

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 2
Module Id	leac_10102
Pre-requisites	Knowledge about Not-for-profit organization; <ul style="list-style-type: none">➤ Understanding of principles & rules followed while maintaining accounting records of any entity;➤ Formats of Receipts & Payments Account, Income & Expenditure Account & Balance Sheet.
Objectives	<ol style="list-style-type: none">1. Accounting treatment of some peculiar items like, Subscription, Funds, Donations etc.2. Preparation of Income & Expenditure Account from Receipts & Payments Account3. Preparation of Income & Expenditure Account from a Trial Balance
Keywords	NPO, Subscription, Funds, Income & Expenditure Account, Final Accounts of NPOs

2. Development Team

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1. Some Peculiar Items

Final accounts of the Not-for-Profit organisations are prepared on the similar pattern as that of a business organisation. However, a few items of income and expenses of such organisations are somewhat different in nature and need special attention in their treatment in final accounts. They are peculiar to these organisations. Some of the common peculiar items are explained as under:

Subscriptions: Subscription is a fee paid by the member on annual basis. This is the main source of income of such organisations. Subscription paid by the members is shown as 'Receipt' in the Receipt and Payment Account and as 'Income' in the Income and Expenditure Account. Further, it may be noted that Receipt and Payment Account shows the total amount of subscription actually received during the year while the amount shown in Income and Expenditure Account is related to only to the current period irrespective of the fact whether it has been received or not.

Donations: It is one type of gift received in cash or property received from some person or organisation. It appears on the receipts side of the Receipts and Payments Account. Donation can be for specific purposes or for general purposes.

(i) Specific Donations: If donation received is to be utilized to achieve specified purpose, it is called Specific Donation. The specific purpose can be an extension of the existing building, construction of new class room, creation of a book bank, etc. Such donation is to be capitalised and shown on the liabilities side of the Balance Sheet irrespective of the fact whether the amount is big or small.

(ii) General Donations: Such donations are to be utilised to promote the general purpose of the organisation. These are treated as revenue receipts as it is a regular source of income hence, it is taken to the income side of the Income and Expenditure Account of the current year.

(iii) Legacies: It refers to property received by virtue of a will of a person after his death. It appears on the receipts side of the Receipt and Payment Account and is directly added to capital fund/general fund in the balance sheet, because it is not of recurring nature. However, legacies of a small amount may be treated as income and shown on the income side of the Income and Expenditure Account.

(iv) Life Membership Fees: Some members prefer to pay lump sum amount as life membership fee instead of paying periodic subscription. Such amount is treated as capital receipt and credited directly to the capital/general fund.

(v) Entrance Fees: Entrance fee also known as admission fee is paid only once by the member at the time of becoming a member. In case of organisations like clubs and some charitable institutions, is limited and the amount of entrance fees is quite high. Hence, it is treated as non-recurring item and credited directly to capital/general fund. However, for some organisations like educational institutions, the entrance fees is a regular income and the amount involved may also be small. In their case, it is customary to treat this item as a revenue receipt. However, if there is specific instruction, it is advisable to treat the entire amount as capital receipt and the relevant amount should be directly added to capital/general fund.

(vi) Sale of Old Asset: Receipts from the sale of an old asset appear in the Receipts and Payments Account of the year in which it is sold. But any gain or loss on the sale of asset is taken to the Income and Expenditure Account of the year. For example, if an item furniture with a book value of Rs. 800 is sold for Rs. 700, this amount of Rs. 700 will be shown as receipt in Receipts and Payments Account and Rs. 100 on the expenditure side of the Income and Expenditure Account as a loss on sale of old asset and while showing furniture in the balance sheet Rs. 800 will be deducted from its total book value. **Sale of Periodicals:** It is an item of recurring nature and shown as the income side of the Income and Expenditure Account. **Sale of Sports Materials:** Sale of sports materials (used materials like old balls, bats, nets, etc) is the regular feature with any Sports Club. It is usually shown as an income in the Income and Expenditure Account.

(vii) Payments of Honorarium: It is the amount paid to the person who is not the regular employee of the institution. Payment to an artist for giving performance at the club is an example of honorarium. This payment of honorarium is shown on the expenditure side of the Income and Expenditure Account. **Endowment Fund:** It is a fund arising from a bequest or gift, the income of which is devoted for a specific purpose.

(viii) Government Grant: Schools, colleges, public hospitals, etc. depend upon government grant for their activities. The recurring grants in the form of maintenance grant is treated as revenue receipt (i.e. income of the current year) and credited to Income and Expenditure account.

For example: a club received ₹30,000 as subscriptions during the year 2019-20 of which ₹ 5,000 relate to year 2018-19 and ₹4,000 to 2020-21, and at the end of the year 2019-20 ₹ 8,000 are still receivable. In this case, the Receipt and Payment Account will show ₹30,000 as receipt on account of subscriptions. But the Income and Expenditure Account will show ₹ 29,000 as income from subscriptions for the year 2019-20, the calculation of which is given as below:

Particulars	Amt. (in ₹)
Subscriptions received in 2019-20	30,000
Less: Subscriptions received for the year 2018-19	5,000
	<hr/> 25,000
Less: Subscription received for the year 2020-21	4,000
	<hr/> 21,000
Add: Subscriptions outstanding for the year 2019-20	8,000
	<hr/> 29,000
Income from subscriptions for the year 2019-20	29,000

The above amount of subscriptions to be shown as income can also be ascertained by preparing a Subscription Account as follows:

Subscription Account

Dr.			Cr.		
Particular	J.F	Amt. (₹)	Particular	J.F	Amt. (₹)
Balance b/d (Outstanding at the beginning)		5,000	Balance b/d (received in advance during previous year)		Nil
Income and Expenditure Account (balancing figure)		29,000	Cash/Bank Account (subscription received)		30,000
Balance c/d		4,000	Balance c/d		8,000
		38,000			38,000

Illustration 1

As per Receipt and Payment Account for the year ended on March 31,2020, the subscriptions received were ₹ 3,20,000. Additional information given is as follows:

Subscriptions Outstanding on 1.4.2019	₹ 60,000
Subscriptions Outstanding on 31.3.2020	₹ 45,000
Subscriptions Received in Advance as on 1.4.2019	₹ 30,000
Subscription Received in Advance as on 31.3.2020	₹ 35,000

Ascertain the amount of income on account of Subscriptions for the year 2019-2020 and show how relevant items of Subscriptions will appear in opening and closing Balance Sheet.

Solution: Statement of Calculation of Subscription to be shown in Incomes:

Particulars	Amt. in (₹)
Subscriptions Received as per Receipt and Payment A/c	3,20,000
Add: Subscriptions outstanding as on 31.3.2020	45,000
Add: Subscriptions received in advance as on 1.4.2019	30,000
	<hr/>
	3,95,000
Less: Subscription outstanding as on 1.4.2019	60,000
	<hr/>
Less: Subscriptions received in advance as on 31.3.2020	3,35,000
Income from subscription for the year 2019-2020	35,000
	<hr/>
	3,00,000

Alternately, income received from subscriptions can be calculated by preparing a Subscription account as under.

Subscription Account

Dr.		Cr.	
Particular	Amt (₹)	Particular	Amt (₹)
Balance b/d (Outstanding)	60,000	Balance b/d(advance)	30,000
Income and Expenditure Account (balancing figure)	3,00,000	Receipt and Payment Account	3,20,000
Balance c/d (advance)	35,000	Balance b/d (Outstanding)	45,000
	3,95,000		3,95,000

Relevant items of subscription can be shown in the opening and closing balance sheet as follows:

Balance Sheet as on March 31, 2019

Liabilities	Amount (₹)	Assets	Amount (₹)
Subscriptions received in advance	30,000	Subscription Outstanding	60,000

Balance Sheet as on March 31, 2020

Liabilities	Amount (₹)	Assets	Amount (₹)
Subscriptions received in advance	45,000	Subscription Outstanding	35,000

Illustration 2

Extracts of Receipt and Payment Account for the year ended 31st March, 2018 are given below:

Receipts	Amount (₹)
Membership Subscription:	
2016-17	3,500
2017-18	28,500
2018-19	2,000
	33,000

Additional Information:

Total number of members: 250 Annual membership fee: ₹ 150/-

Subscriptions outstanding on April 1, 2017 : ₹4,500/-

Prepare a statement showing all relevant items of subscriptions viz. income, advance, outstanding etc.

Solution

Amount of subscription due for the year 2017-2018 irrespective of cash received ₹37,500 (i.e ₹ 150 × ₹250).

Statement of Calculation of Subscription to be shown in Incomes:

Particulars	Amount (₹)
Subscriptions received as per Receipts and Payments Account	33,000
Add: Subscriptions outstanding on March 31, 2017	10,000
Add: Subscriptions received in advance on April 1, 2016	Nil
	43,000
Less: Subscriptions outstanding on April 1, 2016	3,500
	39,500

Less: Subscriptions received in advance on March 31, 2017	2,000
Income from Subscription for the year 2017-2018 (150x250)	37,500

Working Notes:

Calculation of Subscription Outstanding at the end of Current Year

Particulars	Amount (₹)	Amount (₹)
i) Outstanding as on 1 st April 2017	4,500	
Less: Received for 2016-17	3,500	1,000
ii) Due for 2016-17 (150x250)	37,500	
Less: Received for 2016-17	28,500	9,000
Outstanding as on 31-3-2017		10,000

2. Income & Expenditure A/C Based on Receipts & Payments A/C

Illustration 1 -Following is the Receipt and Payment Account of an Entertainment Club for the period April 1, 2015 to March 31, 2016:

Receipts	Amount (₹)	Payments	Amount (₹)
Balance b/d		Salaries	24,000
Cash 27,500		Electric bill	21,000
Bank <u>60,000</u>	87,500	Food stuff for restaurant	60,000
Members Subscriptions:		Telephone bill	35,000
2014-2015 12,500		Subscription for periodicals	14,500
2015-2016 1,00,000		Printing & Stationery	13,000
2016-2017 <u>10,000</u>	1,22,500	Sports Expenses	50,000
Sale of furniture	10,000	Secretary's honorarium	30,000
(Book Value: ₹8,000)		8% Investments (31.3.2017)	1,00,000
Sale of food stuffs	1,00,000	Balance c/d	
Sale of old news papers	3,200	Cash 21,500	
Hire of ground used for marriage	48,750	Bank <u>45,000</u>	66,500
Donation for sports fund	25,000		
Locker Rent	17,050		
	4,14,000		4,14,000

Additional Information:

- i. The club had 225 members, each paying an annual subscription of ₹ 500. Subscription outstanding as on 31 March 2016 ₹ 15,000.
- ii. Telephone bill outstanding for the year 2015-2016 is ₹ 2,000.
- iii. Locker Rent ₹ 3,050 outstanding for the year 2014-15 and ₹ 1,500 for 2015-16.
- iv. Salary outstanding for the year 2015-16 ₹ 4,000.

- v. Opening Stock of Printing and stationery ₹ 2,000 and closing stock of printing and stationery is ₹ 3,000 for the year 2015-16.
- vi. On 1st April 2015 other balances were as under: ₹
- | | |
|-------------|----------|
| Furniture | 1,00,000 |
| Building | 6,50,000 |
| Sports fund | 15,000 |
- vii. Depreciation Furniture and Building @ 12.5% and 5% respectively assuming that it is on reducing balance for the year ending March 31, 2016 Prepare Income and Expenditure account and Balance Sheet as on that date.

Solution:

Book of Entertainment Club

Income and Expenditure Account

for the year ending on March 31, 2016

Expenditure	Amt. in ₹	Income	Amt. in ₹
Salary	24,000	Subscriptions	1,00,000
Add: Outstanding	4,000	Add: Outstanding	<u>12,500</u>
Electric bill	21,000	Sale of old periodicals	3,200
Telephone bill	35,000	Profit on sale of furniture	2,000
Add: Outstanding	<u>2,000</u>	Hire of ground for marriage	48,750
Subscription for periodicals	14,500	Locker rent	17,050
Printing & stationery	13,000	Less: Opening O/S	3,050
Add: Opening stock	<u>2,000</u>		14,000
	15,000	Add: Closing O/s	<u>1,500</u>
Less: Closing stock	<u>3,000</u>		15,500
Secretary's honorarium	30,000	Sale of Food Stuff	1,00,000
Sports Expenses ^{#1}	10,000	Cost of food consumed	<u>60,000</u>
Deperciation on:			
Furniture	11,500		
Building	<u>32,500</u>		
Surplus	25,450		
<i>(Excess of income over expenditure)</i>			
	2,21,950		2,21,950

Balance Sheet of Entertainment Club as on March 31, 2015

Liabilities	Amt. (₹)	Assets	Amt. (₹)
Sports fund	15,000	Cash in hand	27,500
Capital/General Fund	8,42,550	Cash at bank	60,000
(Balancing figure)		Outstanding subscription	15,000
		Outstanding locker rent	3,050
		Printing & stationery	2,000

		Furniture	1,00,000
		Buildings	6,50,000
	8,57,550		8,57,550

Balance Sheet of Entertainment Club as on March 31, 2016

Liabilities	Amt. (₹)	Assets	Amt. (₹)
Subscriptions received in advanced	10,000	Cash in hand	21,500
Outstanding Telephone bill	2,000	Cash at bank	45,000
Salary outstanding	4,000	Outstanding subscription	
Capital/General fund:8,42,550		2014-15 2,500	
Add: Surplus <u>25,450</u>		2015-16 <u>12,500</u>	15,000
Sports fund 15,000	8,68,000	Outstanding locker rent	1,500
Add: Donation for Sports <u>25,000</u>		Printing & stationery	3,000
40,000		Furniture 1,00,000	
Less: Sports Expenses * <u>40,000</u>	0	Less: B.V. of Part Sold 8,000	
		92,000	
		Less: Depreciation <u>11,500</u>	80,500
		Buildings 6,50,000	
		Less: Depreciation <u>32,500</u>	6,17,500
		Investment	1,00,000
	8,84,000		8,84,000

Illustration 2 -Following is the Receipt and Payment Account of Women's Welfare Club for the year ended December 31, 2015:

Receipts	Amount (₹)	Payments	Amount (₹)
Balance b/d	7,250	Salary	12,500
Subscriptions	81,750	Stationery	1,700
Donations	3,000	Electricity charges	9,550
Grant from Government	15,000	Insurance	7,500
Sale of news papers	300	Equipment's	30,000
Proceeds of charity show	16,500	Petty expenses	500
Interest on Investments	7,000	Expenses on charity show	12,900
@10% for full year		Newspapers	1,000
Sundries income	400	Lectures fee	16,500
		Honorarium, to Secretary	12,000
		Balance c/d	27,050

	1,31,200		1,31,200
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Additional Information:

	1.1.2015 (₹)	31.12.2015(₹)
Outstanding salaries	1,200	1,800
Insurance prepaid	700	300
Subscription outstanding	3,750	2,500
Subscription received in advanced	1,750	1,000
Electricity charges outstanding	-----	1,250
Stock of stationery	2,250	700
Equipment's	25,600	50,200
Building	1,20,000	1,14,000

Prepare Income and Expenditure Account for the year ended December 31, 2015 and Balance sheet as on date.

Solution:

Books of Women Welfare Club

Income and Expenditure Account

as on December 31, 2015

Expenditure	Amount (₹)	Income	Amount (₹)
Salary 12,500		Subscription 81,750	
Add: Outstanding on 31st Dec. 2016 1,800		Add: Outstanding Dec. 31, 2016 2,500	
-----		-----	
14,300		84,250	
Less: Outstanding 1,200 on Dec, 31, 2015 -----	13,100	Less: Outstanding Dec, 31, 2015 3,750	

Stationery 1,700		80,500	
Add: Opening stock 2,250		Add: Advance on Dec, 31, 2015 1,750	
-----		-----	
3950		Less: Advance on Dec 31, 2016 1,000	81,250
Less: Closing stock 700	3,250	-----	
-----		Donations	3,000
Electric Charges 9,550		Grant from Government	15,000
Add: Outstanding Dec, 31, 2016 1,250		Sale of Newspapers	300
-----		Profit from charity show	3,600
Insurance 7,500			
Add: Prepaid 2015 700	10,800		

----- 8,200 Less: prepaid 300 -----		(16,500-12,900)	
		Interest on Investments	7,000
	7,900	Sundries Income	400
Depreciation on Equipment's	5,400		
Petty Expenses	500		
Newspapers	1,000		
Lecturer fee	16,500		
Honorarium to Secretary	12,000		
Depreciation on building	6,000		
Surplus (Bal. Figure)	34,100		
	1,10,550		1,10,550

**Balance Sheet
as on December 31, 2015**

Liabilities	Amount (₹)	Assets	Amount (₹)
Outstanding Salaries	1,200	Insurance Prepaid	700
Subscription in Advance	1,750	Subscription Outstanding	3,750
Capital Fund (Bal. Figure)	2,26,600	Stock of Stationery	2,250
		Equipment's	25,600
		Building	1,20,000
		Cash and Bank	7,250
		Investments(7000x(100/10))	70,000
	2,29,550		2,29,550

**Balance Sheet
as on December 31, 2016**

Liabilities	Amount (₹)	Assets	Amount (₹)
Outstanding Salaries	1,800	Equipment's 25,600	
Subscription in Advance	1,000	Add: Purchases 30,000	
Electricity charges outstanding	1,250	-----	
	2,26,600	55,600	
Capital Fund (Bal. Figure)		Less: Depreciation <u>5,400</u>	50,200

		Subscription Outstanding	2,500
		Insurance Prepaid	300
		Stock of Stationery	700
		Building 1,20,000	
		Less: Depreciation <u>6,000</u>	1,14,000
		Cash and Bank	27,050
		Investments(7000x(100/10))	70,000
	2,64,750		2,64,750

3. Income and Expenditure Account Based on Trial Balance

In case of Not-for-profit organisations, normally the Income and Expenditure Account and Balance Sheet is prepared based on the Receipts and Payments Account and the additional information given. But, sometimes, the Trial Balance along with some additional information is given for this purpose.

From the trial balance and other information given below for a school, prepare Income and Expenditure Account for the year ended on 31.3.2014 and a Balance Sheet as on that date:

Debit Balance	Amount (₹)	Credit Balance	Amount (₹)
Building	6,25,000	Admission fees	12,500
Furniture	1,00,000	Tuition fees received	5,00,000
Library Books	1,50,000	Creditors for supplies	15,000
Investment @12%	5,00,000	Rent for the school hall	10,000
Salaries	5,00,000	Miscellaneous receipts	30,000
Stationery	40,000	Government grant	3,50,000
General Expenses	18,000	General fund	10,00,000
Sports Expenses	15,000	Donation for library books	62,500
Cash at Bank	50,000	Sale of old furniture	20,000
Cash in hand	2,000		
	20,00,000		20,00,000

Additional Information:

1. Fees yet to be received for the year are ₹ 25,000
2. Salaries yet to be paid amount to ₹ 30,000
3. Furniture costing ₹ 40,000 was purchased on October 1, 2010.
4. The book value of the furniture sold was ₹ 50,000 on April 1,2013
5. Depreciation is to be charged @10% p.a. on furniture, 15% p.a. on Library books, and 5% p.a. on building.

Solution:

Income and Expenditure Account
for the year ending on March 31, 2014

Expenditure	Amount (₹)	Income	Amount (₹)
Loss on sale of old furniture (50,000-20,000)	30,000	Admission fees	12,500
Salaries	5,00,000	Tuition fees	5,00,000
Add: Outstanding	<u>30,000</u>	Add: outstanding	<u>25,000</u>
Stationery	40,000	Rent for the school hall	10,000
General expenses	18,000	Miscellaneous receipts	30,000
Depreciation:		government grant	3,50,000
Furniture	3,000	Interest accrued on Investment	60,000
Building	31,250		
Library books	<u>22,500</u>		
Sports expenses	15,000		
Surplus (excess of income over expenditure)	2,97,750		
	9,87,500		9,87,500

Working Notes:

1. As admission fee is a regular income of a school, so it has been taken as a revenue income of the school.
2. Depreciation on furniture has been computed as following on the assumption that furniture was sold on April 1,2013.
- 3.

	Amount (₹)
Book Value on March 31, 2014	1,00,000
Less: Book value of Sold furniture	<u>50,000</u>
	50,000
Depreciation on furniture of ₹ 10,000 for one year	1,000
Depreciation on furniture of ₹ 40,000 for 6 months	<u>2,000</u>
Total Depreciation	<u>3,000</u>

Balance sheet as on March 31, 2014

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors for supplies	15,000	Building 6,25,000	
Outstanding Salaries	30,000	Less: Depreciation <u>31,250</u>	5,93,750
Donation for Library Books	62,500	Furniture 1,00,000	
General Fund 10,00,000		Less: Sold <u>50,000</u>	
Add: surplus <u>2,97,750</u>	12,97,750	50,000	
		Less: depreciation <u>3,000</u>	47,000
		Accrued Fees	25,000
		Library Books 1,50,000	
		Less: depreciation <u>22,500</u>	1,27,500
		Investments @ 12%	5,00,000
		Interest accrued	60,000
		Cast at bank	50,000
		Cash at hand	2,000
	14,05,250		14,05,250

4. Incidental Trading Activity

Sometimes, trading activities such as Chemist Shop in a Hospital, Canteen, Beauty Parlour etc. also take place in such organisations to provide certain facilities to members or public in general. In such a situation, trading account has to be prepared to ascertain the results of such incidental activity. The profit from such commercial (trading) activities is applied to fulfil the

main objectives for which the organisation was set up, and so it is transferred to the Income and Expenditure Account. It is pertinent to note the following procedure:

- I. Prepare trading account to determine profit (or Loss) due to incidental commercial (trading) activity. All costs and revenues directly and exclusively related to such activity are recorded in the trading account. Balance of trading account is transferred to the Income and Expenditure Account.
- II. Income and Expenditure Account records, in addition to trading Profit (or loss), all other incomes and expenses not recorded in the Trading Account. Surplus or deficit revealed by the Income and Expenditure Account is transferred to capital/general fund.