

Accounting For Not-For Profit Organisation

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. Sports and arts clubs, hospitals, libraries, charitable institutions like orphanages, old age homes, trade union, educational institutions, religious institutions etc come under this group.



Normally, these organizations do not undertake any business activity, and are managed by trustees who are fully accountable to their members for the utilization of the funds raised for meeting the objectives of the organization. Hence, they also have to maintain proper accounts and prepare the financial statement which takes the form of Receipt and payment account, Income and Expenditure Account and Balance Sheet.

NON-PROFIT ORGANIZATION

No Business, No Profit, Only For Service

Features of Not-For Profit Organisations

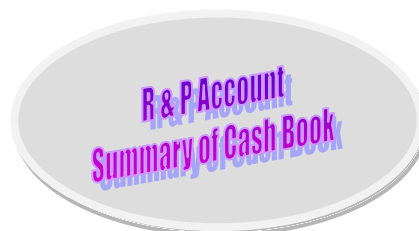
- 1 Their main objective is to render service and is not expected to earn profit.
- 2 They do not normally engage in trading activities.
- 3 Usually, these organizations not entertain credit transactions.
- 4 Usually, such concerns keep Cash Book to record all daily receipt and payments, it help to prepare Receipt and payment Account.
- 5 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.
- 6 The main sources of income of such organizations are subscription from members, donations, legacies, grant, income from investment etc.
- 7 The funds raised by such organizations through various sources are credited capital fund or general fund.

- 8 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.

Final Accounts of Not-For Profit Organisations

Not-For Profit Organisations are required to prepare financial statements at the end of each accounting period. They required to provide necessary financial information to members, donors, contributors, 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
- 2 Income and Expenditure Account
- 3 Balance Sheet



1 Receipts and Payment Account

Receipt and payment account is the summary of cash and bank transactions under various heads. It is prepared at the end of an accounting year on the basis of cash receipts and payments recorded in the cash book. (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 receipt side of the Receipt and payment account as one item with its total amount. Similarly salary, rent etc on the payment side. Thus Receipt and payment account gives summarized picture of various receipts and payments).

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 does not show any non cash items like depreciation, outstanding expenses, accrued incomes etc. 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 accounts represents cash in hand/cash at bank as at the end of the year, which appear on the credit side of the Receipt and payment account. If there is a bank over draft at the end it shall be shown on its debit side as the last item.

Receipt & Payment Account

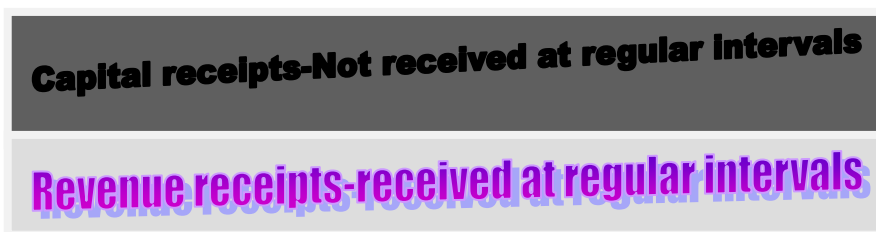
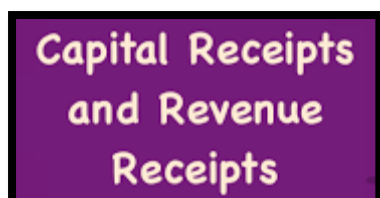
Items	Record/Not
Current year's receipts	Record
Previous year's receipts	Record
Succeeding year's receipts	Record
Capital receipts	Record
Revenue receipts	Record
Outstanding receipts/payments	Not record
Non cash items like depreciation	Not record

Opening balance of R & P Account is opening cash balance, closing balance of R & P Account is closing cash balance

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

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

Work to students: Ask students to classify the above items in the table to capital and revenue.



Capital Receipt: Receipts which are non-recurring in nature and whose benefit is enjoyed over a long period are called "Capital Receipts", e.g. Specific donations, Life Membership Fees, Sale of investments, sale proceeds of fixed assets 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", e.g. 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: A capital expenditure is incurred when a business spends money either to buy fixed assets or to add to the value of an existing fixed asset with a useful life extending beyond the taxable year. Eg. Purchase of Fixed Assets, Books, Investments etc.

Revenue expenditure: Revenue expenses are shorter-term expenses required to meet the ongoing operational costs of running an organization, and thus are essentially the same as operating expenses. Revenue expenditure is an amount that is expensed immediately—thereby being matched with revenues of the current accounting period. 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 summary of cash book.
- It is prepared at the end of an accounting year.
- It records all receipts and payments of current year, previous and succeeding years. (For example, in the Receipt and payment account for the year ending 31/12/2015, we record the total subscriptions received during 2015 including the amounts related to the years 2014 and 2016.)
- 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

1. Take the opening balances of cash in hand and at bank and enter on them on the debit side. (In case there is bank over draft at the beginning it should be entered on the credit side)
2. 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)
3. Show the total amounts of all payments on its credit side irrespective of their nature and period.
4. Accrued income and outstanding expenses not to be entered in this account as they do not involve inflow or out flow of cash.
5. 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, show the difference on the credit side as 'cash in hand' and close the account.

2 Income and expenditure account

**Similar to Profit and Loss Account-
record revenue items of current year, non cash items also recorded**

It is just like a profit and loss account prepared by trading concern. It is prepared on accrual basis. It includes only revenue items 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. The income and expenditure account is prepared on accrual basis (*the accounting method under which revenue is recognized on the income statement when they are earned rather than when the cash is received*) with the help of receipt and payment account and additional information regarding outstanding and prepaid expenses and depreciation etc.



Salient features of Income and Expenditure account

- It is a summary of income and expenditure for the accounting year.
- It records all revenue incomes and expenditures relating to the current year only. (For example subscription amount of rupees 101000 received during the year 2013 appearing on the receipts side of the receipts and payments account includes Rs.3000 for the period 2012 and Rs.2000 for the period 2014. Receipts and payment account shows actual receipts irrespective of considering periods. But in income and expenditure account we want to deduct the amount 3000 and 2000 which were related to the year 2012 & 2014. In Income and expenditure account we record only Rs.96000 (101000-3000-2000) i.e. current year's (2013) subscription.)
- Non cash items like depreciation, outstanding expenses, accrued incomes etc are shown in this account.
- It never records capital receipts or payments.
- It never starts with a balance.
- Its closing balance will be surplus or deficit.

Steps in the preparation of income and expenditure account

1. Follow the receipts and payments account thoroughly.
2. Exclude the opening and closing balances of cash and bank as they are not an income.
3. Exclude the capital receipts and capital payments as they are to be shown in the balance sheet.
4. Consider only revenue receipts to be shown on the income side of the income and expenditure account. Some of this need to be adjusted by excluding the amounts relating to the preceding and the succeeding periods and including the amounts relating to the current year not yet received.
5. Take the revenue expenses to the expenditure side of the income and expenditure account with due adjustments as per additional information provided relating to the amounts received in advance and those not yet received.
6. Consider the following items not appearing in the receipt and payment account that need to be taken into 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.

Difference between income and expenditure account and receipts and payments account

Basis	Income and expenditure account	Receipts and payments account
Nature of account	It is like a profit and loss account	It is a summary of the cash book
Nature of items	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 relate to the current year only	It records receipts and payments relate to the current year previous year and succeeding year
Depreciation	Record depreciation	Does not record depreciation
Debit side	Debit side of this account records expenses and losses	Debit side of this account records the receipts
Credit side	Credit side of this account records incomes and gain	Credit side of this account records payments
Opening balance	There is no opening balance	Balance in the beginning represents cash in hand/at bank(or bank o/d)
Closing balance	Balance at the end represents surplus or deficit	Balance at the end represents closing cash in hand/at bank(or bank o/d)

Difference between Profit Organisation and Not for Profit Organisation

Basis	Profit Organisation	Not for Profit Organisation
Objective	To earn profit	To render service
Owners	Proprietors/owners	Members
Result of activities	Profit/loss	Surplus/deficit
Distribution of profit	Distribute among owners	Not distributed among members but added to capital fund
Important Accounts	Trading Profit and Loss Account, Balance Sheet	Receipts and Payments Account, Income and Expenditure Account, Balance Sheet

Balance sheet

Not-For Profit Organizations' prepare 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 organization. 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 or deducted from capital fund, as the case may be. It is also a common practice to add some of the capitalized items like legacies, entrance fees and life membership fees directly to the capital fund. Sometimes there may be other funds created for specific purposes or to meet the requirements of the contributors such as building fund, sports fund, etc. Such funds are shown separately in the liability side of the balance sheet.

Steps in the preparation of balance sheet

1. Take the capital fund as per the opening balance sheet (or given) and add the surplus from the income and expenditure account. Further add capitalized portion of entrance fees, legacies, life membership fees etc received during the year.
2. Take all the fixed assets (not sold) with additions (from receipts and payments account) after charging depreciation (as per income and expenditure account) and should be shown on the assets side.
3. Compare items on the receipts side of the receipts and payments account with income side of the income and expenditure account. This is to ascertain the amount of (a) subscription outstanding (b) income received in advance (c) sale of fixed asset made during the year (d) items to be capitalized, etc
4. Compare items on the payment side of the receipt and payment account with expenditure side of the income and expenditure account. This is to ascertain the amount if (a) outstanding expenses (b) prepaid expenses (c) purchase of fixed asset during the year (d) depreciation on fixed assets (e) stock of consumable items like stationery in hand (f) closing balance of cash in hand /at bank and so on.

Format:

Balance Sheet

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

**Subscription-main source of income, revenue receipts
I & E Records only Current year's subscription
R & P Account records all subscription received without considering year**

Subscription:

Subscription is the membership fees paid by the members on annual/monthly basis. This 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 the amount of subscription shown in the income and expenditure account is restricted to the figure related to the current year only irrespective of the fact whether it has been received or not.

(For eg: a club had received Rs.20000 as subscription during the year 2014 of which Rs. 3000 relate to year 2013 and Rs. 2000 relates to year 2015, and at the end of the year 2014 Rs.6000 are still receivable. In this case Receipt and Payment account will show Rs.20000 as receipt from subscriptions. But in the income and expenditure account subscription amount for 2014 will be Rs.21000. [20,000(actual receipts) – (3,000 relates to previous year +2000 relates to next year) + 6000(current year outstanding)]

$$20000 - 5000 + 6000 = \mathbf{21000}$$

Here find out subscription of the current year

Calculation of subscription to be shown in Income and Expenditure A/C

Subscription received during the year		XXXX
Add:		
Closing out standing	XXXX	
Opening pre-received	XXXX	XXXX
		XXXX
Less:		
Opening out standing	XXXX	
Closing pre-received	XXXX	XXXXX
Income from subscription during the current year (shown in the I & E a/c)		XXXXX

OR

Subscription Account

Date	Particulars	Amount	Date	Particulars	Amount
	Opening outstanding	XXXX		Opening pre-received	XXXX
	Income and expenditure a/c (subscription for the current year)	XXXX		Receipts and payment account (cash received during the year)	XXXX
	Closing pre received	XXXX		Closing outstanding	XXXX
		XXXX			XXXX

Donation

It is a sort of gift in cash or property received from some person or organization. It appears on the receipts side of the receipts and payment account. Donation can be for specific purpose or for general purpose.

- a. **Specific purpose donation:** If donation received is to be utilized only for specific purpose, it is called specific donation. The specific purpose may be to an extension of the existing building, construction of a new computer lab, etc. Such donation is to be capitalized (capital receipts) and should be shown on the liability side of the balance sheet irrespective of the fact whether the amount is big or small. It is a capital receipt so it never recorded in Income and expenditure account.
- b. **General donations:** such donations are to be utilized to promote the general purpose of the organization. These are treated as revenue receipts as it is a regular source of income hence; it should be taken to the income side of the income and expenditure account. It does not show in the balance sheet.

Legacies:

It is the amount received as per the will of a deceased person. It appears on the receipt side of the receipts and payment account and is **directly added to the capital fund** in the balance sheet, because it is **not a recurring nature**.

However, legacies of a small amount may be treated as income and should be shown on the income side of the income and expenditure account.

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 added directly to the capital fund in the balance sheet**.

Entrance Fees:

Entrance fee also known as admission fee is paid only once by the member at the time of becoming a member. In clubs and some charitable institutions the membership is limited and the amount of entrance fee is quite high. Hence, **it is treated as non-recurring item and added directly to capital fund**.

However, for some organizations like educational institutions the entrance fees is a regular income and the amount involved may also be small. In this case, it is customary to treat this item as a revenue receipt. However, if there is specific instruction, it is advisable to treat the amount as capital receipt and the amount should be directly added to capital fund.

Profit or Loss on sale of Fixed Asset

Sale of old asset

Receipts from the sale of an old asset will appear in the **receipts side of 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, suppose, furniture with a book value of Rs.800 is sold for Rs.700 and the sale price of Rs.700 should be shown as receipts in the in the receipts and payment account and Rs.100,loss on sale of furniture should be shown in the expenditure side of the income and expenditure account as loss on sale of furniture and in balance sheet book value,Rs.800 will be deducted from total book value of furniture).

Treatment:

1.Amount received on sale of furniture (here Rs.700) – Rs.700 recorded on the **Receipts side of**

R & P Account.

2.Book value (value of asset recorded in the last balance sheet) of the asst is Rs.800.But ,here it is sold for Rs.700,i.e there is a loss on sale of asset **Rs.100(800-700)-Loss on sale of asset should be shown on the expenditure side of I & E Account.**

3. Due to this transaction there is a reduction in the value of furniture to the extent of Rs. 800. So **book value Rs.800 deducted from the value of asset in balance sheet.**

Sale of periodicals

It is an item of recurring nature and shown as the income side of the income and expenditure account.

Sale of old sports materials

Sale of used sports materials like old balls, bats, net, etc is the regular feature with any sports club. It is usually shown as an income in the income and expenditure account.

Payment of honorarium

It is the amount paid to the person who is not a regular employee of the institution. Payment to an artist for giving performance at the club is an example of honorarium. This is shown on the expenditure side of the income and expenditure account.

Endowment fund

It is a fund arising from an inheritance or gift, the income of which is devoted for a specific purpose. Hence, it is a capital receipt and should be shown on the liability side of the balance sheet as an item of a specific purpose fund.

Government grant

Schools, colleges, public hospitals etc depend upon government grant for their activities. The recurring grant in the form of maintenance grant is treated as revenue receipt and is credited to income and expenditure account. However, grant such as building grant are treated as capital receipt and transferred to the building fund account and should be shown on the liability side of the balance sheet.

It may be noted that some not-for profit organizations receive cash subsidy from the government or government agencies. This subsidy is treated as revenue income and shown on the income side of the income and expenditure account.

Special Funds

Special funds

The Not-for-Profit Organisations create **special funds** for certain purposes such as match fund, sports fund, prize funds etc. Such funds are invested in securities and the **income** earned on such investments is **added to the respective fund**, not credited to income and expenditure account. Similarly, the **expenses incurred on such specific purposes** are also **deducted from the special fund**. (For example, a club may maintain a special fund for sports activities. In such a situation, the interest income on sports fund investment is added to the sports fund and all expenses on sports are deducted there from. The special funds are shown in the balance sheet. However, if, after adjustment of income and expenses the balance in **special fund is negative**, it will be transferred to the **expenditure (debit) side of the Income and Expenditure Account**.

Q.Show the treatment of the following items in the financial statement of a Not for Profit organization.

	Dr	Cr
Tournament fund		35000
Tournament fund Investment	35000	
Tournament collection		2700
Subscription received towards tournament fund		4000
Tournament expenses	1000	
Interest on tournament fund investment		400

Note: Tournament fund is a special purpose fund, so expenses and incomes related to that fund should be adjusted with that fund on the liability side of the balance sheet. If, after the adjustment of income and expenses the balance in **special fund is negative**; it will be transferred to the **expenditure (debit) side of the Income and Expenditure Account**. Tournament fund investment is an asset, so it should be shown on the **asset side** of the balance sheet.

Balance sheet

Liabilities	Amount	Assets	Amount
Tournament fund	35000	Tournament fund	
Add:		Investment	35000
Tournament collection	2700		
Subscription received towards tournament fund	4000		
Interest on tournament fund investment	<u>400</u>		
	42100		
Less: Tournament expense	<u>1000</u>		
	41100		

Note: Suppose, if tournament expense is 43000 instead of 1000, i.e. tournament fund becomes negative ($42100 - 43000 = -900$) 900 should be shown on the expenditure side of the income and expenditure account.

Expenditure Stock Item

Consumable stock items like stationery

Items like stationery, sports materials, bats, balls etc are called expenditure stock items. In this case, the amount to be debited to Income and Expenditure Account is calculated as follows:

Calculation of stationery consumed during the year:

Opening stock of stationery	XXX
Add:	
Purchase of stationery during the year	XXX
	XXX
Less:	
Closing stock of stationery	XXX
Stationery consumed during the year	XXX

Value of closing stock of stationery should be shown on the asset side of the closing balance sheet

Stationery consumed during the year should be shown on the expenditure side of the Income and Expenditure Account

Q. From the following details calculate the amount to be debited to income and expenditure account regarding bats and balls for the year ending 31-12-2015:

Stock of bat and balls on 1-1-2015	2500
Purchase made during the year	3300
Closing stock on 31-12-2015	4350

Opening stock of stationery	2500	
Add:		
Purchase of stationery during the year	3300	
	5800	
Less:		
Closing stock of stationery	4350	
Stationery consumed during the year	1450	
		Rs.4350 to be shown on the asset side of the closing balance sheet.
		Rs.1450 to be debited to income and expenditure account.

In some cases purchase of stationery is not given in the question directly it can be calculated as follows:

Calculation of purchase of stationery:		XXX
Amount paid for stationery during the year		XXX
Add:		
Closing outstanding (Creditors)		XXX
Opening prepaid		XXX
Less:		
Opening outstanding (Creditors)	XXX	
Closing prepaid	XXX	XXX
Purchase of stationery during the year		XXX

Q. You are given the following particulars from which arrive the figure of stationery consumed to be debited to income and expenditure account for the year 2005:

Stock of stationery on 1-1-2005	1000
Amount paid for stationery during 2005	1750
Creditors for stationery 1-1-2005	450
Creditors for stationery on 31-12-2005	550
Advance paid for stationery on 1-1-2005	250
Advance paid for stationery 31-12-2005	300
Stock of stationery on 31-12-2005	275

Ans:

Opening stock of stationery 1000

Add:

Purchase of stationery ? (We want to calculate purchase of stationery)

Less:

Closing stock 275

Calculation of purchase of stationery:

Amount paid for stationery during the year		1750
Add:		
Closing outstanding (Cr)		550
Opening prepaid		250
Less:		2550
Opening outstanding (Cr)	450	
Closing prepaid	300	750
Purchase of stationery during the year		1800

Calculation of stationery consumed during the year:

Opening stock of stationery	1000
Add:	
Purchase of stationery during the year	1800
	2800
Less:	
Closing stock of stationery	275
Stationery consumed during the year	2525

Here:

1. Stationery consumed during the year Rs.2525 should be shown on the debit side of the income and expenditure account
2. Closing outstanding Rs.550 should be shown on the liability side of the closing balance sheet.
3. Closing stock of stationery Rs.275 and closing prepaid Rs.300 should be shown on the asset side of the closing balance sheet.

Q. Extract of a receipt and payment account for the year ended on 31-3-2015.

Payments:

Stationery Rs.23000.

Additional information:

Details	1-4-2014	31-3-2015
Stock of stationery	4000	3000
Creditors for stationery	9000	2500

Ans: **Calculation of purchase of stationery**

Amount paid for stationery during the year	23000
Add:	
Closing out standing	2500 (asset side of the closing balance sheet)
Less:	
Opening outstanding	25500
	9000
Purchase of stationery during the year	16500

Calculation of stationery consumed during the year:

Opening stock of stationery	4000
Add:	
Purchase of stationery	16500
Less:	
Closing stock of stationery	20500
	3000 (asset side of the closing balance sheet)
stationery consumed during the year	17500 (debited to income & expenditure account)

"I had a simple goal in life: to be true to my parents and our country as an honorable son, a caring brother, and a good citizen" Benigno Aquino III

Thank you,

Prepared by, Binoy George, HSST

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