

## 1. Details of Module and its structure

Module Detail	
Subject Name	Accountancy
Course Name	Accountancy 03 (Class XII, Semester - 1)
Module Name/Title	Accounting for Not-for-Profit Organisations – Part 1
Module Id	leac_10101
Pre-requisites	Knowledge of Financial Statements of Business Entities; Understanding of rules of Debit & Credit; Capital & Revenue receipts & expenditure.
Objectives	<ol style="list-style-type: none"><li>1. Meaning and Characteristics of Not-for-Profit Organisation</li><li>2. Accounting Records of Not-for-Profit Organisations</li><li>3. Receipt and Payment Account</li><li>4. Income and Expenditure Account</li><li>5. Balance Sheet</li></ol>
Keywords	NPO, Not-For-Profit Organisation, Receipt and Payment Entries

## 2. Development Team

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## **Introduction**

The not-for-profit organizations provide services to their members or the public in general. Some examples of such organisations are like Charitable Trust, Society, Schools, Clubs, Trade Unions, Religious Organisations and Welfare Societies that work for the promotion of art and culture.

These organisations have service to society the main objective and not the profit as the case of organisations in business. These organisations do not undertake any business activity, and are managed by trustees who are fully accountable to their members and the society for the utilization of the funds raised for social development and not for profit. Hence, they also have to maintain proper accounts and prepare the financial statement which take the form of Receipt and Payment Account; Income and Expenditure Account and Balance Sheet.

Besides a legal requirement it also help them to keep track of their income and expenditure. In this chapter you shall learn about the accounting aspects relating to Not-for-Pofit Organisation.

### **1.1 Meaning and Characteristics of Not-for-Profit Organisation**

Not-for-Profit Organisations refer to the organisations that are for used for the welfare of the society and are set up as charitable institutions which function without any profit motive. Their main aim is to provide service to a specific group or the public at large. Normally, they do not manufacture, purchase or sell goods and may not have credit transactions. Hence they need not maintain many books of account (as the trading concerns do) and Trading and Profit and Loss Account.

The funds raised by such organisations are credited to capital fund or general fund. The major sources of their income usually are Subscriptions from their members Donations, Grants-in-Aid, Income from Investments, etc. The main objective of keeping records in such organisations is to meet the statutory requirement and help them in exercising control over utilisation of their funds. They also have to prepare the financial statements at the end of each

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accounting period (usually a financial year) and ascertain their income and expenditure and the financial position, and submit them to the statutory authority called Registrar of Societies.

**The characteristics of not-for-profit organisations are:**

- 1) The not-for-profit organisations are formed for providing service to a specific group of people or public at large such as education, health care, recreation, sports, Medical, Blood donation Camps and so on without any consideration of caste, creed and colour. Its aim is to provide service for free of cost or at nominal cost, and the main aim is not to earn profit.
- 2) These are managed by charitable trusts/societies and subscribers of such organisation are called members.
- 3) Their activities are usually managed by a managing/executive committee elected by its members.
- 4) The main sources of income of such organisations are:
  - (i) Subscriptions from members,
  - (ii) Donations,
  - (iii) Legacies,
  - (iv) Grant-in-aid,
  - (v) Income from investments, etc.
- 5) The funds raised by such organisations through various sources are credited to capital fund or general fund.
- 6) The surplus generated in the form of excess of income over expenditure is not distributed amongst the members. It is simply added in the capital fund.
- 7) The Not-for-Profit Organisations earn their reputation on the basis of their contributions to the welfare of the society rather than on the customers' or owners' satisfaction.
- 8) The accounting information provided by such organisations is meant for the present and potential contributors meet the statutory requirement.

**1.2 Accounting Records of Not-for-Profit Organisations**

These organisations are not engaged in any trading or business activities. Just like business entities they also maintain a ledger containing the accounts of all receipt, payment, incomes, expenses, assets and liabilities which facilitates the preparation of financial statements at the end of the accounting period.

In addition, they are required to maintain a stock register of all fixed assets and the usable items.

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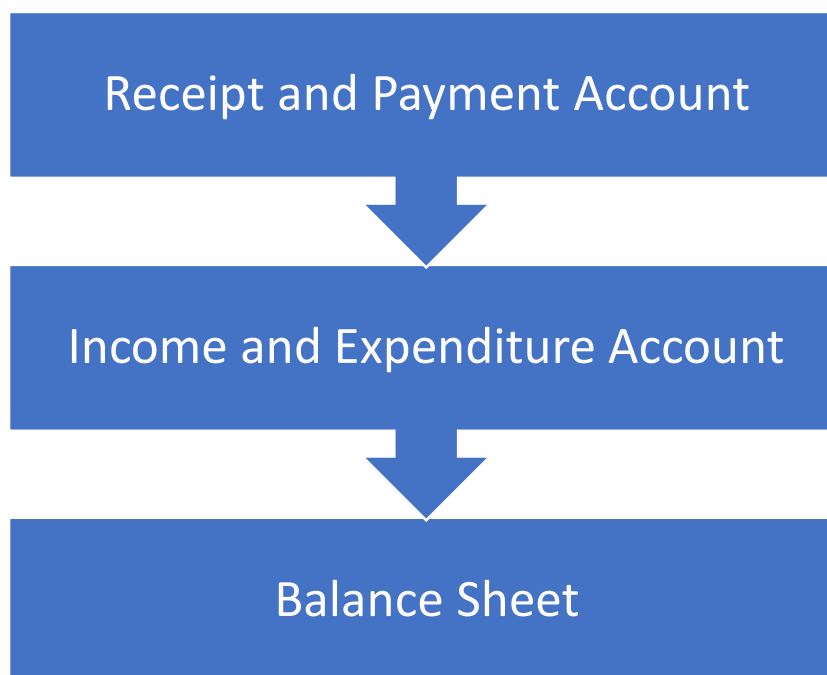
They maintain Capital Fund which is also called General Fund that goes on accumulating due to surplus generated, life membership fee, legacies, etc. received from year to year.

**Final Accounts or Financial Statements:**

The Not-for-Profit Organisations are also required to prepare financial statements at the end of each accounting period. Although these organisations are non-profit making entities and they are not required to make Trading and Profit & Loss Account but it is necessary to know whether the income during the year was sufficient to meet the expenses or not.

Not only that they have to provide the necessary financial information to Members, Donors, and Contributors but also to the Registrar of Societies.

For this purpose, they have to prepare their final accounts at the end of the accounting period and the General Principles of Accounting are fully applicable in their preparation. The final accounts of a 'Not-for-Profit Organisation' consist of the following:



**(i) Receipt and Payment Account**

The Receipt and Payment Account is the summary of cash and bank transactions which helps the preparation of Income and Expenditure Account and the Balance Sheet. Besides, it is a legal requirement as the Receipts and Payments Account has also to be submitted to the Registrar of Societies along with the Income and Expenditure Account, and the Balance Sheet.

**(ii) Income and Expenditure Account**

It is like to Profit and Loss Account. The Not-for-Profit Organisations usually prepare the Income and Expenditure Account and a Balance Sheet with the help of Receipt and Payment Account. However, this does not simply that they do not make a trial balance.

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### **(iii) Balance Sheet**

In order to check the accuracy of the financial position of the not for profit organisation is to prepare for the balance sheet with the help of a trial balance which facilitate the preparation of accurate Receipt and Payment Account as well as the Income and Expenditure Account and the Balance Sheet.

### **1.3 Receipt and Payment Account**

"A Receipt and Payment Account is a summarized record of the cash/bank transactions as in the Cash Book, analysed and classified under suitable headings, including the opening and closing balances".

Non-for-Profit Organizations prepare a Receipt and Payment Account at the end of accounting year. With the help of this account and some additional information, For example, Subscriptions received from the members on different dates which appear on the debit side of the cash book, shall be shown on the receipts side of the Receipt and Payment Account as one item with its total amount. Similarly, Salary, Rent, Electricity Charges paid from time to time as recorded on the credit side of the cash book but the total Salary paid, total Rent paid, total Electricity Charges paid during the year appear on the payment side of the Receipt and Payment Account.

Thus, Receipt and Payment Account gives summarised picture of various receipts and payments, irrespective of whether they affect to the current period, previous period or succeeding period or whether they are of capital or revenue nature. It may be noted that this account does not show any non-cash items like depreciation.

The opening balance in Receipt and Payment Account represents cash in hand/cash at bank which is shown on its receipts side and the closing balance of this account represents cash in hand and bank balance as at the end of the year, which appear on the credit side of the Receipt and Payment Account.

## Format of Receipt and Payment Account

### Receipt and Payment Account for the year ending-----

Dr.			Cr.
Receipts	Amt. in (₹)	Payments	Amt. in (₹)
Balance b/d		Balance b/d (Bank overdraft)	xxx
Cash in Hand	xxx	Wages and Salaries	
Cash at Bank	xxx	Rent	xxx
Subscriptions	xxx	Rates and Taxes	xxx
General Donations	xxx	Insurance	xxx
Sale of newspaper/periodicals/waste paper	xxx	Printing & Stationery	xxx
Sale of old sports materials		Postage and Courier	xxx
Interest on fixed deposits		Advertisement	xxx
Interest/Dividend on general investments	xxx	Sundry expenses	xxx
Locker Rent	xxx	Telephone charges	xxx
Sale of Scraps		Entertainment expenses	xxx
Proceeds from charity show	xxx	Audit fees	xxx
Miscellaneous receipts	xxx	Honorarium	
Grand-in-aid	xxx	Repair and Renewals	xxx
Legacies	xxx	Upkeep of ground	xxx
Specific Donations	xxx	Conveyance	xxx
Sale of Investments	xxx	Newspaper & Periodicals	xxx
Sale of Fixed Assets		Purchase of Assets	
Life membership fees	xxx	Purchase of Investment	xxx
Entrance fees	xxx	Balance c/d	
Receipts on account of specific purpose funds	xxx	Cash in hand	xxx
Interest on specific funds	xxx	Cast at bank*	xxx
Investments	xxx		xxx
Balance b/d (Bank overdraft)*	xxx		xxx
	xxx		xxx

\* There will be either of the two amounts i.e., each at bank or bank overdraft, not both.

**Example:** From the following list of balances, receipts & expenses related to Anmol Sharma Youth Organisation, Bahal, prepare a Receipt and Payment account for the year ending 31st March 2019:

Particulars	Amt. in (₹)	Particulars	Amt. in (₹)
Opening cash balance	1000	Sale of old sports materials	800
Opening bank balance	2500	Donation received	4500
Subscriptions collected for		Rent paid	800
2016-17      500		Sports materials purchased	3200
2017-18      2500		Purchase of refreshments	500
2018-19      1500	4500	Expenses for maintenance	1500
Sale of refreshments	800	Salary paid	1500
Entrance fees	1000	Tournament expenses	2000
		Furniture purchased	1000
		Office expenses	500
		Closing cash in hand	500

**Ans: In the books of Anmol Sharma Youth Organisation, Bahal**

Dr.

For the year ended 31st March 2019

Cr.

Receipts	Amt. in (₹)	Payments	Amt. in (₹)
Balance b/d	-	Rent	800
Cash	1000	Sports material purchased	3,200
Bank	2500	Maintenance expenses	1,500
Subscriptions		Salary	1,500
2016-17      500		Tournament expenses	2,000
2017-18      2500		Furniture purchased	1,000
2018-19      1500	4500	Office expenses	500
Sale of refreshments	800,	Purchase of refreshment	500
Entrance fees	1,000	Cash	500
Donation received	4,500	Bank (bal. figure)	100
Sale of old sports materials	800		
	<b>11,600</b>		<b>11,600</b>

### Illustration 1

From the following particulars relating to Punjabi Bagh Sports Club, Delhi, prepare a Receipt and Payment account for the year ending March 31, 2019:

Receipts	Amt. in (₹)	Payments	Amt. in (₹)
Opening cash balance	1,500	Sale of old sports materials	1,000
Opening bank balance	8,000	Donation received for pavilion	5,000
Subscriptions collected for 2016 Rs. 500 2017 Rs. 5,500 2018 Rs. <u>1,000</u>	7,000	Sports materials purchases	5,500
Sale of refreshments	1,200	Rent paid	4,000
Entrance fees received	1,500	Purchase of refreshment	500
		Expenses for maintenance of tennis court	3,000
		Salary paid	3,000
		Furniture purchased	2,000
		Tournament expenses	3,000
		Office expenses	1,500
		Closing cash in hand	500

**Solution:**

**Books of Punjabi Bagh Sports Club, Delhi**

Receipt and Payment Account

Dr.

For the year ending March 31, 2019

Cr.

Receipts	Amt. in (₹)	Payments	Amt. in (₹)
Balance b/d	-	Sports material purchased	5,500
Cash	1,500	Rent	4,000
Bank	8,000	Expenses for maintenance of tennis court	3,000
Subscriptions		Salary	3,000
2017 500		Tournament expenses	3,000
2018 5,500		Furniture purchased	2,000
2019 1,000	7,000	Office expenses	1,500
Sale of refreshments	1,200	Purchase of refreshment	500
Entrance fees	1,500	Balance c/d	
Donation received from pavilion	5,000	Cash	500



Sale of old sports materials	1,000	Bank (Balancing figure)	2,700
	<b>25,200</b>		<b>25,200</b>

#### 1.4 Income and Expenditure Account

The Income and Expenditure Account is a summary of all items of incomes and expenses which relate to the current accounting year. It is prepared with the objective of finding out the Surplus or Deficit arising out of current incomes and current expenses. It is quite similar to the Trading and Profit and Loss Account of a trading concern and is prepared in similar lines.

Income and Expenditure Account is prepared on an accrual basis. All incomes and expenses relating to the current accounting year, whether they are actually received and paid or not, are taken into consideration. Expenditure is recorded on the debit side and income is recorded on the credit side. A distinction is made between Capital and Revenue items and only Revenue items are included in Income & Expenditure Account.

Income and Expenditure Account is a 'Nominal Account' in nature. Therefore, the rule of nominal account (debit all expenses and losses and credit all incomes and gains) is followed while preparing it. While preparing the account, only items of revenue nature are recorded and all items of capital nature are ignored. For example, the profit earned or loss suffered on the sale of an asset will be recorded in it but the amount received from the sale of an asset will not be recorded in it.

The closing balance of this account shows a Surplus or Deficit for the year. If the credit side exceeds the debit side, there is Surplus. On the other hand, if the Debit side exceeds the Credit side, there is a Deficit. The Surplus is added to the Capital Fund while the Deficit is deducted from the Capital Fund.

#### Illustration 1

From the Receipt and Payment Account given below, prepare the Income and Expenditure Account of India Social Club, Delhi for the year ended March 31, 2019.

#### Receipt and Payment Account

Dr. For the year ending March 31, 2019 Cr.

<b>Receipts</b>	Amount (Rs.)	<b>Payments</b>	Amount (Rs.)
Balance b/d (Cash in hand)	4,500	Rent Salary	2,000 3,000

Subscriptions	25,000	Electricity	2,000
Entrance Fees	2,500	Taxes	1,500
Rent of hall	900	Printing & Stationery	400
Donations	3,000	Sundry expenses	1000
Sale of investments	3,500	Books purchased	8,000
		Govt. bonds purchased	10,000
		Fixed deposit with bank	8,000
		(on 31.03.2019)	
		Balance c/d	
		Cash in hand      500	
		Cash at bank      2,000	2,500
	<b>39,400</b>		<b>39,400</b>

**Solution:**

**India Social Club, Delhi**

Income and Expenditure Account

Dr.

For the year ending March 31, 2019

Cr.

<b>Expenditure</b>	Amount (Rs.)	<b>Income</b>	Amount (Rs.)
Rent	2,000	Subscriptions	25,000
Salary	3,000	Entrance Fees	2,500
Electricity	2,000	Donation	3,000
Taxes	1,500	Rent of hall	900
Printing & Stationery	400		
Sundry expenses	1,000		
<b>Surplus</b>	19,500		
<i>(Excess of income over expenditure)</i>			
	<b>31,400</b>		<b>31,400</b>

**Illustration 2**

From the under mentioned Receipt and Payment Account for the year ending March 31, 2018 of Chaitanya Club, Pune prepare an Income and Expenditure Account for the same period:



Postage & Stationery	100	Add: Outstanding Interest <u>100</u>	600
Entertainment exp. 800		Interest on Investment	300
Add: Outstanding exp. <u>500</u>	1,300	Hall Rent	300
Miscellaneous expenses	500		
Depreciation on furniture	450		
<b>Surplus</b>	<b>12,150</b>		
<i>(Excess of income over expenditure)</i>			
	<b>19,200</b>		<b>19,200</b>

#### 1.4.2 Distinction between Income and Expenditure Account and Receipt & Payment Account

Basis of distinction	Income and Expenditure Account	Receipt and Payment Account
<b>1. Nature</b>	It is like a Profit and Loss Account	It is the summary of the cash book
<b>2. Commencement</b>	It does not have any opening or closing balance	It must necessarily commence with the opening balance of cash brought over from the preceding period if any.
<b>3. Period</b>	It is related only to the current period.	It doesn't necessarily relate to current period. It records all receipts & payments of current year irrespective of period to which they belong.
<b>4. Debit Side</b>	Debit side of this account records Expenses and Losses.	Debit side of this account records the Receipts.
<b>5. Credit Side</b>	Credit side of this account records income and gains	Credit side of this account records the payments.
<b>6. Depreciation</b>	It includes depreciation	It does not include depreciation.
<b>7. Opening Balance</b>	There is no opening balance	It represents cash in hand/cast at bank of overdraft at the beginning.
<b>8. Closing Balance</b>	It represents excess of income over expenditure or vice-versa	Balance at the end represents cash in hand at the end and bank balance (or bank overdraft)

## 1.5 Balance Sheet

The 'Not-for-Profit' Organisations prepare Balance Sheet to determine the financial position of the organisation. The preparation of their Balance Sheet is on the same pattern as that of the business units. It shows assets and liabilities as at the end of the year. Assets are shown on the right hand side and the liabilities on the left hand side.

However, there will be a Capital Fund or General Fund in place of the Capital and the Surplus or Deficit as per Income and Expenditure Account shall be added to/deducted from this fund. It is also a common practice to add some of the capitalised items like Legacies, Entrance fees and Life membership fees directly in the Capital Fund.

Besides the Capital or General Fund, there may be other funds created for specific purposes or to meet the requirements of the contributors/donors such as Building Fund, Sports Fund, etc. Such funds are shown separately in the liabilities side of the balance sheet. Sometimes it becomes necessary to prepare Balance Sheet as at the beginning of the year in order to find out the opening balance of the Capital/General fund.

A Performa is given for the proper understanding of preparing the Balance Sheet.

### Balance Sheet of ..... Club as at .....

Liabilities	Amt. (₹)	Assets	Amt. (₹)
<b>CAPITAL FUND:</b>		<b>Assets:</b> Previous Balance	
Opening Balance		<b>Add:</b> Purchases in the current period	
<b>Add:</b> Surplus or		<b>Less:</b> Book Value of the Asset	
<b>Less:</b> Deficit		Sold/disposed off	
<b>Add:</b> Capitalised Income of the current		Closing Balance	-----
year on account of		<b>Stock of Consumable Items:</b>	
<b>Legacies</b>		Previous Balance	
<b>Entrance Fees</b>		<b>Add:</b> Purchases in the current period	
<b>Life Membership Fees</b>		<b>Less:</b> Value consumed during the	
Closing /Net Balance	-----	period	
		Closing balance	-----
<b>SPECIAL FUND/DONATIONS:</b>		Cash in hand and/or Cast at Bank	-----
Previous Balance of the item during		Outstanding Incomes	-----
the period		Prepaid expenses	-----
<b>Add:</b> Receipts for the item during the			
period			

<b>Add:</b> Income earned on Fund/Donations/Investments			
<b>Less:</b> Expenses paid out of fund/Donations			
Closing /Net Balance	-----		
Creditors for Purchases /supplies	-----		
Bank Overdraft	-----		
Outstanding Expenses	-----		
Income received in Advance	-----		
	-----		-----

### Illustration: 1

Following is the information given in of Sachin Sports Club. Show these items in the Income and Expenditure Account and Prepare the Balance Sheet of the Club.

Particulars	Amount in ₹
Sports Club Fund as on 1.4.2018	45,000
Donations for Sports Fund	20,000
Sports Fund Investments	40,000
Interest on Sports Fund	2,000
Sports Prizes awarded	15,000
General Fund	50,000
Expenses on Sports Events	5,000
General Fund Investments	60,000
Interest on General Fund Investment	6,000

### Solution:

In the Books of Sachin Sports Club

### Income and Expenditure Account

Dr.

For the year ended 31st March 2019

Cr.

Expenditure	Amt. in ₹	Income	Amt. in ₹
		Interest on General Fund Investments	6,000

Balance Sheet of Sachin Sports Club as on 31st March 2019

Liabilities	Amt. in ₹	Assets	Amt. in ₹
Sports Fund	45,000	Sports Fund Investments	40,000
Add: Interest on Sp. Fund		General Fund Investments	60,000
2,000			
Add: Donations for Sp. Fund			
20,000			
-----			
67,000			
Less: Expenses on Sp. Event	52,000		
(5,000)	60,000		
Less: Prize Awarded			
(10,000)			
-----			
General Fund			