

Accounting for Not-for-Profit Organisation

Q1 :

State the meaning of 'Not-for-Profit' Organisations.

Answer :

Not-for-Profit Organisations (NPO) are set up with the prime objective of providing services and not to earn profit thereby enhancing the welfare of society. Such organisations include schools, hospitals, trade unions, religious organisations, etc. The person/s or the groups of individuals who govern and manage the working of an NPO are known as trustees. NPO's main sources of income are donations, subscriptions, life membership fees, grants etc. As these organisations are not set up with profit motive, they do not prepare Trading and Profit and Loss Account. Instead, they maintain Receipt and Payments Account, Income and Expenditure Account and Balance Sheet.

Q2 :

State the meaning of Receipt and Payment Account.

Answer :

Receipts and Payments Account is a summary of the Cash Book. All cash receipts are recorded on the Receipts side (i.e. Debit side) and all cash payments are recorded on the Payments side (i.e. Credit side) of Receipts and Payments Account. It is prepared on the basis of cash and bank transactions recorded in the Cash Book. It begins with the opening balance of cash and bank and ends with the closing balances of cash and bank (balancing figure) at the end of the accounting period. It records all cash and bank transactions both of capital and revenue nature. It not only records the cash and bank transactions relating to the current accounting period, but also the cash and bank receipts (or payments) received during the current accounting period that may be related to the previous or next accounting period.

This account only helps us to ascertain the closing balance of the cash and bank and helps in assessing the cash position of an NPO.

Q3 :

State the meaning of Income and Expenditure Account.

Answer :

Income and Expenditure Account (I&E) is similar to the Profit and Loss Account in the sense that while the former is prepared to ascertain surplus or deficit during an accounting period, the latter is prepared to ascertain net profit or net loss incurred during an accounting period. I&E Account is a nominal account and is prepared on the accrual basis. It records all transactions of revenue nature that are related to the current accounting period (whether outstanding or prepaid) for which the books are maintained. All expenses and losses are recorded on the debit side (Expenditure side) and all income and gains are recorded on the credit side (Income side) of I&E Account. The closing balance or the balancing figure of I&E Account is termed as surplus (or deficit), if the sum total of the Income side exceeds (is lesser than) the sum total of the Expenditure side.

Q4 :

What are the features of Receipt and Payment Account?

Answer :

The following are the features of Receipt and Payment Account:

1. **Nature:** It is a Real Account. It is a summarised version of Cash Book.
2. **Nature of Transactions:** It records only cash and bank transactions. Transactions other than cash and bank like depreciation, loss/ profit on sale of assets, etc. are not recorded in this account.
3. **No distinction between Capital and Revenue items:** It records all cash and bank receipts and payments of both capital and revenue nature.
4. **Opening and closing balance:** It begins with the opening balance of cash and bank and ends with the closing balance of the cash and bank (balancing figure) at the end of the accounting period.
5. **Purpose:** It reveals the cash position of an organisation. It helps to ascertain the total amount paid and received during an accounting period.

Q5 :

What steps are taken to prepare Income and Expenditure Account from a Receipt and Payment Account?

Answer :

The following steps are taken to prepare Income and Expenditure Account (I&E) from Receipts and Payment Account (R&P).

Step 1: All the revenue expenditures paid for the current accounting period are transferred from the Payments side of R&P to the Expenditure side of I&E.

Step 2: All the revenue receipts for the current accounting period are transferred from the Receipts side of R&P to the Income side of I&E.

Step 3: Expenses outstanding for the current period and expenses paid in advance (prepaid expenses) for the current period in the preceding accounting periods are to be added (adjusted) to their related expenses in the Step 1.

Step 4: Income outstanding (accrued income) for the current period and income received in advance for the current period in the preceding accounting periods are to be added (adjusted) to their related incomes in Step 2.

Step 5: Non-cash items like depreciation, appreciation for the current accounting period are to be adjusted in the I&E.

Step 6: After adjusting all the revenue items for the current accounting period, the Income and the Expenditure sides are totaled. If the sum total of the Income side exceeds (or is lesser than) the sum total of the Expenditure side, then the balancing figure is termed as surplus (or deficit).

Q6 :

What is subscription? How is it calculated?

Answer :

Subscription is the main source of income for an NPO besides entrance fees, donations, grants, etc. Subscriptions refer to the amount of money paid by the members on periodic basis for keeping their membership with the organisation alive. It is paid monthly, quarterly, half yearly or annually by the members.

It is shown in the debit side of the Receipt and Payment Account with the total amount received during the year that may be related to the current period and to the previous and next accounting period.

While calculating subscription for the current period, advance subscription received for the current period in the previous period and outstanding subscription for the current period are added to the subscription received during the current period. Whereas, on the other hand, advance subscription received for the next accounting period during the current period and outstanding subscription for the preceding period are deducted from the subscription received during the current period.

Calculation of Subscription

Subscription received during the year		***
<i>Add:</i> Subscription received (in advance) during previous year for current year	***	
<i>Add:</i> Subscription outstanding at the end of the year	***	

<i>Less:</i> Subscription received in advance for the next year	***	
<i>Less:</i> Subscription outstanding for the previous year	***	***
## Subscription shown in Income and Expenditure Account		***

This subscription is related to the current accounting period and is shown in the Income side of the Income and Expenditure Account.

Q7 :

What is Capital Fund? How is it calculated?

Answer :

Capital fund is the excess of NPOs' assets over its liabilities. In other words, the excess of assets over the liabilities for a profit earning organisation is termed as capital and the same for an NPO is termed as capital fund. Any surplus or deficit ascertained from Income and Expenditure account is added to (deducted from) the capital fund. It is also termed as Accumulated Fund.

Calculation of Capital Fund

Capital Fund at the beginning of the year		**
<i>Add:</i> Surplus from Income and Expenditure Account	**	
<i>Add:</i> Subscription Amount (Capitalised amount)	**	
<i>Add:</i> Life membership fee.	**	**
<i>Less:</i> Deficit from Income and Expenditure Account		**
Capital Fund at the end of the year		***

Q1 :

From the following particulars taken from the Cash Book of a health club, prepare a Receipts and Payments Account.

Particulars	Rs
Opening balance:	
Cash in Hand	5,000
Cash at Bank	25,000
Subscriptions	1,65,000
Donations	35,000
Investment Purchased	80,000
Rent Paid	20,000
General Expenses	21,500
Postage and stationery	2,000
Courier charges	1,000
Sundry Expenses	2,500
Closing Cash in Hand	12,000

Answer :

Books of Health Club
Receipt and Payment Account

Dr.

Cr.

Receipts	Amount Rs	Payments	Amount Rs
Balance b/d		Investment	80,000
Cash in Hand	5,000	Rent	20,000
Cash at Bank	25,000	General Expenses	21,500
Subscriptions	1,65,000	Postage and Stationery	2,000
Donations	35,000	Courier Charges	1,000
		Sundry Expenses	2,500
		Balance c/d	
		Cash in Hand	12,000
		Cast at Bank	91,000
		(Balancing figure)	
	2,30,000		2,30,000

Q2 :

The Receipt and Payment Account of Harimohan charitable institution is given:

Receipt and Payment Account for the year ending March 31, 2007

Receipts	Amount Rs	Payments	Amount Rs
Balance b/d:		Furniture	3,000
Cash at Bank	22,000	Investments	55,000
Cash in Hand	8,800	Advance for building	20,000
Donations	32,000	Charities	60,000
Subscriptions	50,200	Salaries	10,400
Endowment Fund	60,000	Rent and Taxes	4,000
Legacies	24,000	Printing	1,000
Interest on Investment	3,800	Postage	300
Interest on Deposits	800	Advertisements	1,100
Sale of old newspapers	500	Insurance	4,800
		Balance c/d:	
		Cash at Bank	32,000
		Cash in Hand	10,500
	2,02,100		2,02,100

Prepare the Income and Expenditure Account for the Year ended on March 31, 2007 after considering the following:

- It was decided to treat Fifty per cent of the amount received on account of Legacies and Donations as income.
- Liabilities to be provided for are:
Rent Rs 800; Salaries Rs 1,200; advertisement Rs 200.
- Rs 2,000 due for interest on investment was not actually received.

Answer :

Books of Harimohan Charitable Institution

Income and Expenditure Account

Dr.

Cr.

Expenditure	Amount Rs	Income	Amount Rs
Rent and Taxes	4,000	Donations	16,000
Add: Outstanding	800	Legacies	12,000
	4,800	Subscriptions	50,200
Salaries	10,400	Interest on Investment	3,800
Add: Outstanding	1,200	Add: Accrued Interest	2,000
	11,600		5,800
Advertisement	1,100	Interest on Deposits	800
Add: Outstanding	200	Sale of Old Newspapers	500
	1,300		
Charities	60,000		
Printing	1,000		
Postage	300		
Insurance	4,800		
Surplus (<i>Excess of Income over Expenditure</i>)	1,500		
	85,300		85,300

NOTE: As per the solution, Excess of Income over Expenditure is Rs 1,500; however, as per the book, it is Rs 2,500.

Q3 :

From the following particulars, prepare Income and Expenditure account:

Details	Amount Rs
Fees collected, including Rs 80,000 on account of the previous year	5,20,000
Fees for the year outstanding	30,000
Salary paid, including Rs 5,000 on account of the previous year	68,000

Salary outstanding at the end of the year	3,000
Entertainment expenses	8,000
Tournament expenses	25,000
Meeting Expenses	18,000
Traveling Expenses	7,000
Purchase of Books and Periodicals, including Rs 31,000 for purchase of Books	40,000
Rent	15,000
Postage, telegrams and telephones	6,000
Printing and Stationery	18,000
Donations received	25,000

Answer :

Income and Expenditure Account

Dr.

Cr.

Expenditure	Amount Rs	Income	Amount Rs
Salaries 68,000		Fees Collected 5,20,000	
<i>Less: Previous year's Outstanding</i> (5,000)		<i>Less: Previous year's Outstanding</i> (80,000)	
63,000		4,40,000	
<i>Add: Current year's Outstanding</i> 3,000	66,000	<i>Add: Current year's Outstanding</i> 30,000	4,70,000
Entertainment Expenses	8,000	Donations	25,000
Tournament Expenses	25,000		
Meeting Expenses	18,000		
Traveling Expenses	7,000		
Purchases of Periodicals (40,000 - 31,000)	9,000		
Postage, Telegrams and Telephone's	6,000		
Rent	15,000		
Printing and Stationery	18,000		
Surplus (Excess of Income	3,23,000		

over Expenditure)			
	4,95,000		4,95,000

NOTE: As per the solution, Excess of Income over Expenditure is Rs 3,23,000; however, as per the book, it is Rs 3,07,000.

Q4 :

Following is the information given in respect of certain items of a Sports Club. Show these items in the Income and Expenditure Account and the Balance Sheet of the Club:

Particulars	Rs
Sports Fund as on 1.4.2005	35,000
Sports Fund Investments	35,000
Interest on Sports Fund	4,000
Donations for Sports Fund	15,000
Sports Prizes awarded	10,000
Expenses on Sports Events	4,000
General Fund	80,000
General Fund Investments	80,000
Interest on General Fund Investments	8,000

Answer :

Books of Sports Club
Income and Expenditure Account

Dr.

Cr.

Expenditure	Amount Rs	Income	Amount Rs
		Interest on General Fund Investments	8,000

Balance Sheet

Liabilities	Amount	Assets	Amount
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		Rs		Rs
Sports Fund	35,000		Sports Fund Investments	35,000
Add: Interest on Sports Fund	4,000		General Fund Investments	80,000
Add: Donations for Sports Fund	15,000			
	<u>54,000</u>			
Less: Expenses on Sports Event	(4,000)			
Less: Prize Awarded	<u>(10,000)</u>	40,000		
General Fund		80,000		

Q5 :

How will you deal with the following items while preparing for the Bombay Women Cricket Club its income and expenditure account for the year ending 31.3.2007 and its Balance Sheet as on 31.3.2007:

	Rs
(a) Donation received during the year for the construction of a permanent Pavilion	12,25,000
Expenditure incurred up to 31.3.2007 on its construction	10,80,000
The total estimated expenditure on construction of Pavilion being	25,00,000
(b) Tournament Fund:	
Balance as on 1.4.2006	10,700
Subscriptions for tournament received during the year	65,800
Expenditure incurred during the year on conducting tournaments	72,400
(c) Life Membership fee received during the year	28,000

Give reasons for your answers

Answer :

(a)

Books of Bombay Women Cricket Club
Balance Sheet

as on March 31, 2007

Liabilities	Amount Rs	Assets	Amount Rs
Donation for Pavilion 12,25,000	1,45,000	Construction of Pavilion in Progress	10,80,000
Less: Exp. On construction of Pavilion (10,80,000)			
Capital	10,80,000		
Add: Pavilion Construction 10,80,000			

Reason

Donation for construction of Pavilion is a donation for specific purpose.

Expenses on construction on Pavilion is a capital expenditure.

(b)

Balance Sheet

as on March 31, 2007

Liabilities	Amount Rs	Assets	Amount Rs
Tournament Fund 10,700	4,100		
Add: Subscription for Tournament 65,800			
76,500			
Less: Tournament Expenses (72,400)			

Reason

All funds received are treated as capital receipts and expenses related to any fund are deduced from the concerned funds.

(c)

Balance Sheet

as on March 31, 2007

Liabilities	Amount Rs	Assets	Amount Rs
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Life Membership Fees	28,000		
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Reason

Life Membership Fees are considered as capital receipts and are shown on the Liabilities side of the Balance Sheet, if nothing is specified about its treatment. But if it is to be treated as revenue item, then it is shown on the credit side of the Income and Expenditure Account.

