

ACCOUNTING FOR NOT-FOR-PROFIT ORGANISATION

NOT-FOR-PROFIT ORGANISATION

There are certain organisations which are set up for providing services to its members and the public in general. Such organisations are called NOT-FOR-PROFIT ORGANISATION.

Eg: Clubs, charitable institutions, schools, religious institutions trade unions, welfare societies etc.

NOT-FOR-PROFIT ORGANISATION is defined as “a non-profit seeking entity which does not usually involve in trading activities, but engage in rendering services to members and society”

Features of accounting for not-for-profit organisation

1. Their main objective is to render services to its members and the public
2. They don't normally engage in trading activities
3. They are not expected to earn profit
4. Credit transactions are not usually made
5. No trail balance is prepared
6. Do not prepare Trading, Profit & Loss a/c
7. Their affairs are managed by executive committee elected by its members

ACCOUNTING RECORDS OF NOT-FOR-PROFIT ORGANISATION

Usually NOT-FOR-PROFIT ORGANISATION follow the cash system of accounting. A NOT-FOR-PROFIT ORGANISATION prepares three statements at the end of the accounting year, which form its final accounts. These statements are:

1. **Receipt & Payment Account**
2. **Income & Expenditure Account**
3. **Balancesheet**

RECEIPT AND PAYMENT ACCOUNT

The Receipt and Payment account is a real account which is prepared at the end of an accounting year giving a summary of all cash receipts and payments recorded in cash book. It is debited with all items of receipts and credited with all payments. At the end of the period, the account is balanced. The final balance in this account represents the balance of cash in hand or at the bank or overdraft.

Features of Receipt and Payment Account

1. It is a real account
2. It is a summary of cash book
3. All receipts are debited and payments are credited
4. It usually begins with opening balance of cash in hand or at bank
5. It usually ends with closing balance of cash in hand or at bank
6. It doesn't disclose the working results of the concern

7. It includes all receipts and payments of capital and revenue nature.
8. It records all receipts and payments relating to previous, current and subsequent years.

INCOME & EXPENDITURE ACCOUNT

An Income and Expenditure account is a nominal account prepared by a non-Profit Organisation, in order to ascertain the surplus or deficit of a particular period. It is prepared in the form of Profit and Loss account. All expenses and losses are debited and all incomes and gains are credited. The surplus or deficit is transferred to Capital Fund in the Balance sheet.

Features of Income & Expenditure Account

1. It is a nominal account
2. Only revenue items are recorded
3. Income and expenditure of the current year only are included.
4. Non-Cash transactions (Depreciation, Provision of bad debts, accrued income etc.) are adjusted in it.
5. There is no closing balance in this account.
6. It is prepared to find out Surplus (Income over expenditure) or Deficit (Expenditure over income)
7. The surplus or deficit is transferred to Capital Fund in the Balance sheet.

Preparation of Income and Expenditure Account

The following steps are followed to prepare income and expenditure account from receipt and payments account.

1. Read the Receipt and payment account thoroughly.
2. Exclude the opening and closing balances of cash and bank
3. Exclude the capital receipts and capital payments
4. Identify the revenue incomes relating to the current year from debit side of Receipt and payment account
5. Identify the revenue expenditure relating to the current year from credit side of Receipt and payment account
6. Non-Cash transactions (Depreciation, Provision of bad debts, accrued income, profit or loss on sale of fixed assets etc.) are adjusted in it.
7. Finally, the excess of income over expenditure (Surplus) or excess of expenditure over income (Deficit) be ascertained and transferred to Capital Fund.

BALANCE SHEET

The balance sheet of a non-profit organisation is prepared for ascertaining the financial position of the organisation. It shows assets and liabilities as at the end of the year. Assets are shown on the right hand side and liabilities on the left hand side.

The procedure in the preparation of balance sheet is as follows:



1. Capital fund at the beginning is ascertained by preparing a statement of affairs (Opening Balance Sheet)
2. Surplus from Income and Expenditure account must be added to the Capital Fund (Deficit must be deducted).
3. Outstanding expenses, income received in advance etc on closing date be shown on the liability side

4. Income receivable and expenses paid in advance etc must be shown on the assets side.
5. Closing cash in hand and at bank appearing in Receipts and Payments Account must be shown on the assets side.
6. The credit balance of Receipts and Payments Account (Bank Overdraft) should be shown on the liability side.
7. Assets in existence at beginning of the year should be adjusted for additions and depreciation
8. New assets acquired during the year which appear on the payment side of Receipts and Payments Account should be shown on the asset side of the closing balance sheet.
9. Any special collection of non-recurring nature (Capital Items) should be shown on the liability side.

Receipts and Payments Account V\S Income and Expenditure Account

Receipts and Payments Account	Income and Expenditure Account
Real account	Nominal Account
Summary of cash book	Like a Profit and Loss account
Its debit side shows receipts and credit side shows payments	Its debit side shows expenses and losses and credit side shows incomes and gains
It starts with an opening balance of cash or bank	It doesn't start with cash or bank balance
It records all receipts and payments of previous year, current year and succeeding	It records income and expenses of current year only

year	
Non- cash transactions are not made	Non- cash transactions are made
Its closing balance is carried to the succeeding year.	Its balance (Surplus or Deficit) is transferred to Capital Fund.
It records both revenue and capital items	It records only revenue items.

Calculation of the amount of Subscription credited to Income and Expenditure Account

Particulars	Amount (Rs.)
Subscription received during the year	xxx
Add: Closing Subscription Outstanding	xxx
Add: Opening Subscription Received in Advance	xxx
	xxx
Less: opening Subscription Outstanding	xxx
Less: Closing Subscription Received in Advance	xxx
The amount of Subscription credited to Income and Expenditure Account	xxx

Subscription: Subscription is a membership fee paid by the member on annual basis. This is the main source of income of non-profit organisation. Subscription paid by members is shown as receipt in Receipts and Payments Account.

Legacy: it is the amount received by non-profit making organisations on the death of a person as per his “will”. It is usually a non-recurring nature (Capital Items)

Donation: Donations are amounts receives by way of gift. It may

- a) Specific Donations
- b) General Donations

Calculation of the amount of Expenses debited to Income and Expenditure Account

Particulars	Amount (Rs.)
Expenses paid during the year	xxx
Add: Closing Expenses Outstanding	xxx
Add: Opening Expenses Paid in Advance	xxx
	xxx
Less: opening Expenses Outstanding	xxx
Less: Closing Expenses Paid in Advance	xxx
The amount of Expenses debited to Income and Expenditure Account	xxx

Calculation of the amount of Stationery debited to Income and Expenditure Account

Particulars	Amount (Rs.)
Payment made for stationery during the year	xxx
Add: Opening stock of Stationery	xxx
Add: Amount due for stationery bought during the year	xxx
	xxx
Less: Closing stock of Stationery	xxx
The amount of Stationery debited to Income and Expenditure Account	xxx

