards also require donated services and facilities to be measured at the value of the gift to the PBO. Where a statement of financial position heading contains items measured at both historical cost and fair value, it is important to identify the accounting bases the PBO has adopted in the relevant note.

3.19 Selection of Accounting Policies

PBOs must refer to the relevant standard and the modules contained in this SOFREP when selecting their accounting policies for the treatment of particular items, transactions or events in the accounts.

In extremely rare circumstances a PBO may conclude that compliance with a particular requirement of an accounting standard or this SOFREP would conflict with the objective of providing information useful for economic decision making by users of the accounts and/or a legal obligation for the accounts to give a true and fair view.

PBOs must not depart from either an accounting standard or the SOFREP simply because it gives the user a more appealing picture of the financial position or the results of the PBO.

3.20 Compliance with the Standards and SOFREP

For a PBO to state that its report and accounts are compliant with the standards, both its board's annual report and its accounts must be prepared fully in accordance with the applicable accounting standards and the recommendations of this SOFREP which are aligned to Generally Accepted Accounting Standards.

To state that their accounts have been prepared in accordance with the standards and the recommendations of this SOFREP, a PBO must:

a) Consider those standards and SOFREP modules that apply to the activities, transactions and circumstances of the reporting PBO;

b) Comply with applicable format requirements and accounting treatments specified by the standards and recommended by this SOFREP and provide those disclosures that the standards and this SOFREP specifies "must" be provided;

c) Make any additional disclosures required by the financial reporting standard adopted; and only depart from the requirements of this SOFREP or the accounting standard adopted if necessary for the accounts to give a true and fair view.

This SOFREP uses the term "must" to indicate those recommendations that are likely to affect the ability of the accounts to give a true and fair view if not applied to material transactions or items. Where the SOFREP states that an item is always material or the recommendation is one which "must" be followed, non-adherence to that recommendation is a departure from this SOFREP.

The SOFREP identifies particular recommendations that "should" be followed. These recommendations are aimed at advancing standards of financial reporting as a matter of good practice. While PBOs are encouraged to follow all the SOFREP's recommendations, a failure to follow a "should" recommendation is not regarded as a departure from this SOFREP.

Where the SOFREP states that a particular accounting treatment or disclosure "may" be adopted, this provides an illustration of an approach to a particular disclosure that a PBO may choose to adopt or identifies that an alternative accounting treatment or disclosure of a transaction or event is allowed by the SOFREP. PBOs may choose whether such examples or alternative treatments are adopted at their discretion.

3.21 Changes in Accounting Policies

Accounting standards require accounting policies to be applied consistently for similar transactions, events and conditions and between reporting periods.

A change to an existing accounting policy is only justified if:

a) It is required due to a change in the relevant accounting standard that applies to the reporting period; or

b) It results in the accounts providing reliable and more appropriate and relevant information about the effect of transactions, other events or conditions that affect the reported financial position, financial performance or cash flows of the PBO.

A change in an accounting policy must be applied retrospectively to comparative information for all prior periods to the earliest date for which it is practicable except where an accounting standard requires or permits an alternative treatment on its first adoption.

3.22 Changes in an Accounting Estimates

Changing an accounting estimate as a result of new information or developments is not the same as correcting an error. Similarly, a change in an estimation technique used or in a model used when a reliable measure of fair value is no longer available is not a change in accounting policies. Adjusting for changes in accounting estimates and techniques results in a change to the transaction value or carrying amount of the asset or liability in the current reporting period; no adjustment is to be made in respect of prior reporting periods.

3.23 Correction of a Prior Period Error

PBOs must correct material errors resulting from an omission or misstatement in a prior period by either restating the comparative amounts for the prior period(s) in which the error occurred, or by restating the opening balance of the asset or liability for the item(s) for all prior periods for which comparative information is presented to the earliest date for which it is practicable.

3.24 Disclosure of Accounting Policies

The notes to the accounts must:

a) State whether the accounts were prepared in accordance with the standards (IFRS/IPSAS);
b) State whether the accounts were prepared in accordance with this SOFREP ;
c) State whether the accounts were prepared in accordance with applicable PBO law; and
d) Set out the accounting policies used that are relevant to understanding of the accounts and the measurement bases used in preparing them.

All PBOs must explain if there are material uncertainties related to events or conditions that cast significant doubt on the PBO's ability to continue as a going concern. In making their explanation, PBOs should provide:

i) A brief explanation as to those factors that support the conclusion that the PBO is a going concern; and
ii) A balanced, proportionate and clear disclosure of any uncertainties or liquidity risks that makes the going concern assumption doubtful or inappropriate.

Where there are no material uncertainties about the PBO's ability to continue, this should be stated.

PBOs must also state:

a) That the PBO is a public benefit entity;
b) The judgments, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognized in the accounts; and
c) The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period. In respect of those assets and liabilities where there is a significant risk of material adjustment within the next reporting period, the notes must include details of their nature and their carrying amount as at the end of the reporting period.

Where there has been a material departure from the requirements of the adopted accounting standard, the notes to the accounts must:

a) State that the board have concluded that the accounts present a true and fair view;
b) Confirm whether the accounts comply in all other respects with the requirements of the adopted accounting standard; and
c) Explain the nature of the departure, including the treatment required by the standard and why that treatment would have been misleading.

Where PBOs have made a material departure from a recommendation of this SOFREP that must be followed, the notes to the accounts must:

a) Explain how the accounts depart from the provisions of this SOFREP;
b) Explain the reason for the departure and why the treatment adopted is judged more appropriate;
c) Give details of any disclosures required by this SOFREP which have not been provided; and
d) If necessary for the accounts to give a true and fair view, the effect of the departure must also be quantified.

Where PBOs have changed an accounting policy, the notes to the accounts must disclose:

a) The nature of the change in accounting policy;
b) The reasons why applying the new accounting policy provides reliable and more relevant

information; and

c) To the extent practicable, the amount of the adjustment for each line item in the accounts affected for the current period, each prior period presented and the aggregate amount of the adjustment relating to periods before those presented.

d) If it is not practicable to provide information on the amount of the adjustment, PBOs must give an explanation of the adjustment.

e) The notes must disclose the nature of any change(s) to accounting estimates or techniques and the effect of the change on assets, liabilities, income and expenses in the current period.

If a PBO identifies material prior period errors, it must correct them and disclose in the notes to the accounts:

a) The nature of the prior period error;

b) For each prior period presented in the accounts, to the extent practicable, the amount of the correction for each account line item affected; and

c) To the extent practicable, the amount of the correction at the beginning of the earliest prior period presented in the accounts.

If it is not practicable to provide information on the amount of the correction relating to prior period errors then an explanation must be provided.

MODULE 4
STATEMENT OF FINANCIAL ACTIVITIES

The existing format of financial presentation applicable to profit making organizations would not be applicable to Public Benefit Organizations, due to the level of disclosure required from other stakeholders. The statement of financial activities (SoFA) is a single accounting statement that includes all income, gains, expenditure and losses recognized for the reporting period.

The statement provides user with an analysis of the income and other restricted funds received and the expenditure by the organization on its activities, and presents a reconciliation of the movements in a PBO's funds for the reporting period.

Purpose and Focus of a Statement of Financial Activities

The primary purpose of a statement of activities is to provide relevant information about;

(a) The effects of transactions and other events and circumstances that change the amount and nature of net assets,

(b) The relationships of those transactions and other events and circumstances to each other, and

(c) How the organization's resources are used in providing various programs or services.

The information provided in a statement of activities, used with related disclosures and information in the other financial statements, helps donors, creditors, and others to;

(1) Evaluate the organization's performance during a period,

(2) Assess an organization's service efforts and its ability to continue to provide services, and

(3) Assess how an organization's managers have discharged their stewardship responsibilities and other aspects of their performance.

The statement of financial activities will disclose:

- Restricted Funds;
- Unrestricted Funds;
- Permanent Funds/Endowment;

The statement will analyse the gains and losses between the various funds.

Any material movement of the funds will be disclosed on the face of the statement and not as part of the notes. The details on the disclosure should be based on unrestricted, temporally restricted and permanent restricted. The Statement of Financial Activities should be analysed in appropriate detail to show all income, both capital and revenue, in the financial year and how and to what extent the PBO's funds have been spent.

The different kinds of income and related expenditure should be accounted for in accordance with relevant contractual or other provisions. The overall objective of this statement is to show the resources received and expended by the PBO in the year on all its funds as indicated in table 3.

Table 3: Statement of Financial Activities

	Unrestricted funds	Temporary Restriction	Permanent Restriction	Total funds	Prior period total funds
	Kes	Kes	Kes	Kes	Kes
Income and endowments:					
Donations/Grants					
Earned from PBO activities					
Earned from other activities					
Investment and other income					
Total					
Expenditure:					
Direct Cost of raising funds					
Other direct expenses					
Expenditure on charitable activities					
Other expenditure					
Total					
Net incoming resources (resources expended) before investment gains/(losses)					
Net gains/(losses) on investments					
Net incoming resources (resources expended)					
Transfers between funds					
Other recognized gains/(losses):					
Gains/(losses) on revaluation of fixed assets					
Actuarial gains/(losses) on defined benefit pension schemes					
Gains /losses on foreign exchange					
Other gains/(losses)					
Net movement in funds					
Reconciliation of funds:					
Total funds brought forward					
Total funds carried forward					

4.1 Structure of the SOFA

The Statement contains a summary of the movements on funds held or operated by the PBO. If it has a number of funds, the Statement should show, in columnar form, the movements in the main different types of funds (unrestricted and restricted income) as well as the total movements. Corresponding amounts for the previous year would normally only be needed for the total movement although they should be provided wherever separate supporting movement statements are provided for any of the underlying funds. Movements in all the material underlying funds should be analysed in the notes to the accounts, using the headings from, and reconciling with, the main Statement of Financial Activities.

4.1.1 Income and Expenditure Classification

a) Income becoming available to the PBO during the year should be summarised in the first section, distinguishing between those belonging to the PBO's unrestricted funds and restricted income funds. Income shall be reported as increases in unrestricted net assets unless the use of the assets received is limited by donor-imposed restrictions. In the absence of a donor's restriction on use, contributions are reported as unrestricted income or gains, which increase unrestricted net assets/unrestricted fund balances.

Donor restricted contributions are reported as restricted income or gains, which increase temporarily restricted net assets/fund balances or permanently restricted net assets/fund balances depending on the type of restriction.

b) Income does not include funds transfers, which are internal to the PBO, gains and losses on revaluations and disposals of investment assets.

c) All direct and other expenditure for the year should be summarized and totaled and distinguished by the fund classes.

d) Funds movements should record:

- Transfers between the different classes of funds (these should not be netted off, but should be shown gross, with supporting explanations in the notes);
- Gains and losses on revaluations as increases or decreases in unrestricted fund balance unless their use is temporarily or permanently restricted by donor stipulations or by law.

e) Each column of the Statement will then be totalled to show the net movement in the PBO's funds for the year.

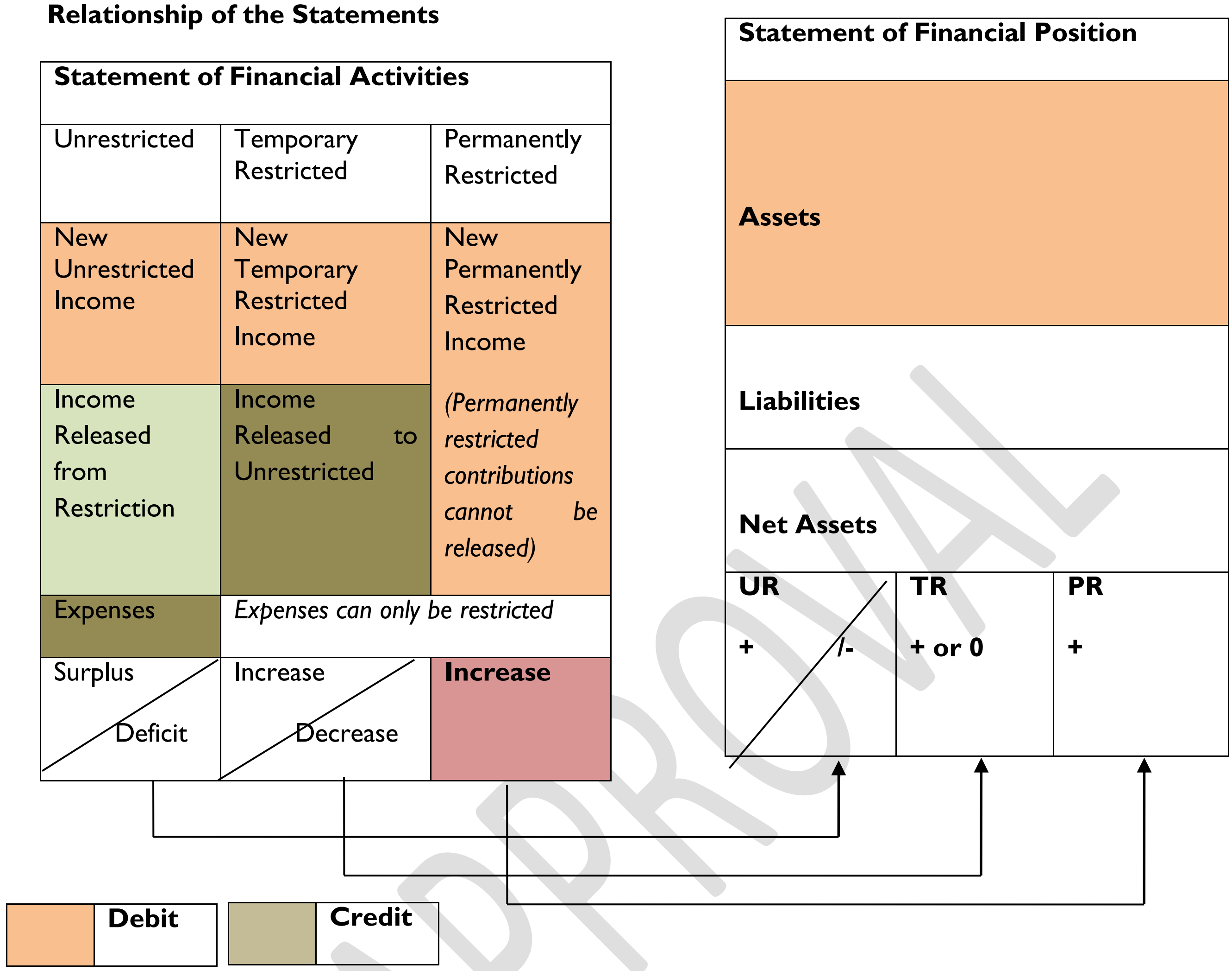
4.2 Reconciliation of Funds

The net movement for the year of the PBO's funds, shown in the Statement of Financial Activities should be reconciled to the total funds as shown in the Balance Sheet, as follows:

a) Net movement in funds for the year;
b) Total funds brought forward;
c) Total funds carried forward.

In that case, the PBO has discontinued any of its operations or acquired new ones; the first part of the statement should distinguish between continuing, discontinued and acquired operations, in order to comply with International Accounting Standard No. 8.

Relationship of the Statements



4.3 Income

4.3.1 Presentation

The gross income should be summarised in the statement in a manner appropriate to the PBO. The principles underlying income recognition are explained below.

The summary should enable the reader of the accounts to gain an accurate appreciation of the principal elements of the income of the PBO, but should not be excessively detailed. Supporting analyses should be provided in notes to the accounts.

Transfers between the different funds, and gains and losses arising from revaluations should not be included here, but should be shown in a separate section after the expenditure section of the Statement of Financial Activities, in line with International Accounting Standards (IAS).

The following items should be shown separately in the summary, where material:

a) Donations;
b) Grants receivable from government and other public bodies;
c) Income generating activities;
d) Other income (e.g. net gains on disposals of fixed assets for use by the PBO);
e) The total of the above resources arising in the year.

Income or Expenditure heading should be expanded to convey the nature of an individual PBO's activities. For example, an educational PBO whose main source of income is in the form of fees received would show its gross fee income and gross expenditure under appropriate descriptions in the income and expenditure parts of the statement respectively.

Headings should be omitted where there is nothing to report in either of the current and preceding periods.

Within the three separate sections of "income", "direct expenditure" and "other expenditure", the individual sub-headings may be changed in order to present a true and fair view of the PBO's activities. This does not apply to any other section of the statement.

4.3.2 Recognition of Income

Income becoming available to the PBO during the year should be recognised in the Statement of Financial Activities. This will include all income belonging to the PBO regardless of its source or the purpose to which it is to be put or has been put.

The value of all income accruing to the PBO should be recorded in the Statement of Financial Activities as soon as it is prudent and practicable to do so. In all cases resources should not be recognised until the conditions for receipt have been met and there is reasonable assurance of receipt. This will usually be when the particular resource is received or the PBO's entitlement to it becomes legally enforceable.

Income should as far as practicable be reported gross, and the aggregate total should be separately identified.

Incoming resources-Should be recognized in the Statement of Financial Activities when the effect of a transaction or other event results in an increase in the PBO's assets. This will be dependent on the following three factors being met.

a) **Entitlement -** Normally arises when there is control over the rights or other access to the resources, enabling the PBO to determine its future application.
b) **Certainty-**When its virtually certain that the incoming resources will be achieved
c) **Measurement** – When the monetary value of incoming resource can be measured with sufficient reliability.

Grants should not be recognised until the conditions for receipt have been complied with. If there is a likelihood of the grant having to be repaid, then depending on the degree of certainty attaching to the likelihood of repayment, either the grant should be carried as a liability or taken into income and recognised in the accounts as a contingent liability.

Grants restricted to future accounting periods should be deferred and recognised in those future accounting periods, and the basis for apportionment should be explained in the notes. Thus grants to finance the activities of the PBO over a specified future period of time or to compensate for a loss of current or future income should only be recognised in the Statement of Financial Activities covering that future accounting period, and appropriate disclosure should be made in the notes to the accounts.

Similarly, grants for immediate financial support and assistance, or to reimburse costs previously incurred, should be recognised immediately in the Statement of Financial Activities. A description of the sources of any material grants, by category, should be disclosed in the notes.

Investment income earned from holding assets for investment purposes including dividends, interest, and rents from investment property should be recognized. Where income from investments is material, it should be presented as a separate heading on the face of the SoFA or in the notes to the accounts.

4.3.3 Income Subject to Restrictions

PBO sometimes receives grant or donation with conditions attached that must be fulfilled before an organization has control of the resources. Where meeting such conditions is within the PBO control and there is sufficient evidence that it will be met, then the incoming resources should be recognised. Where uncertainty exists as to whether the PBO can meet conditions within its control, the incoming resources will be recognised but deferred as a liability until certainty exists that the conditions can be met.

Donor-imposed restrictions as to the timing of the related expenditure could affect the timing of the recognition of the incoming resource if the restrictions amount to preconditions for its use. For example, where a grant for expenditure in a future accounting period is received in advance, its recognition should be deferred. However, the recognition of restricted income should not be deferred merely because the expenditure to be funded from the income has not been incurred.

It is however important that the reader of PBO accounts should have a complete understanding of resources received in a given period. Therefore, in all cases when the recognition of income is deferred, the Statement of Financial Activities should show the gross amount received and changes in the amount deferred to future accounting periods, taking into account any amounts utilised from previous deferrals, and a clear explanation should be given in the notes to the accounts.

Income of a restricted fund which has been recognised in the Statement of Financial Activities and has not been spent by the end of the financial year will be carried forward in that fund.

Gifts of fixed assets for use by the PBO, or of funds for the restricted purpose of providing such fixed assets, should be accounted for immediately as restricted funds where it is clear that the donor intended the continuing use of the asset. The restricted fund will be reduced by transfers of amounts equivalent to any depreciation or amortisation charges over the expected useful life of the asset concerned.

4.3.4 Expiration of Donor-Imposed Restrictions

Expiration of a donor-imposed restriction on a restricted fund should be recognized in the period in which the restriction expires. A restriction will expire when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled or both. If two or more temporary restrictions are imposed on income, the effect of the expiration of those restrictions is recognized in the period in which the last remaining restriction has expired.

Temporarily restricted funds with time restrictions are not available to support expenses until the time restrictions have expired. Time restrictions implied on gifts of long-lived assets expire as the economic benefits of the acquired assets are used up i.e. over their estimated useful lives. In the absence of donor stipulations specifying how long donated assets must be used or an organization's policy of implying time restrictions, restrictions on long-lived assets, if any, or cash to acquire long–lived assets expire when the asset is placed in service.

If an expense is incurred for a purpose for which both unrestricted and temporarily restricted funds are available, a donor-imposed restriction is fulfilled to the extent of the expense incurred unless the expense is for a purpose that is directly attributable to another specific external source of revenue e.g.

an expense does not fulfill an existing donor restriction if that expense is incurred for a purpose that is directly attributable to and reimbursed by a sponsored exchange agreement or a conditional award from a government agency, private foundation, or others.

Expirations of donor-imposed restrictions that simultaneously increase one class of assets and decrease another (reclassifications) are reported separately from other transactions.

4.3.5 Gifts in Kind

Income in the form of gifts in kind should be included in the Statement of Financial Activities in the following ways:

a) Assets given for distribution by the PBO should be recognised as income for the year only when distributed. Where there are undistributed assets at the year-end, a description of the items involved and an estimate of their value should be given by way of a note to the accounts;
b) Assets given for use by the PBO (e.g. property for its own occupation) should be recognised as income when receivable;
c) Where a gift has been made in kind but on trust for conversion into cash and subsequent application by the PBO, the incoming resource should normally be recognised in the accounting period when receivable; but in certain cases this will not be practicable (e.g. second-hand goods donated for resale by the PBO). In these cases the income should be included in the accounting period in which the gift is sold.

In all cases, the amount at which gifts in kind are brought into account should be either a reasonable estimate of their value to the PBO or the amount actually realised. The basis of any valuation should be disclosed. Where there are undistributed assets at the end of the year, a general description of the assets involved ad estimated of their value should be given in form of notes to the accounts provided.

4.3.6 Donated Services

PBO may receive assistance in the form of donated facilities, beneficial loan arrangements or donated services. Such services will be included in the statement of financial activities where the benefit to the organization is reasonable, quantifiable and measurable. The value should be based on estimated value of the service.

Some PBOs receive substantial amounts of voluntary help. Such help should not be accounted for in the Statement of Financial Activities, but should be dealt with in the notes to the accounts or in the Directors' Annual Report.

4.3.7 Fundraising Proceeds

Voluntary income and capital funds raised by the PBO or its agents should be brought into account gross, and the agents' costs and any other associated costs of the PBO should be accounted for as fundraising expenditure. However, the PBO's own staff costs should not be netted off against the proceeds of any such events as per International Accounting Standards.

4.3.8 Investment Income

Investment income includes resources from investment assets, including dividends, interest and rents but excluding realized and unrealized investment gains and losses.

4.3.9 Cash Collections/Subscription

Funds collected for an PBO and to which it is legally entitled, but which it has not received by the year-end, should normally be included in its Statement of Financial Activities as income and in its Balance Sheet as "collections in progress" as a current asset.

Funds in the form of cash collections in the hands of, or otherwise under the control of, persons other than the PBO Directors as at the year-end should, where material, be brought into account as income of the year in accordance with the returns received from the collectors. Where it is not practicable to ascertain the actual amount it should, if considered material, be estimated (e.g. by apportioning the amount subsequently ascertained or received between the relevant accounting years) on a reasonable and consistent basis according to the known circumstances and the results of control checks made from time to time.

4.3.10 Life Subscriptions

Life subscriptions should be included as income in the Statement of Financial Activities on a consistent basis (e.g. if the life subscription is twenty times the annual subscription, one twentieth of it might be recognised as income each year). At the end of each year, the balance carried forward to future years should be included in the Balance Sheet as deferred income under "liabilities".

4.3.11 Incoming Resources Activities

These includes trading activities and other income generating activities to help the PBO further its objectives.

Such activities will include:

- The sale of goods or services as part of the direct activities of the PBO (known as primary purpose trading);
- The sale of goods or services made or provided by the beneficiary of the PBO;
- Letting of non-investment property in future of the PBO object;
- Contractual payments from government or public authorities where these are received in the normal course of trading under (a) to (c), e.g. fees for children support;
- Grants specifically for the provision of goods and services to be provided as part of charitable activities or services to beneficiaries;
- Ancillary trades connected to a primary purpose above.

4.4 Expenditure

4.4.1 Expenditure Summary

The expenditure of the PBO should be summarised in a manner appropriate to it. Below are key principles which should be followed in accounting for expenditure of different kinds.

4.4.2 Recognition of Expenditure

PBO's will recognize expenditure when and to the extent a liability is incurred or increased without a commensurate increase in recognized assets or reduction in liability. Any expenditure incurred and not paid in line with the accrual basis will be recognized as a liability in line with applicable standards. A liability will arise when the PBO is under an obligation to make a transfer of value to a third party as a result of past transactions or events. Where a PBO enters into a contract for supply of goods or services has performed their part of the contract, for example, the delivery of goods or the provision of a service

The summary should identify the main classes of direct and other expenditure as indicated below.

4.4.3 Direct Expenditure

"Direct Expenditure" comprises all expenditure directly relating to the objectives of the PBO and should include, the direct cost of supporting direct PBO activities and projects (i.e. salaries, office, communications and other costs identifiable as an integral part of the cost of carrying out those activities or projects), as well as depreciation, amortisation or losses on disposal of fixed assets used wholly or mainly for direct PBO activities including where the assets are written off as project expenditure.

Additional sub-headings should be added to the analysis of charitable activities to identify the significant charitable activities undertaken which have been reviewed in the trustees' annual report. The sub-headings used should reflect the nature of the activity undertaken.

Direct expenditure should be analysed between the following two sub-headings, where material:

a) Grants Payable: These should be sub-divided in the notes between grants to individuals and grants to institutions, with further analysis in the notes to the financial statements if necessary.

Material grants made by PBO to one or more institutions should be appropriately analysed and explained either in the Statement of Financial Activities or in the notes to the accounts, or by means of a separate publication referred to in the notes and reconciled to the total amount charged in the accounts. What should be disclosed is:

(i) The name of the recipient; and
(ii) The aggregate amount of the grants made to that recipient in the accounting period.

What is material will to some extent depend on the size of the grant-making PBO and the importance of the grant making to its overall operation.

If the Directors consider that disclosure of material grants in the statement of accounts may prejudice the furtherance of the purposes of either the recipient institution or the PBO, they may withhold details of the grant concerned, but should disclose in the statement of accounts the total amount of all such grants for the year.

In the case of grants to individuals, only the aggregate value and the number of grants should be disclosed.

b) Other Direct Expenditure on PBO Objectives : (i.e. on the provision of services, or of goods otherwise than by way of grant), appropriately analysed where applicable, and where the amount is material, it is recommended that additional and informative analysis should be given under the sub-heading of support costs which directly relate to the objects of the PBO.

4.4.4 Other Expenditure

"Other Expenditure" should be analysed under the following two subheadings:

(i) Fundraising and publicity costs;
(ii) A loss on the disposal of a tangible fixed asset held for the PBO's own use; and any other expense not falling into another expenditure heading.

4.4.5 Analysis of expenditure in the notes to the accounts

The notes to the accounts must provide a relevant analysis of the activities included within each expenditure heading provided on the face of the SoFA. The analysis provided should aggregate the cost of similar activities and provide the user of the accounts with an understanding of the PBO's main activities.

The analysis must give details of the support costs charged to an activity and the cost of grant funding to third parties that have been included within the cost of PBO activities. The total provided within the analysis must reconcile with the amounts presented within the relevant expenditure headings of the SoFA. This information may, for example, be presented in a tabular format (See Table 4).

Table 4: Analysis of Expenditure on PBO Activities

Activity or programme	Activities undertaken directly	Grant funding of activities	Support costs	Total
	Kes	Kes	Kes	Kes
Activity 1				
Activity 2				
Activity 3				
Total				

4.4.6 Gains/ (Losses) on Investment Assets

Any realized and unrealized gains or losses on investment assets, including those gains or losses arising from their revaluation in the reporting period will be recorded under this heading.

4.4.7 Realized Gains and Losses on Fixed Assets for use for PBO's objectives

Realized gains and losses arising on disposal of fixed assets used by the PBO for purposes of achieving its objectives should be included in the Statement of Financial Activities as an incoming resource of the fund concerned (if a net gain for the year) or, if a net loss for the year, as an additional depreciation charge of the fund concerned. If material, they should be disclosed separately, with a supporting note by way of explanation.

4.4.8 Unrealised Gains and Losses on Fixed Assets for PBO Use

Unrealized gains or losses will arise if fixed assets for PBO use are included in the financial position at revalued amounts. Such gains and losses (other than provisions for permanent diminution in value should be included in the "gains and losses on revaluations and investment asset disposals" section of the Statement of Financial Activities, and excluded from the Summary Income and Expenditure Account. If material, there should be a supporting note by way of explanation.

4.4.9 Concessionary Loans

Interest free loans (or loans made at lower than commercial rates of interest) which are made by an PBO in furtherance of its objects, should be treated as an asset (debtor), and the amounts involved and rates of interest applying should be disclosed in the notes to the accounts. To the extent that such loans are considered to be irrecoverable, or unlikely to be recoverable, appropriate provision should be made against them and charged in "direct expenditure". Where amounts are subsequently recovered against such provisions, these should be set off against any new provisions as "provisions no longer required" in the Statement of Financial Activities.

Any amount carried forward as recoverable should be included in "debtors" in the Balance Sheet. The aggregate amount of such debtors expected to be recoverable after more than one year should be separately disclosed in the notes.

4.4.10 Allocation of Costs

A reliable approach to cost allocation should be adopted be as the PBO considers the materiality involved and the cost benefit advantages of the approach in that greater accuracy may on occasions only be achieved at a high incremental cost

PBO will be guided by the following principles in distributing common costs applicable to projects:

- Where appropriate, expenditure should be allocated directly to an activity cost category;
- Items of expenditure which contribute directly to the output of more than one activity cost category, for example, the cost of a staff member whose time is divided between a fundraising activities and working on project, should be apportioned on a reasonable, justifiable and consistent basis;
- Depreciation, amortization, impairment or losses on disposal of fixed assets should be attributed in accordance with the same principles;
- Support costs may not be attributed to single activity but rather provide the organizational infrastructure that enables output producing activities to take place. Such costs should therefore also be apportioned on a reasonable, justifiable and consistent basis to the activity cost categories being supported.

There are a number of basis for apportionment that may be applied. Examples include:

a) **Usage-** e.g. on the same basis as expenditure incurred directly in undertaking an activity;
b) **Per Capita**- i.e. on the number of people employed within an activity;
c) On the basis of **floor area** occupied by an activity;
d) On the basis of **time** (e.g. where staff duties are multi-activity).

The basis for apportionment adopted by a PBO should be appropriate to the cost concerned and to the PBO's particular circumstances and selected to enable its accounts to give a true and fair view. The basis adopted for apportionment will normally be consistent between accounting periods

Particular issues arise where a PBO provides information about its activities in the context of a fundraising activity. Information about the aims, objectives and projects of a PBO is frequently provided in the context of mail shots, websites, collections and telephone fundraising. In determining whether a multi-purpose activity arises, and a need to therefore a need to apportion costs, a distinction should be drawn between:

a) Publicity or information costs involved in raising the profile of a PBO which is associated with fundraising (Cost of generating funds); and

b) Publicity or Information that is provided in an educational manner in furtherance of the PBO's objectives (charitable expenditure).

4.4.11 Transactions with Related Parties

Where a PBO enters into any material transaction, contract or other arrangement (including a grant) with any connected person, the amounts involved and the terms and conditions should be disclosed in the notes to the accounts.

Transactions directly or indirectly involving directors personally or persons with a family or business connection with them should always be regarded as material. Directors in this case include any persons involved in:

- Supreme governance and custodian of the PBO's mandate e.g. members of the Governing Council;
- Policy formulation and direction of the activities of the PBO e.g. the Board of Directors;
- Control of the operations and day to day management of the PBO in line with the policies and objectives set by the Governing council and Board of Directors e.g. The Executive Director/Chief Executive Officer.

In the generic structure, the directors would be considered to be any persons from the Executive Director and above.

Where a PBO director or a person with a family or business connection with him has received remuneration directly or indirectly from the PBO, the fact, the name of the recipient and the source and amount must be disclosed in a note to the accounts.

Where neither the directors nor any such persons have received any such remuneration, this fact should be stated.

Where any expenses have been reimbursed to any of the PBO directors, the aggregate amount of expenses reimbursed to all directors should be disclosed in a note to the accounts. The note should also indicate the nature of the expenses (e.g. travel, subsistence, entertainment etc.) and how many of the directors have been reimbursed for the year.

Where the directors have received no such reimbursement, this fact should be stated.

4.4.12 Emoluments of Employees

The total emoluments (i.e. remuneration and benefits-in-kind, as defined for taxation purposes) for the year of the PBO's employees and the average number of employees for the year should be disclosed in the notes to the accounts.

Cost of Audit, Independent Examination and other Financial Services

The notes to the accounts should disclose separately the amount payable in respect of:

a) Audit or independent examination services and
b) Other financial services such as taxation advice, consultancy, financial advice and accountancy, disclosing the fees separately under each head.

4.4.13 Ex-Gratia Payments

The total amount or value of any

a) Payment, or
b) Non-monetary benefit, or
c) Other expenditure of any kind, or
d) Waiver of rights to property to which an PBO is entitled, which is made not as an application of funds or property for charitable purposes but in fulfilment of a compelling moral obligation, should be disclosed in the notes to the accounts.

4.4.14 Costs of Generating Voluntary Income

Costs of generating voluntary income are defined in the glossary. All such fundraising costs, including agents' costs where fundraising agents are used, should be included within this category. In the case of consolidated accounts any such costs incurred by any subsidiary companies or other entities should be consolidated on a line- by-line basis. Where such costs are material, they should be disclosed on item per item in the notes to the accounts

MODULE 5
STATEMENT OF FINANCIAL POSITION

Statement of Financial Position is a snapshot of the PBO assets and liabilities at the end of the financial year. In meeting the requirements of the PBO Act, financial position is prepared to show the resources within the disposal of the organizations and the ones that are held on behalf of the donors waiting fulfillment of grant conditions.

Purpose and Focus of a Statement of Financial Position

The primary purpose of a statement of financial position is to provide relevant information about PBO assets, liabilities, and net assets and about their relationships to each other at a moment in time. The information provided in a statement of financial position, used with related disclosures and information in other financial statements, helps donors, members, creditors, and others to assess

- The organization's ability to continue to provide services; and
- The organization's liquidity, financial flexibility, ability to meet obligations, and needs for external financing.

A statement of financial position shall focus on the organization as a whole and shall report the amounts of its total assets, liabilities, and net assets.

Classification of Assets and Liabilities

A statement of financial position, including accompanying notes to financial statements, provides relevant information about liquidity, financial flexibility, and the interrelationship of an organization's assets and liabilities. The information is provided by aggregating assets and liabilities that possess similar characteristics into reasonably homogeneous groups in line with the applicable standards. For example, entities generally report individual items of assets in homogeneous groups, such as cash and cash equivalents; accounts and notes receivable from patients, students, members, and other recipients of services; inventories of materials and supplies; deposits and prepayments for rent, insurance, and other services; marketable securities and other investment assets held for long-term purposes; and land, buildings, equipment, and other long-lived assets used to provide goods and services.

Cash or other assets received with a **donor-imposed restriction** that limits their use to long-term purposes should not be classified with cash or other assets that are unrestricted and available for current use

Classification of Net Assets as Donor Restricted or Unrestricted

A statement of financial position provided by PBO shall report the amounts for each of three classes of net assets-permanently restricted net assets, temporarily restricted net assets, and unrestricted net assets-based on the existence or absence of donor-imposed restrictions.

Information about the nature and amounts of different types of permanent restrictions or temporary restrictions shall be provided either by reporting their amounts on the face of the statement or by including relevant details in notes to financial statements. Separate line items may be reported within permanently restricted net assets or in notes to financial statements to distinguish between permanent restrictions for holdings of (a) assets, such as land or works of art, donated with stipulations that they be used for a specified purpose, be preserved, and not be sold or (b) assets donated with stipulations that they be invested to provide a permanent source of income. The latter result from gifts and bequests that create permanent endowment funds

Unrestricted net assets generally result from revenues from providing services, producing and delivering goods, receiving unrestricted contributions, and receiving dividends or interest from investing in income-producing assets, fewer expenses incurred in providing services, producing and delivering goods, raising contributions, and performing administrative functions. The only limits on the use of unrestricted net assets are the broad limits resulting from the nature of the organization, the environment in which it operates, and the purposes specified in its articles of incorporation or bylaws and limits resulting from contractual agreements with

The structure of the statement of financial position;

a) Property, Plant & Equipment – headings, classification and disclosures;
b) Current assets – headings, classification and disclosures;
c) Liabilities – headings, classification and disclosures; and
d) Funds – classification and disclosures

5.1 Structure of the Statement of Financial Position

Table 5 sets out a format of a PBO's statement of financial position and the headings used to present its assets, liabilities and funds. The items to be included in the statement will depend on the various assets and funds that a PBO has.

Table 5: Statement of Financial Position

Ref.		Total funds	Prior Year	Notes
		Kes	Kes	
	Non-Current/Fixed assets:			A
	Intangible assets			A_1
	Tangible assets			A_2
	Heritage assets			A_3
	Investments			A_4
	Operating Lease			A_5
	Total Non-current/Fixed assets			
	Biological assets			A_6
	Current Assets:			B
	Inventories (Stock)			B_1
	Debtors/Receivables/Prepayments			B_2
	Investments			B_3
	Cash at bank and in hand			B_4
	Total Current Assets			
	Liabilities:			C
	Creditors			C_1
	Net current assets or liabilities			
	Total assets less current liabilities			
	Provisions for liabilities and charges.			C_2
	Net asset or liabilities excluding pension asset or liability			

	Defined benefit pension scheme asset or liability			C_3
	Total Net Assets or Liabilities			
Ref.		**Total funds Kes**	**Prior Year Kes**	**Notes**
	The Funds of the PBO:			D
	Endowment funds			D_1
	Restricted income funds			D_2
	Unrestricted funds			D_3
	Revaluation reserve			D_4
	Total PBO Funds			

The statement of financial position must be signed by two or more board members, each of whom has been authorized to do so by the board (the chairperson of the governing body must sign), and must specify the date the accounts, including the statement of financial position, were approved by the board of directors.

So as to give a true and fair view, additional information must be provided in an additional heading or sub-heading in the statement of financial position or given in notes to the accounts. PBOs may choose to analyze the items included in any statement of financial position heading in greater detail either on the face of the statement of financial position or in related notes. The statement of financial position may also be presented in a columnar format that analyses statement of financial position items by class of fund: unrestricted, restricted income and endowment.

The sections that follow are cross-referenced to the analysis headings shown in Table 5.

5.2 Property, Plant & Equipment: Headings and Classification

Fixed assets provide an economic benefit to the PBO on an on-going basis (i.e. for more than one reporting period) through their ability to:

- **a)** Generate income and/or gains; and/or
- **b)** Contribute to furthering the PBO's objectives.

PBOs that hold or have received donated fixed assets in the reporting period must refer to the SOFREP section on SoFA.

Property, Plant & Equipment assets are recognized when:

- **a)** A resource is controlled by the PBO as a result of a past event or transaction, for example a past gift or purchase;
- **b)** It is probable that the expected future economic benefits associated with the asset will flow to the PBO; and
- **c)** The historical cost or fair value of the asset can be measured reliably.

5.3 Heritage Assets

a) In principle this includes tangible fixed assets which are of historical, artistic or scientific importance that are held to advance preservation and conservation objectives of a PBO. The cost of the heritage will only be brought in the financial statements if it's known. Where the cost for such assets neither can nor reasonably be established, the PBO will not include them in their financial statements. Therefore, the assets will be excluded in the financial position due to the fact that reliable cost information is not known, and conventional valuation lacks sufficient reliability.

b) Significant costs are involved in the reconstruction or analysis of past accounting records or in valuation which are onerous compared with the additional benefit derived by users of the accounts in assessing the trustees' stewardship of the assets

c) Heritage assets should be included in a separate row in the balance sheet and can be further analyzed, in the notes to the accounts, into classes appropriate to each charity e.g. collections, artefacts, and historic houses. Due to their infinite life span, it will be inconsequential to provide depreciation on heritage. However, where there is need to charge depreciation on these assets, special rates should be provided.

5.4 Intangible Fixed Assets

Intangible assets are non-financial assets that do not have physical substance but are identifiable and are controlled by the PBO through custody or legal rights. Intangible Fixed assets include goodwill purchased on the acquisition of a business and/or purchased intangible assets such as concessions, patents, licenses, trademarks and similar rights. Although such assets lack physical substance they provide an on-going economic benefit to the PBO.

The cost of internally generated goodwill or intangible assets such as brands and logos must not be capitalized and are written off as expenditure as incurred. Expenditure on research must always be written off, but the costs incurred in the development phase of an internal project may in certain circumstances be recognized as an intangible asset.

The criteria for the recognition of development costs as an intangible asset are rigorous and involve a demonstration of technical and financial feasibility of the development asset.

Intangible fixed assets must be measured at their historical cost. The residual value of intangible fixed assets is nil when calculating the charge for amortization unless reliable evidence exists to the contrary. Amortization (see Appendix I, 'Glossary of terms') on intangible fixed assets must be charged as an expense to the relevant statement of financial activities category reflecting the use of the asset.

Capitalized goodwill and intangible assets must be amortized on a straight-line basis over their useful economic lives, which must be reviewed at each reporting date. If the useful life cannot be estimated reliably it is presumed to be five years.

5.5 Property, Plant & Equipment

Assets, such as land and buildings, plant, vehicles and equipment, are held to provide an on-going economic benefit to a PBO through their contribution, directly or indirectly, to the provision of goods or services by the PBO.

Assets must be measured initially in the statement of financial position at their historical cost. All costs incurred to bring a tangible fixed asset into its intended working condition should be included in the measurement of cost. PBOs may adopt an accounting policy of capitalizing borrowing costs, including interest, that are directly attributable to the construction of tangible fixed assets, or may write off such borrowing costs as an expense in the statement of financial activities as they are incurred.

5.6 Accounting for Hire Purchase and Leasing Arrangements

If leasing a tangible asset, the lease must be classified as a finance lease unless it meets the criteria of an operating lease. The characteristic of a finance lease is that the hire purchase or lease arrangements transfer substantially all the risks and rewards of ownership to the lessee.

5.7 Accounting for Depreciation

A tangible fixed asset, less its residual value (its scrap or realizable value at the end of its economic life), must be depreciated on a systematic basis over its useful economic life. The PBO should choose a depreciation method which reflects the use of the asset and the expected timing or pattern of consumption of its economic benefits.

Some assets may have a high residual value which will remove, reduce or eliminate the need for depreciation to be charged e.g. land is not depreciated because it will not generally wear out and its residual valuation is likely to be at least equal to its cost or valuation. However, land is tested for impairment.

Where an asset comprises two or more major components which have substantially different useful economic lives, each component must be depreciated separately over its useful economic life.

The depreciation charged for the reporting period must be recognized as an expense in the statement of financial activities. The expense is charged or apportioned to the relevant statement of financial activities heading(s) reflecting the asset's use.

PBOs that constantly replace their tangible fixed assets as they wear out may opt not to depreciate them provided their value is not material and their quantity, value and composition are not subject to material variation from one year to the next. Instead, such tangible fixed assets may be included at a fixed amount in the statement of financial position, with the cost of replacement assets charged or apportioned to the relevant statement of financial activities heading(s) reflecting the asset's use.

5.8 Accounting for the Revaluation of Tangible Fixed Assets

PBO may choose to adopt an accounting policy of revaluing one or more classes of the tangible fixed assets it holds e.g. land and buildings may be revalued but not motor vehicles. If a policy of revaluation is adopted, then all assets within that particular class must be revalued. Buildings of a similar nature, function or use held by the PBO constitute a class of tangible fixed assets. If one particular class of building is revalued, then all buildings of a similar nature function or use held by the PBO must be revalued.

PBOs should ensure that valuations are sufficiently frequent for an asset to be stated at its fair value. The fair value of land and buildings is usually determined from market-based evidence, and although this appraisal is normally undertaken by professionally qualified valuers, it may be carried out internally provided staff have knowledge of the relevant property market.

In the case of other tangible fixed assets such as motor vehicles, there may be an active second-hand market for the asset, or appropriate indices may exist allowing a valuation to be made with reasonable reliability. In such cases, the valuation need not be undertaken by a qualified valuer and may be undertaken by an appropriate person either internal or external to the PBO. The PBO will be required to provide adequate disclosure on the process.

Table 6: Analysis of Opening and Closing Carrying Amounts

	Freehold land & Buildings	**leasehold land & Buildings**	**Plant & Machinery**	**Fixtures, Fittings & Equipment**	**Total**
	Kes	**Kes**	**Kes**	**Kes**	**Kes**
Cost or valuation					
At beginning of year					
Additions					
Disposals					
Revaluations					
Transfers					
At end of year					
Depreciation & Impairments					
At beginning of year					
Disposals					
Depreciation					
Impairment					
Transfers					
At end of year					
Net book value at beginning of year					
Net book value at end of year					

If any class of tangible fixed assets has been revalued, PBOs must disclose:

The year in which they were revalued;

- **a)** In the case of assets that have been revalued during the reporting period, the names of the persons who valued them or particulars of their qualifications for so doing;
- **b)** The bases of the valuation; and
- **c)** The historical cost of each class of asset revalued.

d) The effective date of the revaluation;
e) The methods and significant assumptions applied in estimating the items' fair value; and
f) For each revalued class of property, plant and equipment, the carrying amount that would have been recognized had the assets been carried under the cost model.

5.9 Investments

Fixed asset investments are held to generate income or for their investment potential, or both. Investments may include 'social investments' where the purpose in making the investment is wholly or partly to further the PBO's objectives.

Fixed asset investments exclude those investments held specifically for sale or those investments which the PBO expects to realize within 12 months of the reporting date.

Investment gains and losses, whether realized or unrealized, are combined and shown in the heading "Gains/ (losses) on investments" in the statement of financial activities.

5.10 Investments Listed or Traded on a Recognized Stock Exchange

Fixed asset investments in quoted shares, traded bonds and similar investments must be measured initially at cost and subsequently at fair value (their market value) at the reporting date.

5.11 Investment Properties

An investment property is an interest in land and/or buildings held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation, or both.

Land and/or buildings are excluded from investment properties and treated as tangible fixed assets instead if:

a) The construction work and development has not been completed; or
b) The property is occupied by the PBO for its own purposes; or
c) The property is let and occupied by another group/subsidiary undertaking; or
d) The property is held for sale in the ordinary course of business (in which case the property must be included as a current asset).

Mixed use property should be separated between investment property and property held for operational use as a tangible fixed asset. However, if the fair value of the investment property component cannot be measured reliably without undue cost or effort, the entire property should be accounted for as property within tangible fixed assets.

Investment properties must be measured initially at cost and subsequently at fair value (market value) at the reporting date. Depreciation is not provided on investment property except where it is held on a lease with an unexpired term of 20 years or less.

5.12 Unlisted Investments

Unlisted equity investments must be measured initially at cost and subsequently measured at fair value unless fair value cannot be measured reliably in which case it is measured at cost less impairment. Where the PBO holds an interest in subsidiaries, associates and joint venture entities, it should refer to the relevant SOFREP module(s)/standards.

5.13 Social Investment, including Mixed Motive Investments and Programme Related Investments

Programme related investments are held to further the charitable purposes of the investing PBO. Although programme related investments can generate a financial return, the achievement of a financial return is incidental to furthering the charitable purposes of the investing PBO.

Mixed motive investments are a form of social investment made in part to further the charitable purposes of the investing PBO and in part to generate a financial return.

PBOs holding mixed motive or programme related investments must refer to the SOFREP module SoFA, which explains their recognition, measurement and disclosure.

PBOs holding investment property must also disclose:

a) The name or particulars of the qualifications of the person who undertook the valuation of investment property;

b) The bases used by them; and

c) Whether the person undertaking the valuation was an employee of the PBO.

5.14 Operating Leases

Lease payments under an operating lease shall be recognized as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit as provided by IAS 17 (Leases).

5.15 Biological Assets

IAS 41 requires an entity to measure a biological asset at its cost less any accumulated impairment losses. Once the fair value of such a biological asset becomes reliably measurable, an entity should measure it at its fair value less costs to sell. In all cases, an entity should measure agricultural produce at the point of harvest at its fair value less costs to sell.

5.16 Inventories

Inventories are items that will be used by the PBO in providing goods and services. Inventories may include goods held for distribution to beneficiaries, or educational literature or brochures for distribution.

Inventories held for sale must be measured at the lower of the cost and net realizable value of the separate items of inventories or groups of similar items.

When goods or services are provided as part of a charitable activity either free or at a subsidized cost, then net realizable value should be based on the service potential provided by the items of inventory. For example, if goods are held for free distribution and the item continues to meet the need(s) for which it was purchased, then it should not be written down to a nil realizable value except where the item of inventory is damaged or obsolete. Damaged or obsolete inventory should be written down as an expense and charged to the relevant statement of financial activities heading(s) reflecting their intended use.

5.17 Receivables

Receivables include amounts owed to the PBO for the provision of goods and services or amounts the PBO has paid in advance for the goods and services it will receive.

Receivables must be measured at their recoverable amounts (the amount the PBO anticipates it will receive from a debt or the amount it has paid in advance for goods or services).

An amount recoverable more than a year after the end of the reporting date must be measured at its present value at the statement of financial position date if the time value of money is material and the settlement terms constitute a financing transaction. The unwinding of the discount is credited to income as interest receivable.

5.18 Current Asset Investments

Current asset investments are investments which a PBO holds for resale or pending their sale and cash or cash equivalents with a maturity date of less than one year. This heading includes cash on deposit and cash equivalents with a maturity of less than one year held for investment purposes rather than to meet short-term cash commitments as they fall due.

To be classified as a current asset, the PBO should not intend to hold the cash or cash equivalents as part of its on-going investment activities for more than one year from the reporting date. However, cash and cash equivalents that are held from time to time as part of a fixed asset investment portfolio should be presented as part of fixed asset investments. Current asset investments must be valued at their fair (market) value except where they qualify as 'basic/other' financial instruments. For more information refer to SOFREP module 'financial assets and financial liabilities'.

5.19 Cash at Bank and in Hand

Cash at bank and in hand is held to meet short-term cash commitments as and when they fall due and includes all cash equivalents held in the form of short-term highly liquid investments. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value. A cash equivalent will normally have a short maturity of, say, three months or less from the date of acquisition.

5.20 Liabilities: Headings and Classification

Liabilities are amounts due to creditors and any provision made as a result of an obligation to transfer economic benefits, usually in the form of a cash payment, to a third party. Liabilities must be measured at their settlement amount. A liability is recognized for the amount that the PBO anticipates it will pay to settle the debt or the amount it has received as an advance payment for goods or services it must provide.

A provision is a liability where the amount and/or timing of its settlement are uncertain. A provision is only recognized when:

a) There is a present obligation at the reporting date as a result of a past event;
b) It is probable that a transfer of economic benefit, usually in the form of cash, will be required in settlement; and
c) The amount of the settlement can be estimated reliably.

5.21 Contingent Liabilities and Contingent Assets

A contingent liability is either a possible but uncertain obligation or a present obligation that is not recognized because:

a) A transfer of economic benefit to settle the possible obligation is not probable; or
b) The amount of the obligation cannot be estimated reliably.

A contingent asset is a possible asset that arises from a past event but is not recognized in the statement of financial position as its existence can only be confirmed by future events which are not within the PBO's control.

5.22 Defined Benefit Pension Scheme Asset or Liability

PBOs that participate in a defined benefit scheme must refer to the SOFREP recommendations on retirement and post-employment benefits for the recognition, measurement and disclosure of defined benefit pension scheme assets and liabilities.

MODULE 6
ACCOUNTING FOR FINANCIAL ASSETS & LIABILITIES

All PBOs are likely to have financial assets and financial liabilities. A financial asset represents financial resources available to the PBO and examples include financial investments in shares or bonds, debtors and cash. A financial liability is a financial claim on the PBO's resources and examples include loans, creditors and legal or constructive obligations, including provisions for grants payable.

This section deals with the recognition and measurement of financial assets and financial liabilities except for those listed below whose details can be obtained from the standards:

- **a)** Investments in subsidiaries, associates and joint ventures;
- **b)** Insurance contracts;
- **c)** Leases; and
- **d)** Employers' rights and obligations under employee benefit plans.

Table 7 below lists the common basic financial instruments and the measurement basis that PBOs must use. Where a different terminology is used based on International Financial Reporting Standards (IFRS), it is noted in (brackets).
Concessionary loans made by PBOs to further their charitable aims are financial instruments.

This module sets out:
a) How PBOs should account for basic financial instruments;
b) The accounting treatment for transactions involving extended credit terms;
c) How to identify a basic financial instrument;
d) Subsequent measurement of financial assets and financial liabilities;
e) Impairment of financial assets;
f) How to account for concessionary loans made or received;
g) How to account for other financial assets and financial liabilities
h) Disclosures to be made in the notes to the accounts.

Table 7: Common Financial Instruments

Financial Instrument	Measurement on Initial Recognition
Cash	Cash amount received or paid
Debtors including trade debtors, loans receivable and notes receivable	Settlement amount after any trade discounts or amount advanced by PBO
Creditors including trade creditors, loans payable and notes payable	Settlement amount after any trade discounts or amount advanced to PBO
Overdraft (loan due on demand)	Amount of loan facility drawn down
Bank deposit	Cash amount of deposit
Investment in irredeemable or non-convertible shares	Transaction value (cost)
Loans advanced by the PBO on market terms	Amount of principal advanced

6.1 Disclosures to be made in the Notes to the Accounts

- **a)** PBO should measure a basic financial asset or basic financial liability on its first recognition at the amount receivable or payable including any related transaction costs;

b) However, if initially measured at fair value, transaction costs are not included in the measurement of financial assets or liabilities; instead, the transaction costs are treated as an expense. If extended credit is offered, the accounting treatment depends on those extended credit terms and

PBOs must disclose

a) The accounting policy adopted for each class of financial instruments, including financial assets and liabilities and should also make the disclosures for basic financial instruments.
b) Information about the significance of financial instruments to the PBO's financial position or performance, for example the structure of long-term debt or the use of hedging to manage financial risk;
c) For all financial assets and liabilities measured at fair value, the basis for determining fair value, including any assumptions applied when using a valuation technique;
d) The income, expense, gains and losses, including changes in fair value, for financial assets and liabilities measured at fair value, and financial assets and liabilities measured at amortized cost;
e) The total interest income and expense for financial assets and liabilities that are not measured at fair value; and
f) The amount of any impairment loss for each class of financial asset.

The treatment of the financial assets shall be based on the provision of the IFRS and in particular IAS-32 and IFRS 9.

MODULE 7
IMPAIRMENT OF ASSETS

An impairment loss occurs when the carrying amount of an asset exceeds its recoverable amount. The impairment loss reflects a decline in the future economic benefits or service potential of an asset, over and above the depreciation charged for the asset's use. Depreciation is a provision made on a systematic basis over the economic life of an asset to reflect its use and consumption of the economic benefits or service potential provided by the asset.

This module must be applied by all PBOs when accounting for the impairment of all assets except:

a) Deferred tax assets, employee benefits, investment properties measured at fair value and biological assets; and
b) Programme related or mixed motive investments which must be referred to social investments.

This module sets out for all PBOs:

a) What to do if impairment is indicated;
b) The identification of the recoverable amount;
c) The indicators of impairment;
d) Accounting for impairment losses and reversals; and
e) Disclosures to be made in the notes to the accounts.

If there is no indication of impairment, then it is not necessary to estimate the recoverable amount. If there is an indication that an asset is impaired, then its recoverable amount must be estimated. An impairment loss must be recognized if, and only if, the recoverable amount of an asset is less than its carrying amount.

Identification of the recoverable amount

The recoverable amount of an asset is the higher of its fair value less costs to sell the asset and its value in use. It is not always necessary to determine both an asset's fair value less costs to sell and its value in use as if either amount is equal to or exceeds the asset's carrying amount then the asset is not impaired.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of its disposal. The best evidence of fair value is a binding sale agreement in an arm's length transaction or the market price in an active market. In the absence of such evidence, a PBO should consider the outcome of recent transactions for similar assets within the same sphere of activity.

A PBO's assets may be subject to a restriction as to their use. A restriction may be imposed by the donor or created by the terms of an appeal used to fund the purchase of an asset. While a restriction will affect how the PBO uses an asset, it is unlikely that a restriction imposed by PBO law on the use of an asset would be passed on to a purchaser of that asset. Therefore, a restriction on use of an asset imposed by PBO law would not normally reduce the amount obtainable on the sale of that asset.

Occasionally, the terms of a gift will require the on-going use of a specified asset by the PBO which would prevent its sale. In such instances, there may be costs involved in removing the restriction before the asset can be sold. The additional cost of removing a restriction will be reflected in the estimate of the asset's fair value less costs to sell.

The method used to determine the "value in use" of an asset held by a PBO will depend on whether the asset is primarily held to generate cash as a commercial return or for its service potential to the PBO's beneficiaries.

An asset is held to generate a commercial return when it is used to generate a positive cash flow and earn a return that reflects the risks involved in holding the asset. When an asset is held to generate cash flows, its value in use will be the present value of the future cash flows expected to be derived from the asset.

The calculation of an asset's present value involves estimating the amount of the net cash flow that will be generated from the asset's use and then applying a discount rate to establish the present value of those future cash flows. The discount rate used is normally the current market rate the PBO would pay to obtain comparable credit over the remaining life of the asset. The market rate is adjusted for uncertainty as to the asset's ability to generate cash in the future, which means that the greater the uncertainty, the greater the risk and therefore the higher the market rate used in the calculation. This will in turn result in a lower present value amount for the value in use of the asset.

However, PBOs often hold assets primarily to provide services to their beneficiaries rather than for generating cash flows. A PBO may provide its services freely or at below commercial rates. Where an asset is primarily held for its service potential to beneficiaries, it would be inappropriate to measure value in use by reference to its cash flow. In such circumstances, it is more appropriate to regard value in use as the present value of the asset's service potential rather than the present value of its cash flow.

The method used to value an asset's service potential should be reliable, relevant to the asset and capable of measurement. Depreciated replacement cost is one method that may used to provide a measure of an asset's service potential. The replacement cost of an asset is the most economical cost that would be incurred in replacing the asset's service potential. This cost is then depreciated to reflect the remaining economic life of the asset in its used condition.

Value in use measured on the basis of an asset's service potential will have particular relevance for specialist assets used by a PBO. The market value of a specialist asset may not reflect the cost that a PBO avoids by using that asset in providing services. For example, the market value of specialist building may be less than its recent construction cost. However, provided the building continues to meet its intended service potential then its value in use would be better reflected by its replacement cost (its construction cost) rather than the amount for which it could be sold in the market.

MODULE 8
STATEMENT OF CASH FLOWS

PBOs must provide a statement of cash flows as part of financial statements (accounts).

The primary purpose of a statement of cash flows is to provide relevant information about the cash receipts and cash payments of a PBO during a period. The information contained in the statement of cash flows helps investors, creditors, and other stakeholders and establishes standards for the information to be provided in a statement of cash flows of a PBO.

The statement of cash flows provides information about the ways in which a PBO uses the cash generated by its activities and about changes in cash and cash equivalents held by a PBO. It also provides information that is helpful in assessing a PBO's liquidity and underlying solvency. Liquidity refers to the ease of access to cash to meet obligations as and when they fall due on a timely basis. Solvency refers to the capability of the PBO to continue as a going concern.

The statement identifies a PBO's cash flows and the net increase or decrease in cash and cash equivalents in the reporting period. Cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value. Highly liquid investments normally have a maturity of three months or less from the date of acquisition.

This module sets out:

a) The structure of the statement of cash flows;
b) The cash flows are included as operating, investing and financing activities;
c) The methods of compiling the statement of cash flows;
d) A template for a statement of cash flows; and
e) Disclosures in the notes to the accounts.

8.1 Structure of the Statement of Cash Flows

The format of the statement of cash flows must follow the requirements of IAS 7/IPSAS 2 (statement of cash flows). The statement of cash flows must analyze cash flows using three standard headings: operating activities, investing activities and financing activities. The statement of cash flows includes the movement in cash balances of unrestricted funds and restricted funds including endowment funds.

A template for the statement of cash flows is provided in Table 8.1, which should be adapted as necessary for the reporting purposes of the PBO. For example, a columnar presentation may be adopted to distinguish between cash flows relating to restricted funds and cash flows relating to unrestricted funds. When a PBO is preparing consolidated accounts, a statement of cash flows must be prepared on a consolidated basis.

8.2 Operating Activities

Operating activities are the principal income-producing activities of a PBO that are recognized as income and expenditure in the PBO's statement of financial activities. The cash flow from operating activities indicates the extent to which operating activities have generated or consumed cash.

Examples of cash flows arising from operating activities include:

a) Cash income from donations and grants;
b) Cash income from gift aid claims or repayments of tax;
c) Cash income from contracts for the supply of goods and services;
d) Cash income from fees, rents (excluding rent from investment properties) and royalties;
e) Cash receipts from the repayment of loans made to further the PBO's purposes;
f) Cash payments of grants made;
g) Cash payments to suppliers of goods and services;
h) Cash payments to and on behalf of staff (for example, staff salaries and pension contributions);
i) Cash payments of interest on borrowing related to operational activities;
j) Cash advances made to other parties as social investments; and
k) Cash payments of taxes on income.

8.3 Investing Activities

Investing activities include the acquisition or disposal of investments and the cash generated from holding investment assets but excludes those highly liquid investments which are classified as cash equivalents in the accounts. It also includes the acquisition of, or disposal of, fixed assets including property, plant and equipment.

Examples of cash flows arising from investing activities include:

a) Cash income from interest and dividends received;
b) Cash income from rent on investment properties;
c) Cash receipts from the repayment of loans by a non-charitable trading subsidiary;
d) Cash receipts from the sale of plant, property and equipment and other long-term assets;
e) Cash receipts from the sale of investment properties and other long-term investments;
f) Cash payments to acquire investments;
g) Cash payments for expenses properly chargeable to endowment; and
h) Cash payments to acquire tangible fixed assets, including property and equipment and other long-term assets (including endowment investments).

8.4 Financing Activities

Financing activities relate to borrowing and gifts of permanent endowment or expendable endowment funds. Endowment funds are considered to be "capital" in Not for profit organization's law as they must be invested or retained.

Examples of cash flows arising from financing activities include:

a) Cash received from donations of endowment or the accumulation of cash under a power to create expendable endowment;

b) Cash receipts from new borrowing by way of loan or mortgage and other long- or short-term borrowings;

c) Cash received from the use of a bank overdraft facility (if not treated as a component of cash equivalents);

d) Cash repayments of borrowing including mortgages, loans and other borrowing;

e) Cash payments by a lessee which reduces the outstanding liability relating to a finance lease and

f) Deferred income

8.5 Methods of Compiling the Statement of Cash Flows

IAS 7 permits entities to use either the direct or indirect method when presenting the cash flow from operating activities and section 8.6 below provides guidance on these methods. IPSAS 2 specifically recommends the use of direct method.

Bank overdrafts which are repayable on demand and form an integral part of day-to-day cash management can be included as a component of cash and cash equivalents. However, other forms of overdraft or loan always count as part of borrowings and are shown as financing activities.

PBO using hedge accounting for a transaction must show the cash flow of the hedging instrument as an item within the same heading as that of the linked transaction.

The PBO must choose to present the statement of cash flows using either:

a) The indirect method which involves deriving the cash flows from operating activities. The net movement of funds shown in the statement of financial activities is adjusted for:

i) Non-cash movements in the statement of financial activities,

ii) Any deferrals or accruals arising from cash receipts or payments, and items of income or expenditure related to investing or financing cash flows; or

b) The direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed.

This SOFREP recommends the use of direct method as illustrated in Table 8.1.

8.6 Template for a Statement of Cash Flows

A template for a statement of cash flows using the direct method is given in Table 8.1. A reconciliation of cash and cash equivalents must also be provided and an example is given in Table 8.2 below.

Table 8.2 should include any adjustment for the change in cash and cash equivalents due to exchange rate movements. Accounting standards require foreign currency denominated financial assets and financial liabilities to be recalculated at the reporting date. This item is necessary if the statement of cash flows is to reconcile to the statement of financial position.

The template for a statement of cash flows set out in Table 8.1 must be adapted as necessary for any additional items that apply. An example would be cash flows arising from the payment of taxes. Similarly, any headings that do not apply must be omitted.

Table 8.1: Statement of Cash Flows

	Total Funds	Prior Year	Notes
	Kes	Kes	
Cash flows from operating activities:			
Receipts			
Donations	X	X	
Grants	X	X	
Interest received	X	X	
Other receipts	X	X	
Income from services rendered	X	X	
Payments			
Employee costs	X	X	
Interest paid	X	X	
Supplies	X	X	
Other payments	X	X	
Net cash provided from (used in) operating activities	X	X	
Cash flows from investing activities:			
Dividends, interest and rents from investments	X	X	
Proceeds from the sale of property, plant and equipment	X	X	
Purchase of property, plant and equipment	(X)	(X)	
Proceeds from sale of investments	X	-	
Purchase of investments	-	(X)	
Net cash provided by (used in) investing activities	X	X	
Cash flows from financing activities:			
Repayments of borrowing	(X)	(X)	
Cash inflows from new borrowing	X	-	
Receipt of endowment	X	X	
Net cash provided by (used in) financing activities	X	X	
Change in cash and cash equivalents in the reporting period	X	X	
Cash and cash equivalents at the beginning of the reporting period	X	X	Table 8.2
Change in cash and cash equivalents due to exchange rate movements	X	(X)	
Cash and cash equivalents at the end of the reporting period	X	X	Table 8.2

Table 8.2: Analysis of cash and cash equivalents

	Current Year	Prior Year
	Kes	Kes
Cash in hand	X	X
Notice deposits (less than 30 days)	X	X
Overdraft facility repayable on demand	(X)	(X)
Total cash and cash equivalents	**X**	**X**

MODULE 9
EVENTS AFTER THE END OF THE REPORTING PERIOD

Once the accounts have been prepared, there is often a period of time before the board formally approve them. When preparing the accounts, PBOs make estimates or judgments based on the information available at the time, so they are required to assess the effect of events occurring between the end of the reporting period and the approval of the accounts to see whether adjustments to amounts or disclosures are necessary.

Events occurring after the end of the reporting period fall into two categories: adjusting events and non-adjusting events.

9.1 Adjusting events occurring after the end of the reporting period

Adjusting events are those events occurring after the end of the reporting period but before the accounts are authorized for issue which provides evidence of conditions existing at the reporting date which affect items in the statement of financial position. PBOs must review and amend the amounts recognized in the accounts and any related disclosures in the notes to the accounts to reflect adjusting events.

Examples of events occurring after the end of the reporting period that require adjustment include:

- **(i)** Settlement of a court case that confirms that the PBO had a liability at the end of the reporting period and not a contingent liability;
- **(ii)** Notification that the payment of a legacy from an estate is no longer probable as a result of the will being contested;
- **(iii)** The determination of the amount of a gift aid payment to a parent PBO by a subsidiary undertaking, when the subsidiary had a present legal (for example, a deed) or constructive obligation to make the payment at the balance sheet date;
- **(iv)** Information allowing a more reliable estimate of an amount designated (however, designation of funds for a new purpose after the reporting date is not an adjusting event);
- **(v)** Identification of a fraud, misstatement or error which has a material effect on an item in the accounts;
- **(vi)** New information concerning an impairment of an asset, for example doubts over the authenticity of a heritage asset or a bad debt; or
- **(vii)** New information that indicates that the PBO may not be a going concern.

If there is uncertainty about the PBO being a going concern, this must be disclosed. If the PBO is no longer a going concern, the accounts must be restated on an appropriate basis.

9.2 Non-adjusting events occurring after the end of the reporting period

Non-adjusting events are those events occurring after the end of the reporting period but before the accounts are authorized for issue which relate to conditions that happened after the end of the reporting period. The disclosure of non-adjusting events provides useful and relevant information about the PBO to users of the accounts. Examples of non-adjusting events that should be disclosed are:

- **(i)** A decision that the PBO is going to merge with another PBO;

(ii) The opening of a new branch in a new locality or a material expansion of the range or scale of activities undertaken;
(iii) The purchase of a new building to expand an PBO's capacity to further its purposes;
(iv) The announcement or implementation of a major restructuring;
(v) The announcement of a new fundraising appeal or the degree of success achieved by a fundraising appeal;
(vi) A material loss of assets or diminution in the value (impairment) of assets subsequent to the reporting date, for example due to fire or flood;
(vii) A material decline in the market value of investments;
(viii) The commencement of major litigation; or
(ix) The entering into significant commitments or the identification of material contingent liabilities or the giving of material guarantees.

9.3 Disclosure in the accounts for non-adjusting events after the end of the reporting period

For each category of non-adjusting event, the notes to the accounts must provide details of the nature of the event and an estimate of its financial effect or a statement that such an estimate cannot be made.

APPENDICES

APPENDIX 1: GLOSSARY OF TERMS

'Accounts' is a term used in the SOFREP to refer to the statement of financial activities, statement of financial position and statement of cash flow and notes.

Accruals Accounts record the income and expenditure of the PBO and the increase or reduction in its assets and liabilities. Accruals accounts are compiled on a "true and fair" basis in accordance with accounting standards and the SOFREP.

Activity Classification of costs is the method of identifying the total cost of an activity, including both direct and indirect costs. An activity is a project, programme of work or activity that furthers one or more of a PBO's legal purposes, or an activity undertaken to raise funds for the PBO.

The SOFREP identifies three high-level activities for PBOs preparing accruals accounts: fundraising costs, charitable expenditure and other expenditure.

'Aggregated Accounts' is the term used in the SOFREP for the combining of the funds of two or more PBOs in a set of accounts where each fund is kept distinct rather than consolidated. Any inter-fund transfers are shown gross rather than netted off. This form of accounting provides for the funds of each PBO to be separately distinguishable in the accounts of the reporting PBO.

Amortization is an accounting term referring to the using up of the economic benefits of an asset related to the time the asset is held. An example would be a right to patent royalties for a set period of time; the value of this right decline in accordance with the fall in future benefits receivable.

Asset is a resource controlled by the PBO as a result of past events and from which future economic benefits are expected to enable the PBO to further its charitable aims.

Audit when referred to in the SOFREP is the statutory requirement under PBO law for an audit of the PBO's or group's gross income and/or assets.

Biological asset is a living animal or plant. A group of biological assets is an aggregation of similar living animals or plants.

Capital is the PBO law term used by the SOFREP for resources received by the PBO which the board are either legally required to invest or retain and use for the PBO's purposes. Capital is the term applied to permanent endowment where the board has no power to convert it into income and apply or spend it; the term also applies to expendable endowment where the board has this power.

Combined Financial Statements are accounts prepared by the reporting PBO which aggregate the assets and liabilities and income and expenses of one or more connected PBOs with the financial performance of the reporting entity itself. An alternative term to "aggregated accounts", the combined accounts provide a "true and fair" view of all of the PBOs controlled and administered by the board of the reporting PBO.

Consideration is the term for the resources used to settle a transaction or the making of a payment in cash or kind.

Consolidated Accounts is an accounting term for the accounts (financial statements) of a parent and its subsidiaries presented as those of a single economic entity.

Constructive Obligations is an accounting term for obligations that derive from actions where:

a) Through an established pattern of past practice, published policies or a sufficiently specific current statement, the reporting PBO has indicated to other parties that it will accept certain responsibilities; and
b) As a result, the PBO has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Contingent asset is an accounting term for a possible asset that arises from past events. Its existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the entity's control.

Contingent liability is an accounting term for either:

a) A possible obligation that arises from past events where its existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the entity's control; or
b) A present obligation that arises from past events but is not recognized in the accounts – either because it is not probable that a transfer of economic benefits will be required to settle the obligation, or because the amount of the obligation cannot be measured with sufficient reliability.

Contract income is income received by a PBO for the purpose of providing the goods or services under the terms of a legal contract. It is important that, from the outset, board establish from the outset whether the receipt of income is subject to a legally binding contract for the supply of goods or services.

Indicators of a contract for the supply of services are:

a) The payer, rather than the recipient PBO, has taken the lead in identifying the services to be provided; and/or
b) The arrangement provides for damages to be paid in the case of a breach of its terms, rather than, for example, for total or partial refund of the payment made.

If there is no contract, the rights and obligations of the parties will depend primarily on the law of trusts and conditional gifts, rather than on the law of contract; such arrangements are termed "performance-related grants" by the SOFREP. A contractual payment to the PBO will normally be unrestricted income of the PBO.

Control (of an entity) is the power to govern the financial and operating policies of an entity in order to obtain benefits from its activities.

Deferred Income consists of resources received by a PBO that do not meet the criteria for recognition as incoming resources in the statement of financial activities because entitlement to the incoming resources does not exist at the balance sheet date. Deferred income is not recognized in the statement of financial activities until the PBO is entitled to the incoming resource. Instead, deferred income is disclosed as a liability in the statement of financial position.

Defined Benefit Pension Scheme is a pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits paid are not directly related to the investments of the scheme.

Defined Contribution Pension Scheme is a retirement benefit plan under which an entity pays fixed contributions into a separate entity (a fund), and has no legal or constructive obligations to pay further contributions if the fund does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Derivatives are securities, such as an option or futures contract, the value of which depends on the performance of an underlying security. In their simplest form, derivatives can be used to reduce the cost and/or risk associated with holding or acquiring assets e.g. "fixing" interest rate on a loan for an agreed rate over a fixed time period, or agreeing a future value of foreign exchange for settlement at an agreed date at an agreed exchange rate

Designated Fund is a portion of the unrestricted funds of the reporting PBO that has been set aside for a particular purpose by the board e.g. the value of functional fixed assets used to further the PBO's aims may be identified as a separate designated fund. Designated funds continue to count as part of the unrestricted funds of the PBO, but the board may choose to exclude designated funds from the calculation of the PBO's reserves.

Donated Services and Facilities include gifts of facilities or services from volunteers. Donated services and facilities can also be referred to as intangible income.

Donations comprise gifts that will not provide any economic return to the donor other than the knowledge that someone will benefit from the donation. Income from donations includes gifts that must be spent on some particular area of work (i.e. restricted income funds) or given to be held as endowment funds. Donations will normally include gifts in kind and donated services.

Donations, for accounting presentation purposes, exclude any gifts such as performance-related grants where entitlement is dependent on the performance of a particular level of service or units of output being delivered.

Endowment Funds are resources received by the PBO that represent capital. A feature of endowment funds is that PBO law requires the board to invest them or to retain and use it for the PBO's purposes. The term endowment applies to permanent endowment, where the board have no power to convert it into income and apply it, and to expendable endowment where the board has this power.

Fair Value is an accounting term for the amount for which an asset could be exchanged, a liability settled, or an equity instrument granted between knowledgeable, willing parties in an arm's length transaction. For traded securities in which there is an established market, the fair value is the value of the security quoted in the Stock market. For other assets where there is no market price on a traded market, it is the valuer's best estimate of fair value. In these circumstances, fair value measurement aims to estimate an exchange price for the asset or liability being measured in the absence of an actual transaction for that asset or liability.

Financial Instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial Statement is a term used to describe the accounts.

'Funds' is a legal term for the money and other assets held on trust. A fund may be unrestricted and available to apply or spend on any of the purposes of the PBO or it may be restricted to a specified purpose or purposes.

Restricted funds may be either endowment or restricted income funds, depending on the nature of the restriction. Where the fund is not endowment and is held on trust for spending on specific purposes, it is known as a restricted income fund. Each fund is a pool of resources that is held and maintained separately from other pools because of the circumstances in which the resources were originally received, or the restrictions on that fund which determine the way those resources are subsequently to be treated. Refer to the SOFREP module 'Fund accounting' for the legal position as regards the various funds of a PBO.

Governance Costs are the costs associated with the governance arrangements of the PBO. These costs will normally include internal and external audit, legal advice for board and costs associated with constitutional and statutory requirements, for example the cost of board meetings and preparing statutory accounts.

Included within governance costs are any costs associated with the strategic as opposed to day-to-day management of the PBO's activities. These costs will include any emoluments for board membership, the cost of PBO employees involved in meetings with board and the cost of any administrative support provided to the board.

Governing Document is a legal term and means any document that sets out the PBO's purposes for the public benefit and how it is to operate. It may be a trust deed, constitution, memorandum and articles of association or will.

Grant Income is any voluntary income received by the PBO (or other transfer of property) from a person or institution. The income or transfer may be for the general purposes of the PBO, or for a specific purpose. It may be unconditional or be subject to conditions which, if not satisfied by the recipient PBO, may lead to the grant property acquired with the aid of the grant or part of it being reclaimed by the grant giver.

Entitlement to grant income may be subject to performance conditions, in which case it is classified as a performance-related grant and is recognized as the performance conditions are met.

Grant Payments are any voluntary payments (or other transfer of property) in favour of a person or institution made by a PBO in furtherance of its charitable aims. The payment or transfer may be for the general purposes of the recipient, or for some specific purpose such as the supply of a particular service. It may be unconditional, or be subject to conditions which, if not satisfied by the recipient, may lead to the grant, or property acquired with the aid of the grant or part of it being reclaimed by the PBO.

A PBO may make a performance-related grant, in which case it recognizes its liability, as the goods or services specified in the grant terms are provided by the recipient.

Heritage Assets are tangible and intangible assets with historic, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture.

Inalienable Asset is an asset held by a PBO which it must retain indefinitely. Inalienable assets have all of the following characteristics:

- **(i)** The asset is retained indefinitely for a PBO's own use and benefit to further its charitable aims.
- **(ii)** The PBO is effectively prohibited from disposing of the asset without external consent.

(iii) The asset, by its nature, will belong to a PBO's restricted funds and, depending on the trusts attached to the asset, may be part of the permanent endowment.

Disposal without external consent could be prohibited by the PBO's governing document, the donor's imposed conditions or in some other way. Normally, the asset will belong to the PBO's "permanent endowment", where it is held on trusts that contemplate its retention and continuing use but not its disposal.

However, in the case of a gift in kind of a "wasting asset", such as a building, a long lease or a non-durable artefact, the terms of trust may not have provided for its maintenance in perpetuity or its replacement. In that case, the endowment will be expended to the extent of the aggregate amount of its depreciation or amortization, properly provided for in the annual accounts (i.e. based on its currently anticipated useful life).

Intangible Asset is an accounting term for an identifiable non-monetary asset without physical substance. Such an asset is recognized when:

(i) It is separable, i.e. is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or
(ii) It arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

International Financial Reporting Standards (IFRS) are the standards and interpretations adopted by the International Accounting Standards Board (IASB). They comprise:
(i) the International Financial Reporting Standards;
(ii) the International Accounting Standards; and
(iii) Interpretations developed by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).

Inventories (also known as stock) are assets which are:
(i) Held for sale in the ordinary course of business;
(ii) In the process of production for sale; or
(iii) In the form of materials or supplies to be consumed in the production process or in the rendering or providing of services.
Investment management costs include the costs of:

(i) Portfolio management;
(ii) Obtaining investment advice;
(iii) Administration of the investments; and
(iv) Rent collection, property repairs and maintenance charges relating to investment properties.

Investment Property is an accounting term for property (land, a building and/or part of a building) that is held to earn rental income or for capital appreciation, or both, rather than for:

(i) Use by the PBO as functional property to further the PBO's charitable aims;
(ii) Use in the production or supply of goods or services or for administrative purposes; or
(iii) Sale in the ordinary course of business.

The investment property is either held by the owner or is leased by the lessee under a finance lease. Excluded from the definition is any property let to, and occupied by, another group company, and such property is not an investment property for the purposes of its own accounts or the group accounts. Also excluded are any properties let as programme related investments.

Liability is an accounting term for a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow of economic resources from the entity.

It includes an obligation of an entity to transfer economic benefits that results from a duty or responsibility obligating the entity either legally or practically (a constructive obligation), because it would be financially or otherwise operationally damaging to the entity not to discharge the duty or responsibility.

A moral obligation does not create a liability unless it meets the definition of a liability or the definition of a constructive obligation.

Material or **Materiality** is an accounting test of what elements of information should be given in a particular set of accounts (financial statements). Omissions or misstatements of items are material if they could individually or collectively influence the economic decisions of users taken on the basis of the accounts.

Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor in identifying whether it is material.

If there are two or more similar items, the materiality of the items in aggregate as well as of the items individually needs to be considered.

The person preparing the accounts is responsible for deciding whether an item is material. This process may result in different materiality considerations being applied, depending on which aspect of the accounts is being considered.

Measurement is the process of determining the monetary amounts at which the elements in the accounts are to be recognized and carried.

Onerous Contract is a contact in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected under the contract.

PBO is any institution established for purposes which are exclusively charitable in the Kenyan law. A PBO includes all those activities, administrative branches and funds falling within the scope of a single governing instrument or for which the board is otherwise legally liable to account. The reference to a single governing instrument includes a situation where instruments supplemental to the main instrument apply.

Performance-related Grant is the term used to describe a grant that has the characteristics similar to those of a contract, in that:

- **(i)** the terms of the grant require the performance of a specified service that furthers the objectives of the grant maker; and
- **(ii)** The payment of the grant receivable is conditional on a specified output being provided by the grant recipient.

Pooling Scheme is a class of Common Investment Fund that provides for the pooling of investments belonging to two or more PBOs that are administered by the same board.

Programme Related Investments are a type of social investment and are made directly in pursuit of the PBO's charitable purposes. The primary motivation for making a programme related investment is not for financial gain but to further the objects of the funding PBO. Programme related investments can generate some financial return, and the funding may or may not be provided on commercial terms. Such investments could include loans to individual beneficiaries or to other PBOs.

Provision is an accounting term for a liability of uncertain timing or amount. A provision is recognized when:

- **(i)** The PBO has a present obligation (a legal or constructive obligation that exists at the balance sheet date) as a result of a past event;
- **(ii)** It is probable that a transfer of economic benefits will be required to settle the obligation; and
- **(iii)** The amount can be reliably estimated.

Public Benefit Entity is defined by PBO act 2013: "an entity whose primary objective is to provide goods or services for the general public, community or social benefit and where any equity is provided with a view to supporting the entity's primary objectives rather than with a view to providing a financial return to equity providers, shareholders or members."

PBOs are one type of public benefit entity.

Recognition is the process of incorporating in the accounts (financial statements) an item that meets the definition of an "element" and which satisfies the following criteria:

- **(i)** It is probable that any future economic benefit associated with the item will flow to or from the entity.
- **(ii)** The item has a cost or value that can be measured with reliability.

Related Parties is a term used by the SOFREP that combines the requirements of PBO law and the Financial Reporting Standard applicable in Kenya. The term is used to identify those persons or entities that are closely connected to the reporting PBO or its board.

Related Party Transactions are the transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

Reporting PBO is the PBO preparing and filing the statutory annual report and accounts (financial statements) for itself and one or more connected PBOs or subsidiaries that it controls. The accounts of the reporting PBO will be consolidated where they include one or more wholly owned or controlled trading subsidiaries.

Reporting Date is the last date of the PBO's reporting period (its financial year).

Reporting Period is the accounting period (financial year) for the reporting PBO. The reporting period, which is normally 12 months' long, is the period of time over which the transactions of the PBO are measured and reported in the accounts (financial statements).

Reserves are defined by the SOFREP as that part of a PBO's income funds that is freely available to apply or spend.

This definition of reserves therefore excludes:

- **(i)** Permanent endowment funds;
- **(ii)** Expendable endowment funds;
- **(iii)** Restricted funds; and
- **(iv)** Any part of unrestricted funds not readily available for spending, specifically income funds that could only be realized by disposing of fixed assets held for PBO use and the carrying amount of programme related investments.

Resources Expended means all expenses incurred in the course of spending or applying the PBO's funds. This includes: all claims against the PBO that are recognized as liabilities by the board; all accruals and payments made by the board of an PBO; all losses on the disposal of Fixed assets (including investments); and all provisions for any impairment of tangible Fixed assets or programme related investments.

Restricted Funds may be either endowment or restricted income funds, depending on the nature of the restriction. Where the fund is not an endowment fund and is held on trust for spending on specific purposes, it is known as a restricted income fund.

The resources (the assets and liabilities) of each restricted fund are held and maintained separately from other funds. This is in recognition of the circumstances in which the resources were originally received, and/or the restrictions on that fund that determine the way those resources are subsequently to be treated.

Significant Activities are the activities that the board considers to be the main or the most important activities undertaken to further the PBO's aims and objectives in the reporting period.

Social Investment is a class of assets that comprises investments undertaken for both a financial return and to (in whole or part) further the investing PBO's charitable aims and objectives.

Standards as applied in this document refers to the Generally Accepted Accounting Standards i.e. IFRS and IPSAS

Statement of Financial Activities, analogous to a statement of comprehensive income, shows the incoming resources, the resources expended and transfers between funds during the reporting period (the financial year). The statement reconciles total funds brought forward and total funds carried forward at the end of the financial year.

Statement of Financial Position (also known as a balance sheet) is a statement of the assets, liabilities and funds of the PBO at the end of the financial year.

The Board of Directors (the Board) is the body which under the governing document is responsible for the general control and management and administration of the reporting PBO. This body may be referred to using any other name that is generally accepted e.g. board of trustees, governing body etc.

Unrestricted Fund is a legal term for the unexpended resources held by a PBO on trust, comprising money and other assets that can be used for any of the charitable aims of the PBO. The use of unrestricted funds is not restricted to any particular charitable purpose of the PBO.

APPENDIX II: THE SOFREP TECHNICAL COMMITTEE

Henry Ochindo	NGO Board
Juliana Akinyi	NGO Board
Stephen Monyoncho	NGO Board
Bernard Bwoma	NGO Board
David Njane	NGO Board
Nixon Omindi	ICPAK
Wilson Kipkazi	NGO Council
Wycliffe Ayaka	Viwango Kenya

UNDP Representatives

Wambua Kituku	UNDP- Amkeni Wakenya
Zainab Ali	UNDP- Amkeni Wakenya

Consultants

Meshack Matengo	UNDP- Amkeni Consultant
Samuel Njoroge	UNDP- Amkeni Consultant

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- Technical Guide on Accounting and Auditing in Not-for-Profit Organizations issued by the Research Committee of the Institute of Chartered Accountants of India (2003)
- The Companies Act Chapter 486 (Kenya) revised edition 2012 [2010]
- The Income Tax Act chapter 470 (Kenya) revised edition 2012 (2010)
- The Non -Governmental Organizations Co-ordination (Amendment) Regulations, 2010 (Kenya)
- The proceeds of crime and anti-money laundering regulations, 2013 (Kenya)
- The public benefit organizations act, 2013 no. 18 of 2013 (Kenya)