

7. CHART OF ACCOUNTS

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

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

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

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

Important Note

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

Sample Chart of Accounts

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

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

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

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

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

Description of Commonly-Used Accounts

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

ACCOUNT TITLE AND DESCRIPTION

A S S E T S

CASH AND CASH EQUIVALENTS

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

Cash On Hand

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

Petty Cash Fund

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

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

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

Cash in Bank

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

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

Cash equivalents

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

RECEIVABLES

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

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

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

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

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

Advances to Officers and Employees

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

Accounts Receivable-Others

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

Loans Receivable-Term Loan

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

Loans Receivable- Bridge Financing

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

Loans Receivable-Credit Line

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

Allowance for Doubtful Accounts

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

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

INVENTORY

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

PREPAID EXPENSES

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

INVESTMENTS

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

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

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

PROPERTY AND EQUIPMENT

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

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

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

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

ACCUMULATED DEPRECIATION

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

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

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

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

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

LIABILITES

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

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

Accounts Payable-Trade

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

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

Accounts Payable-Employees

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

Accrued Expenses

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

Advances from Officers/Employees

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

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

Other Current Liabilities

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

Deferred Revenue/Support

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

Funds Held in Trust

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

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

NET ASSETS**Unrestricted Funds or General Funds**

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

Restricted Funds

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

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

Property and Equipment Fund

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

REVENUES

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

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

Grants

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

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

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

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

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

Donations

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

Non-Cash Donations/Contributions

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

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

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

Other Income

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

EXPENSES

- A. Functional reporting, as its name implies, describes the activity for which the NPO incurs an expense. Expenses may be classified per function, as follows:
 - 1. Program/Project Expense
 - 2. Administrative Expenses, further classified as:
 - a. General expenses
 - b. Human resource development
 - 3. Fund raising expenses

Program/Project Expenses

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

Program/Project Support Activities Expenses

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

Administrative Expenses

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

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

Fund raising Expenses

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

Important Note

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

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

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

GAINS OR LOSSES

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

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

JOINT COSTS

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

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