

# Chapter-1

# Accounting For Not-For Profit Organisation



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# **Not-For Profit Organizations**

Not-For Profit Organizations are those type of organizations established for the purpose of rendering service. They are not expected to earn profit, but are organized mainly for social, cultural, educational, religious and charitable purposes. They are formed for the promotion of education, science, culture and religion.

**Examples:** Sports and arts clubs, hospitals, libraries, charitable institutions like orphanages, old age homes, trade union, educational institutions, religious institutions etc




# Features of Not-For Profit Organisations

- Their main objective is to render service not profit.
- They do not normally engage in trading activities.
- They maintain cash book to record all daily cash receipts and payments in chronological order.
- At the end of the year they prepare Receipt and Payment account-it is the summary of Cash Book.
- They usually maintain a ledger containing the accounts of all incomes, expenses, assets and liabilities which facilitates the preparation of financial statements at the end of the accounting period.



# Features of Not-For Profit Organisations

- The main sources of income of such organizations are subscription from members, donations, legacies, grant, income from investment etc. 
- The funds raised by such organizations through various sources are credited capital fund or general fund.
- The surplus generated in the form of excess of income over expenditure is not distributed amongst the members. It is simply added to capital fund. They do not maintain capital account, instead they maintain capital fund.
- They are non-profit making entities and so they are not required to prepare Trading and Profit & Loss Account.



# Difference between Profit Organisation and Not for Profit Organisation

<b>Basis</b>	<b>Profit Organisation</b>	<b>Not for Profit Organisation</b>
<b>Objective</b>	<b>To earn profit</b>	<b>To render service</b>
<b>Owners</b>	<b>Shareholders / Proprietors</b>	<b>Members</b>
<b>Result of Activities</b>	<b>Profit/Loss</b>	<b>Surplus/deficit</b>
<b>Important Accounts</b>	<b>Trading Profit and Loss Account, Balance Sheet</b>	<b>Receipts and Payments Account, Income and Expenditure Account, Balance Sheet</b>
<b>Distribution of profit</b>	<b>Distribute among owners</b>	<b>Not distributed but added to Capital Fund</b>



# **Final Accounts of Not-For Profit Organisations**

Not for profit organisations are required to provide necessary financial information to members, contributors, and Registrar of Societies. It is also necessary to know whether the income during the year is sufficient to meet the expenses or not. The final accounts of a Not-For Profit Organisations consists of the following:

1. **Receipts and Payment Account**-Gives summarised picture of various receipts and payments
2. **Income and Expenditure Account**-To find out surplus/deficit
3. **Balance Sheet**-To show the financial position




# **1.Receipts and Payment Account**

Receipt and payment account is the summary of cash and bank transaction under various heads. It is similar to a cash book prepared by trading concern. Receipt and payment account records all cash receipts and all cash payments, irrespective of whether they relate to the current period, previous period succeeding period or whether they are of capital or revenue nature. Receipt and payment account never records non cash items like depreciation, outstanding expenses, accrued incomes etc. It opens with opening cash and bank balance and ends with closing cash and bank balance. If there is a bank over draft at the end it shall be shown on its debit side as the last item.



# Receipts and Payment Account

Items	Record / Not Record
Current year's receipts	Record
Previous year's receipts	Record 
Succeeding year's receipts	Record
Capital receipts	Record
Revenue receipts	Record
Outstanding receipts/payments	Not Record
Non cash items like depreciation	Not Record



# Receipts and Payments Account For the Year Ended.....

Receipt and payment account for the year ending.....

Receipts	Amount	Payments	Amount
Balance b/d		Balance b/d (Bank o/d)	XX
Cash in hand	XX	Wages and salaries	XX
Cash at bank	XX	Rent	XX
Subscriptions	XX	Rent and rates	XX
General donations	XX	Insurance	XX
Sale of old news papers	XX	Printing and stationery	XX
Sale of scraps	XX	Postage and courier	XX
Locker rent	XX	Advertisement	XX
Interest on investment	XX	Sundry expenses	XX
Proceeds from charity show	XX	Telephone charges	XX
Miscellaneous receipts	XX	Entertainment expenses	XX
Grant-in -aid	XX	Audit fee	XX
Legacies	XX	Honorarium	XX
Specific donations	XX	Repair and rewards	XX
Sale of investments	XX	Upkeep of grounds	XX
Sale of Fixed Assets	XX	Conveyance	XX
Life Membership Fees	XX	News papers and periodicals	XX
Entrance Fees	XX	Purchase of assets	XX
Receipts on account of specific purpose funds	XX	Purchase of investments	XX
Interest on specific fund investment	XX	Balance c/d	
Balance b/d (Bank Overdraft)		Cash in hand	XX
		Cash at bank	XX
	<u>XX</u>		<u>XX</u>



***Capital Receipt:*** The Non-recurring receipt of the organisation is called a capital receipt. It is never considered as an income. It should be shown on the liability side of the Balance Sheet.

***Example:*** Specific donations, Life Membership Fees, Sale of investments, sale proceeds of fixed assets, loans from banks, etc. Capital receipt should be shown on the liabilities side of the Balance Sheet.

***Revenue Receipt:*** Receipts which are recurring in nature and which are available for meeting all day to day expenses (revenue expenditure) of a concern are known as "Revenue receipts",

***Example:*** Subscriptions, interest on investment received, sale of old news paper, general donations, profit on sale of assets, locker rent, commission received, rent received, dividend received etc.



**Capital expenditure:** Any expenditure which is incurred in acquiring or increasing the value of a fixed asset is termed as capital expenditure. Such expenditure yields benefit over a long period and hence treated as an asset.

**Example:** Purchase of Fixed Assets, Books, Investments etc.

**Revenue expenditure:**



Revenue expenses are shorter-term expenses and the full benefit of which is received during one accounting period. Such expenditure does not result in an increase in the earning capacity of the business but only helps to maintaining the existing earning capacity.

**Examples:** Salaries, Telephone Expenses, Electricity Charges, Postage and Stationery, Depreciation, Audit fees. Loss on sale of machinery, Advertisements, Insurance, Sports expenses



# **Salient features of Receipt and payment account**

- It is a real account.
- It is a summary of cash book.
- It is prepared at the end of an accounting year on the basis of cash book.
- It is debited with all cash receipts and credited with all cash payments.
- It is prepared on cash basis (records only actual cash receipts and payments).
- It records all receipts and payments of current year, previous and succeeding years.
- It records all receipts and payments whether they are of capital and revenue nature.
- Non cash items like depreciation, outstanding expenses, accrued income etc are never shown in this account.
- It begins with opening cash in hand/at bank and ends with closing cash in hand/at bank.



## **Steps in the preparation of receipts and payments account**

- Take the opening balances of cash in hand and at bank and enter the same in the debit side.( In case there is bank over draft at the beginning it should be entered on the credit side)
- Show the total amounts of all receipts on its debit side irrespective of their nature (i.e capital or revenue) and period (i.e current year,previous or succeeding years)
- Show the total amounts of all payments on its credit side irrespective of their nature and period.
- Accrued incomes and outstanding expenses etc not to be entered in this account as they do not involve inflow or out flow of cash.
- Find out the difference between the total of the debit side and the total of the credit side of the account and if the total of the debit side is more than the total of the credit side, it is 'closing cash in hand/bank'.



## **2. Income and expenditure account**

It is just like a profit and loss account prepared by trading concern. It is prepared on accrual basis. It records only revenue items of current year and the balance at the end of the year represents surplus or deficit. All revenue expenditure and losses relating to the current year are recorded in the debit side and all revenue incomes and gains relating to current year are recorded in the credit side. It is necessary to adjust outstanding and prepaid expenses/income in this account as this account records only current year's revenue items. Non cash items like depreciation also recorded in it.



# **Accrual Basis of Accounting**

The income and expenditure account is prepared on accrual basis. It is an accounting method under which revenue is recognized on the income statement when they are earned rather than when the cash is received.

## **Cash Basis of Accounting**

In this method recognizes revenues and expenses at the time cash is received or paid out.



# Features of Income and Expenditure account

- It is a nominal account
- It is a summary of income and expenditure for the accounting year.
- It records only the revenue incomes and revenue expenses of the current year only.
- Non cash items like depreciation, outstanding expenses, accrued incomes etc. are shown in this account.
- It never record capital receipts or payments.
- It never starts with a balance.
- Its closing balance will be surplus or deficit. Surplus is added to Capital fund and deficit is deducted from it



# **Steps in the preparation of income and expenditure account**

- Follow the receipts and payments account thoroughly.
- Exclude the opening and closing balances shown in the Receipts and Payments Account.
- Exclude the capital receipts and capital payments.
- Identify the revenue incomes relating to the current year from the debit side of Receipts and Payment Account and record it in the income side. Any accrued income must be added and income received in advance must be deducted .



# Steps in the preparation of income and expenditure account

- Identify the revenue expenses relating to the current year from the credit side of Receipts and Payment Account and record it in the expenditure side. Any outstanding expenses must be added and prepaid expenses must be deducted .
- Consider the following items not appearing in the receipt and payment account that need to be taken into this account for determining the surplus/deficit for the current year:

Depreciation of fixed assets

Provision for doubtful debts

Profit or loss on sale of fixed assets.



# FORMAT

## Income and Expenditure Account

Expenditure	Amount	Income	Amount
Salaries		Subscription	
Honorarium		General Donation	
Rent, rates and taxes		Entrance Fee (Not Capitalized)	
Postage		Hall rent	
Printing and stationery		Locker Rent	
Telephone charges		Sale of old news papers	
Charities		Sale of grass	
Wages		Interest received	
Upkeep of grounds		Sale of refreshments	
Insurance		Profit on sale of F.Assets	
Electricity charges		Miscellaneous receipts	
Interest		<b>Deficit</b> (Excess of expenditure over income)	
General exp			
Entertainment Exp			
Bank Charges			
Conveyance			
Repairs			
Newspapers&periodicals			
Loss on sale of F.Assets			
Depreciation on F.Assets			
<b>Surplus</b> (Excess of income over expenditure)			



# Difference between I&E Account and R&P Account



Basis	Income & Expenditure Account	Receipts & Payments Account
Nature	Like a Profit & Loss Account prepared by Trading concern	It is a summary of the cash book
Items to be Recorded	It records income and expenditure of revenue nature only	It records receipts and payments of revenue as well as capital nature
Period	It records revenue items relates to the current year only	It records receipts and payments relate to the current year previous year and succeeding year



# Difference between I&E Account and R&P Account

Basis	Income & Expenditure Account	Receipts & Payments Account
Type of Account	Nominal Account	Real Account
Debit side	Records revenue expenses and losses	Records all cash and bank receipts
Credit side	records revenue incomes and gains	Records all cash and bank payments
Opening balance	There is no opening balance	Balance in the beginning represents cash in hand/at bank
Closing balance	Balance at the end represents surplus or deficit	Balance at the end represents closing cash in hand/at bank



### 3. Balance sheet

Not-For Profit Organizations' prepares balance sheet to display the financial position of the organization. The preparation of the balance sheet is on the same pattern as that in the case of a profit organizations. However, in Not for Profit organization, there is **capital fund** in place of **capital** in profit organization and the surplus or deficit should be added to or deducted from capital fund, as the case may be. Capitalised portion of legacies, entrance fees, life membership fees etc. are directly added to the capital fund. Specific purpose funds like building fund, sports fund etc .are shown separately in the liability side of the Balance sheet.



# Capital Fund

In Not for profit organisation, there will be capital fund in place of capital. It is the excess of assets over liabilities. It is also called General Fund. Any surplus as per Income and Expenditure is added to it. If there is deficit, it should be deducted. Capitalised portion of legacies, entrance fees, life membership fees etc. are directly added to the capital fund.




# Steps in the preparation of balance sheet

- Take the capital fund as per the opening balance sheet (or given). If opening capital fund is not given, then the opening balance sheet is prepared on the basis of opening balance of assets and liabilities, to find out the opening capital fund.
- Take opening capital fund to the liability side and add/less the surplus/deficit as the case may be.
- Add capitalized portion of entrance fees, legacies, life membership fees etc. (if any) received during the year to Capital Fund.
- Outstanding expenses, income received in advances etc. as on the closing date are shown on the liability side



# Steps in the preparation of balance sheet

- Accrued incomes, prepaid expenses etc. are shown on the asset side.
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- Closing cash/bank balances are shown on the asset side
  - Assets at the beginning of the year should be adjusted with additions, disposal, depreciation, if any.
  - New assets purchased should be shown on the asset side.
  - Any special purpose fund like building fund, tournament fund etc. should be shown separately in the liability side.



# FORMAT

## Balance Sheet

Liabilities	Amount	Assets	Amount
<b>Capital Fund:-</b>		Cash in hand/at bank	xx
Opening balance                      xx		Outstanding income	xx
Add: Surplus                              xx		Prepaid expenses	xx
Or		Closing stock of consumable	
Less: Deficit                              (xx)		items	xx
Add: Capitalized		Fixed assets	xx
portion of:		Special fund investment	xx
Legacies                                      (xx)			
Entrance fee                                (xx)			
Life membership fee <u>(xx)</u>	xx		
<b>Special purpose fund/ donations:</b>			
Previous balance (if any)              xx			
Add: Receipt for the item			
During the year                              xx			
Add: Interest earned on fund			
investment                                      xx			
Less: Expenses paid out of			
fund <u>xx</u>	xx		
	xx		
Creditors	xx		
Bank over draft	xx		
Outstanding expenses	xx		
Income received in advance	xx		
	xx		xx



# Subscription

Subscription is the membership fees collected from members periodically .It is the main source of income of a not for profit organization. Subscriptions received from members during the year are recorded as receipt in the receipt and payment account and subscriptions for the current year are recorded as income in the income and expenditure account. It may be noted that receipt and payment account records actual subscription received during the year, it may include current year's subscription, previous year's subscription and succeeding years subscription. But I & E Account records only current year's subscription.



***Calculation of amount of subscription to be credited to Income  
and Expenditure A/C (Current years subscription)***

<b>Subscription received during the year</b>		<b>xx</b>
<b>Add:</b>		
<b>Closing out standing</b>	<b>xx</b>	
<b>Opening pre-received</b>	<b>xx</b> <hr/>	<b>xx</b> <hr/>
		<b>xx</b>
<b>Less:</b>	<b>xx</b>	
<b>Opening out standing</b>	<b>xx</b> <hr/>	<b>xx</b> <hr/>
<b>Closing pre-received</b>		
<b>Income from subscription during the current year (To be shown in the I &amp;E Account)</b>		<b>xx</b>



# We can calculate the amount of subscription to be credited I & E Account by preparing a Subscription Account

## Subscription Account

Date	Particulars	Amount	Date	Particulars	Amount
	Opening outstanding	XX		Opening pre-received	XX
	<b>Income and expenditure</b>			Receipts and	
	<b>a/c</b> (subscription for the	?		payment account	XX
	current year)			(subscription received	
	Closing pre-received	XX		during the year)	
				Closing outstanding	XX
		<u>XX</u>			<u>XX</u>



# Special Purpose Funds

The Not-for-Profit Organisations generally create special funds for certain purposes such as match fund, tournament fund, sports fund, prize funds etc .The income and expenses relating to that fund should not be shown in the shown in the I & E Account .But income should be added to the fund and expenses should be deducted from such fund on the liability side of the Balance sheet .Sometimes such funds are invested in securities and the income earned on such investments is added to the respective fund .However,if after adjustment of income and expenses the balance in specific fund is negative,it is transferred to the debit side of income and expenditure account.



# Treatment of Special purpose Fund

## Balance Sheet

Liabilities	Amount	Assets	Amount
<b><u>Tournament fund:</u></b>			
Fund as per Receipts and payment- Account XX			
Add:			
Collection for Tournament XX			
Donation for Tournament XX			
Interest from Tournament- Fund Investment <u>XX</u> XX			
Less:			
Tournament Expense <u>XX</u>	XX		



# Income with adjustments like interest received, commission received etc.



## Treatment of Income with Adjustments

### Income and Expenditure Account

Expenditure	Amount	Income	Amount
		Income received as per R&P Account	XX
		Add:	
		Closing Accrued Income	XX
		Opening Pre-received	<u>XX</u>
			XX
		Less:	
		Opening Accrued Income	XX
		Closing Pre-received	<u>XX</u>
			XX



# Expenses with adjustments like salaries,rent etc.

## Treatment of Expenses with Adjustments:

### Income and Expenditure Account

Expenditure			Amount	Income	Amount
Expense paid as per R&P Account		XX			
Add:					
Closing outstanding		XX			
Opening Pre -paid		<u>XX</u>			
		XX			
Less:					
Opening Outstanding	<u>XX</u>				
Closing Pre -paid	<u>XX</u>	<u>XX</u>	XX		



# Treatment of Expenditure Stock items

## Expenditure Stock Item

Items like Printing and Stationery, sports materials, bats, balls etc are called expenditure stock items. In this case, actual consumption is debited to Income and Expenditure Account. It is calculated as follows:

**Calculation of Expense (Eg. stationery consumed) during the year:**

Amount paid for stationery (R&P A/C)		XX
Add:		
Opening stock of stationery		XX
Closing outstanding (Cr)		XX
Opening Prepaid		<u>XX</u>
		XX
Less:		
Closing stock of stationery	XX	
Opening outstanding (Cr)	XX	
Closing prepaid	<u>XX</u>	<u>XX</u>
Stationery Consumed During the Year		<u>XX</u>

Note: Stock of stationery is an asset, Closing stock of stationery is shown on the asset side of the closing Balance Sheet.