Accounting for Not-for-Profit Organisation

Introduction to Not-for-Profit Organisation

Meaning, Features and Financial Statements of a Not-for-Profit Organisation:

- **Meaning and Concept of Not-for-Profit Organisations:**
  - **i.** These are the institutions/organisations that are set-up with general or specific objectives for rendering services and providing other social activities to enhance the welfare of general or a particular group of people.
  - **ii.** The aim of such institutions is not to earn profit, however, the organisations are capable of earning profit.
  - **iii.** A separate legal entity not owned by any individual or an enterprise.
  - **iv.** Examples of such organisations are schools, colleges, public hospitals, literacy societies for promoting sports, arts, culture, etc.

- **Characteristics or Features of Not-for-Profit Organisations:**
  - **i. Formed by Promoters:** These organisations are formed by the promoters who can be either individual or groups of individuals and enterprises.
  - **ii. Separate Existence:** These organisations have separate existence from its members, i.e. the life of an NPO is unaffected by the life of its members.
  - **iii. Purpose:** Its purpose is to further cultural, educational, religious, professional or public service objectives.
  - **iv. Form:** It is set-up as a charitable society or trust.
  - **v. No Profit Motive:** Its aim is not to earn profit, however, the organisation is capable of earning profit. Any surplus is used by the organisation for its prescribed objectives rather than distributing it among the members.
  - **vi. Management:** It is managed by a group of individuals known as Trustees or Managing Committee.
  - **vii. Funding:** The main source of their income is subscription, donations, government grants and other receipts
  - **viii. Accounts:** Unlike profit-seeking organisations, NPOs do not prepare Profit and Loss Account; rather they prepare Income and Expenditure Account to show a summary of revenue incomes and revenue expenses. The NPOs prepare final accounts every year which comprises of Receipt and Payment Account, Income and Expenditure Account and Balance Sheet.

- **Difference between Not-for-Profit Organisation and Profit Earning Organisation:**

Sr. no.	Basis	Not-for-Profit Organisation	Profit Earning Organisation (Business Firm)
1	**Purpose**	To render services	Its purpose is to earn profits.
2	**Formation & Management**	Formed by Promoters and managed by Trustees	Formed by Entrepreneur(s) and managed by Owners or Managers
2	**Funds**	It raises funds by way of Membership Fee, Donations, and Surplus from Operations which are shown in the	It receives funds from the proprietor, partners in the form of capital (in case of proprietorship

		books as General or Capital or Corpus funds.	and partnership) and from shareholders in the form of Share Capital (in case of Companies). Profits which are not distributed to partners and shareholders are shown as reserves.
3	**Financial Statements**	Final accounts are prepared every year that comprises of Receipt and Payment Account, Income and Expenditure Account and Balance Sheet.	Final accounts prepared comprises of Trading, Profit and Loss Account and Balance Sheet.
4	**Surplus/Profit**	Excess of income over expenditure in the Income and Expenditure Account is termed as Surplus/Profit.	Excess of credit side over the debit side of the Profit and Loss Account is termed as Net Profit.

- **Financial Statements of a Not-for-Profit Organisation:**
  - **i.** It prepares annual or final accounts every year showing the financial transactions of the organisation.
  - **ii.** These annual or final accounts are prepared for its members and to comply with statutory requirements.
  - **iii.** Financial Statements of an NPO comprise of the following:
    - **a.** Receipts and Payments Account,
    - **b.** Income and Expenditure Account and
    - **c.** Balance Sheet.

Understanding Receipts and Payments Account

Meaning, Features, Format and Limitations of Receipts and Payments Account:

- **Meaning:** It is an account that shows the summary of all cash and bank transactions occurred during an accounting period. It starts with the opening balances of cash and bank and ends with the closing balances of cash and bank. This account is a Real Account and lays the basis for the preparation of Income and Expenditure Account and the Balance Sheet.

- **Features**: Following are the features of Receipts and Payments Account:
  - i. **Nature:** It is a summary of cash receipts and payments and hence, it an Asset Account/Real Account
  - ii. **Recording:** It provides the summary of all cash and bank transactions in a chronological order.
  - iii. **Basis of Preparing:** It is prepared on cash basis, i.e., it records only cash inflow and outflow. Accrued and outstanding transactions are not recorded in this account.
  - iv. **Capital and Revenue:** It records all the transactions whether capital or revenue.
  - v. **Period:** It records all the cash and bank transactions irrespective of whether they relate to current, previous or succeeding accounting periods.
  - vi. **Opening and Closing Balances:** Opening balance of this account is the cash in hand/ bank at the beginning of the accounting year and the closing balance shows cash in hand/bank at the end of the accounting period.

vii. **Adjustment:** Adjustments for accrued, outstanding items and depreciation is not required to be made in this account.

viii. **Purpose:** The purpose of preparing this account is to show amount received and paid under various heads during the accounting year and also to know the cash position of the entity.

- **Format:**

Dr. Receipts and Payments Account for the year ended … Cr

Receipts	Amount	Payments	Amount
To Balance b/d(Opening Balance):		By Balance b/d (Opening Balance)(in	
Cash in Hand	…	case of Bank Overdraft)	
Cash at Banks	…	By Salaries	…
To Subscriptions:		By Rent	…
For Previous Year …		By Postage Expenses	…
For Current Year …		By Newspapers and Magazines, etc.	…
For Next Year …	…	By Repairs	…
To General Donations	…	By Audit Fee	
To Entrance/Admission Fees	…	By Maintenance Expenses	…
To General Grants	…	By Insurance	…
To Sale of Newspaper, Grass, etc.	…	By Secretary's Honorarium	…
To Sale of Old Used Sports	…	By Honorarium	…
Materials	…	By Municipal Tax	…
To Interest on Investments	…	By Prize Distributed	…
To Income from Concerts/Lectures	…	By Office Expenses	…
To Dividends	…	By Expenses on Show	…
To Rent Received	…	By Miscellaneous Payments	…
To Interest Received	…	By Purchase of Fixed Assets (e.g.,	…
To Miscellaneous Receipts	…	Furniture)	…
To Life Membership Fees	…	By Sports Equipment	…
To Subscriptions for Specific	…	By Investments	
Purpose	…	By Books	…
To Donation for Specific Purpose	…	By Loan (Repayment)	…
To Legacies	…	By Building	…
To Endowment Fund	…	By Balance c/d (Closing Balance):	…
To Sale of Fixed Assets		Cash in Hand	…
To Receipts on Account of Special		Cash at Bank*	
Fund, i.e., Match Fund, Prize Fund,	…		
etc.			…
To Balance c/d (Bank Overdraft)*			…
	…		…

*Either of the two will appear.

 # If the receipts side is more than the payments side then, Closing balance of cash and bank will *appear on the* ***credit side*** *of this account.*

If the payments side is more than the receipts side then, Closing balance of bank will appear ***(as Bank overdraft)*** *on the* ***debit side*** *of this account.*

- **Limitations of Receipts and Payments Account:**

  i. It follows cash basis of accounting and therefore, does not show incomes and expenses on accrual basis.

  ii. It is not capable of showing whether the NPO is able to meet its day-to-day expenses out of its income or not as the credit transactions are ignored.

iii. It is not a perfect substitute of Trial Balance as this account fails to reveal the closing balances of all accounts.

- **Difference between Receipts and Payments Account and Cash Book:**
  Following are the points of differences between Receipts and Payments Account and Cash Book

Sr. No.	Basis	Receipts and Payments Account	Cash Book
1	**Statement vs. Account**	It can be regarded as statement rather than an account. Unlike ordinary accounts, it does not show Date and Ledger Folio columns.	It can be regarded as an account as it works both as Journal as well as ledger and its balances are directly shown in the Balance Sheet.
2	**Period**	It is prepared at the end of the accounting period.	It is written on daily basis.
3	**Date**	It does not require the transactions to be written date-wise. Even date column is not present in the R&P A/c	It requires the date-wise recording of the transactions.
4	**Institutions**	It is prepared by the Not-for-Profit Organisation.	It is prepared by all types of organisation be it a commercial or Not-for-Profit organisation.
5	**Side**	It has receipts and payments side instead of debit and credit.	It is divided into debit and credit sides.
6	**Ledger Folio**	It does not have column for ledger folio.	It has a separate column for Ledger Folio.

Understanding Income and Expenditure Account

Meaning, Features, Format and Important Terms of Income and Expenditure Account:

- **Meaning:**
  - i. It is like Profit and Loss Account of an enterprise or business firm.
  - ii. It shows all revenue income earned and revenue expenses incurred during an accounting period.
  - iii. It is prepared at the end of the accounting period on accrual basis of accounting.
  - iv. It determines the result of the organisation's operations, whether it has surplus or deficit.
  - v. It has 2 sides namely, debit and side. All the incomes and gains are recorded on the credit side and all the expenses and losses are recorded on the debit side.
  - vi. Excess of credit side over the debit side is termed as surplus, whereas, excess of debit side over the credit side is termed as deficit.
  - vii. Such surplus or deficit, as the case maybe, is either added to or deducted from the Capital Fund in the Balance Sheet.

- **Features:**
    - **i. Nature:** It is a Nominal Account and therefore, all revenue expenses and losses incurred are recorded on the debit side and all revenue incomes and gains earned are recorded on the credit side of this account.
    - **ii. Basis of Recording:** It follows the accrual basis of accounting to ascertain Surplus or Deficit arising after meeting all revenue expenses against all revenue incomes at the end of an accounting period
    - **iii. Period:** It records only those expenses and incomes which relate to the current accounting period.
    - **iv. Opening and Closing Balances:** It has no opening balance, however, balance at the end is either surplus or deficit which is then transferred to Capital Fund in the Balance Sheet.
    - **v. Adjustments:** Since, it follows accrual basis of accounting, all the adjustments are to be given effect which are necessary to record the incomes, gains, expenses and losses relating to the current accounting period.

- **Format:**

Dr. Income and Expenditure Account for the period ended… Cr.

Expenditure		**Amount**	**Income**		**Amount**
To Salaries	…		By Subscriptions	…	
Add: Outstanding at the end	…		Add: Outstanding at the end	…	
	…		Advance in the beginning	…	
Less: Outstanding at the beginning	…	…		…	
To Rent		…	Less: Outstanding at the beginning	…	
To Insurance Premium	…			…	
Less: Prepaid	…	…	Less: Advance at the end	…	…
To Audit Fees		…	By Entrance Fees		…
To Printing and Stationery		…	By Donations		…
To Honorarium		…	By Sale of Old Newspapers		…
To Telephone Expenses		…	By Hall Rent		…
To Repairs		…	By Sundry Receipts		…
To Depreciation		…	By Deficit		…
To Sports Material Used		…	(excess of expenditure over income)*		
To Surplus					
(excess of income over expenditure)*					
		…			…

*Either of the two will appear

Expenditure side to record: All ***revenue expenses*** for current period (*after making adjustment for outstanding and prepaid expenses*)

Income side to record: All revenue income for current period (after making adjustments for outstanding and advance income)

- **Some important terms:**
    - **Capital Expenditure:**
        - **i.** It is an expenditure, which benefits the organisations for more than one accounting period.
        - **ii.** It results in the acquisition of assets which are used for the furtherance of activities carried on by the NPO.
        - **iii.** Examples include cost of land, building, furniture and any addition thereto.

- **Revenue Expenditure:**
  - **i.** It is an expenditure, the benefits of which expire within the accounting period.
  - **ii.** In case of an NPO, such expenditure means expenditure incurred for social or charitable activities carried on by the NPO.
  - **iii.** Examples include Materials used, rent, insurance, salaries, honorariums paid, etc.
- **Revenue Receipts:**
  - **i.** Any income received from the activities carried out by organisation is termed as revenue receipts.
  - **ii.** Examples include Subscription from members, General Donations, Rent Received, etc.
- **Capital Receipts:**
  - **i.** Receipts other than revenue receipts are termed as Capital Receipts.
  - **ii.** Receipts from donor for the specified purpose are also termed as Capital Receipts.
  - **iii.** Examples include Life Membership Fee, Corpus Donations, Furniture Fund, etc.

- **Difference between Income and Expenditure Account and Profit and Loss Account:**

Sr. no.	**Basis**	**Income and Expenditure Account**	**Profit and Loss Account**
1	**Object**	Its main object is to determine surplus, i.e., excess of income over expenditure or deficit i.e., excess of expenditure over income.	Its main object is to determine net profit or net loss.
2	**Prepared by**	It is prepared by Not-for-Profit Organisations.	It is prepared by business enterprises.
3	**Method**	If an organisation maintains a complete set of books, this account is prepared from Trial Balance. If complete set of books is not maintained, it is prepared from Receipt and Payment Account and the additional information available.	It is prepared from Trial Balance and other information.
4	**Balance**	Balance in this account is termed as either a surplus or a deficit.	Balance in this account is termed as either net profit or net loss.

- **Difference between Receipts and Payments Account and Income and Expenditure Account:**

Sr. no.	**Basis**	**Receipts and Payments Account**	**Income and Expenditure Account**
1	**Purpose**	It is prepared to show difference between two sides showing Cash/Bank balance at the end.	It shows net result of activities undertaken during the year resulting in surplus or deficit.
2	**Nature**	It is a classified summary of cash transactions showing receipts and payments under different heads for the period, hence is a real account in nature.	It is like a Profit and Loss Account and therefore is a nominal account.
3	**Form**	It records receipts on the debit side and payments on the credit side.	It records all the expenses and losses on the debit side and all the incomes and gains on the credit side

			of the account.
4	**Balance**	Opening balance means cash in hand and bank balance in the beginning and closing balance means cash in hand and bank balance at the end.	Opening balance does not exist in this Account. Any closing balance at the end is either a surplus or deficit.
5	**Capital and Revenue Items**	It records receipt and payment items of capital as well as revenue nature.	It records incomes and expenses during the accounting period which are of revenue nature only. Items of capital nature are not recorded in this account.
6	**Contents**	It records receipts and payments during the year whether they relate to past, current or succeeding year.	It records incomes and expenditures of the current year only.
7	**Adjustments**	It follows cash system of accounting and therefore, no adjustments are made.	It follows accrual system of accounting and therefore, adjustments are to be made for prepaid and outstanding incomes and expenses.
8	**Depreciation**	It records only cash items and non-cash items like depreciation are ignored.	It records non-cash items and therefore, non-cash items depreciation can be recorded in this account.

Understanding Balance Sheet

Meaning, Format and Important Points to prepare Balance Sheet:

- **Meaning:**
  i. It is a statement that reveals the financial position of an organisation at a particular date.
  ii. It shows assets, liabilities and Capital Fund.
  iii. It is prepared in the same manner as that for a business firm.
  iv. It is prepared after the Income and Expenditure Account.
  v. Any surplus or deficit in the Income and Expenditure Account is transferred to Capital Fund, where, Capital Fund = Total Assets – Total Liabilities.

Opening Balance Sheet- It shows the balances of all the assets, liabilities, funds and reserves in the beginning of an accounting period. It is usually prepared to ascertain the capital fund in the beginning or any other missing item.

Need for Preparing Opening Balance Sheet

In case, the Capital Fund is not mentioned in the question, then in order to ascertain the Capital Fund we need to prepare the Opening Balance Sheet. All the opening balances of assets such as, building, furniture, outstanding subscription (at the beginning), etc. and all the opening balances of liabilities such as, creditors, advance subscription (at the beginning), outstanding expenses etc. are recorded in this balance sheet. The excess of the total of the Assets over the total of the Liabilities is regarded as Capital Fund.

Closing Balance Sheet- It is prepared to assess the true and fair financial position of an organisation at the end of an accounting period.

- **Following points should be kept in mind while preparing the Balance Sheet:** In order to prepare Balance Sheet, following are the points that are required to be kept in mind:
    i. **Expenses and Incomes:** Expenses that are outstanding or prepaid and Incomes that are receivable or received in advance will appear in the Balance Sheet as Assets or Liabilities based on the nature of the respective items.
    ii. **Special Receipts:** Special items like specific donations for building, sports, etc. will not appear in the Income and Expenditure Account. Instead they are shown as liabilities in the Balance Sheet.
    iii. **Surplus and deficit:** Balancing of Income and Expenditure Account will either give a surplus or a deficit. This surplus/deficit is then added to or reduced from the Capital Fund Balance and only the net amount is shown in Balance Sheet.
    iv. **Assets:** Amounts of assets that are shown in the opening Balance Sheet are to be adjusted for all current year transactions related to the respective assets which includes purchase of asset, sale of asset and depreciation. Such adjusted amount will then appear in the closing Balance Sheet.
    v. **Liabilities:** Amounts of liabilities that are shown in the opening Balance Sheet are to be adjusted for all current year transactions related to the respective liability which shall include payments made against them or additional liability being created. Such adjusted amount will then appear in the closing Balance Sheet.
    vi. **Loans and Advances:** Opening amount of loan taken should be adjusted for all repayments made during the year against it and only the net amount should be shown as a liability. In case of advances, opening balance should be adjusted for all the amounts recovered during the year and only the net amount should be shown as an asset.

- **Format of Opening Balance Sheet of a Not-for-Profit Organisation.**

Opening Balance Sheet as at …

Liabilities	Amount	Assets	Amount
Bank Overdraft, if any	…	Cash in Hand	…
Outstanding Expenses	…	Cash at Bank	…
Advance Subscription	…	Fixed Assets, if any	…
Capital Fund*(balancing figure)	…	Investments, if any	…
		Outstanding Subscriptions	…
		Prepaid Expenses	…
	…		…

- **Format of Balance Sheet of a Not-for-Profit Organisation.**

Name of the Organisation

Balance Sheet as at …

Liabilities		Amount	Assets		Amount
Capital Fund or General Fund or Corpus Fund:			Fixed Assets:		
Opening Balance	…		Building:		
Add: Surplus (or Less: Deficit)	…	…	Opening Balance	…	
Building Fund:			Add: Additions	…	
Opening Balance	…			…	
Add: Donation for Building	…		Less: Depreciation	…	…
Income from Building Fund Investment	…	…	Furniture:		
Sports Fund:			Opening Balance	…	
Opening Balance	…		Add: Additions	…	
Add: Donation for Sports Fund	…			...	
Income on Sports Fund Investment	…		Less: Depreciation	…	
	…		Sale	…	…
Less: Sports Prize Awarded	…	…	Current Assets:		
Current Liabilities:			Cash in Hand		…
Outstanding Expenses:			Cash at Bank		…
Rent	…		Subscriptions in Arrear		…
Salaries	…		Accrued Interest		...
Electricity/Water Charges	…	…	Investments:		
Subscriptions Received in Advance		…	Building Fund Investments		…
			Sport Fund Investments		…
			Prepaid Expenses:		
			Insurance		…
			Rent		…
		…			…

Fund Based Accounting

Meaning and Categories in Fund Based Accounting:

- **Meaning of Fund Based Accounting:**
  i. It is an accounting method or practice that is followed for preparation of accounts in which amount (funds) available for specific purpose is shown under Specific Fund Account.
  ii. It means the accounting whereby receipts of donations and incomes relating to a particular fund are credited to that particular fund and payments and expenses are debited to it.
  iii. A Not-for-Profit Organisation maintains a separate Bank Account for each fund. Donations and income received towards that funds are credited to the Fund Account while the expenses are debited to such Fund Account.
  iv. Credit balance in the Fund Account is shown on the liabilities side of the Balance Sheet.
  v. Debit balance in the Fund Account is debited to the Income and Expenditure Account.

- **Categories/Types of Funds in case of an NPO:**

i. Unrestricted Fund or General Fund:

- These funds are used to carry out general operations of a business.
- These funds do not carry any restriction with respect to its use.
- In simple words, management can use the amounts as it deems appropriate, but to carry out purpose for which the organisation exists.
- It is also known as General Fund or Capital Fund to which surplus or deficit is added or deducted respectively.

ii. Restricted Funds:

- These are the funds, the use of which is restricted either by the management or by the donor for specific purpose.
- Examples of such funds include, Endowment fund, Annuity fund, Loan Fund, Prize Fund, Sports Fund, etc.
- Restricted Funds are further categorized into:

(i) Specific Revenue Funds: These funds are created and maintained to show the incomes and expenses related to the specific operation separately from the general revenue incomes and expenses. Amount available in these funds (after meeting the expenses attributing to the fund) are shown on the Liabilities side of the Balance Sheet.
The treatment of receipts and expenditures related to the specific fund can be better understood with the help of the following example.

Example: Treatment of Tournament Fund

Liabilities		Amount Rs	Assets	Amount Rs
Tournament Fund	50,000			
Sale of Ticket for Tournament	20,000			
Donation for Tournament	4,000			
Less: Tournament Expenses	(10,000)	64,000		

(ii) Capital Project Funds: These funds are also shown on the Liabilities side of the Balance Sheet. Donation and other receipts to acquire or construct specific fixed assets (such as, donation for construction of pavilion) or to carry out a specific project of capital nature are shown in the separate fund account.
Treatment of receipts and expenditure relating to the fund can be understood with help of following example.

Example: Donation for Building Fund

Liabilities		Amount Rs	Assets	Amount Rs
Capital Fund	8,00,000		Construction of Building in progress	2,00,000
Add: Construction of Building in progress	2,00,000	10,00,000		
Building Fund	7,00,000			
Donation	1,00,000			
Less: Construction of Building in progress	(2,00,000)	6,00,000		

(iii) Government Grant: It is a grant which is received from Government for specific purpose. Such specific grant is to be used only for the purpose for which it is granted. Examples of such grant includes grant for 'Polio Eradication Programme' which is restricted to Polio Eradication purposes.

(iv) Endowment Fund: These funds arises from the gift or bequest. It is created with the condition that income arising from the investment of such funds will be used for a specific purpose, i.e. may be to provide the benefit to the specified beneficiary or to meet specific expenses. Thus, the principal amount of these funds remains unchanged. These funds may be permanent or temporary for a specific period.

(v) Annuity Fund: It is established when a Not-for-Profit Organisation receives assets from a donor with a condition to pay specified amount periodically to designated beneficiary or beneficiaries. Annuity is a fixed annual payment and usually continue only during the lifetime of the named beneficiary or for the period specified by the donor. After the death of the beneficiary or termination of the agreement, the funds become the property of the organisation.

(vi) Loan Fund: These funds are maintained to grant loan for specific purposes. These loans are subject to repayment, interest and fines. Its purpose is not to earn profits but to assist the person who is in need. For example, Education Loan to the students for higher studies, etc.

Accounting Treatment of Special Items in Income and Expenditure Account

- **Entrance or Admission Fee:** It is an amount that is paid by a person to become a member of a Not-for-Profit organisation. Since, it is received by the NPO from its potential members, it is treated as a revenue receipt which is shown on the credit side of the Income and Expenditure Account.
- **Life Membership Fee:** It is not accounted as an income because a life member makes a one-time payment and avails life time services. Therefore, it is accounted as a Capital Receipt and added to Capital Fund on the liabilities side of the Balance Sheet.

- **Special Receipts in case of an NPO:**
  - I. It means receipts of amount for special occasions.
  - II. The amount received for special receipt is a credited to a separate account.
  - III. All the expenses against these receipts are debited to the same account.
  - IV. The balance of such separate account is transferred to the Income and Expenditure Account.
  - V. Examples include, amount received for annual dinner, annual function, annual conference, meetings, etc.

- **Donation and Types of Donation received by an NPO:** A charitable institution is a type of Not-for-Profit Organisation. One of the source of incomes for a charitable institution is the donation that is received. Donations are a kind of gift which are received by an organisation either in cash or in any other form. Donations can be both general as well as specific donations.

  General Donation- These donations are received as gifts from the donor without any specific condition. These donations can be use for carry out the general operations of an organisation.

  Accounting Treatment: General Donation can be either treated as General Revenue Receipt or General Capital receipt.

  If it is treated a general revenue receipt, then it is shown on the Income side of the Income and Expenditure Account.

  If it is treated as general capital receipt for general, then it is directly added to the Capital Fund on the Liabilities side of the closing Balance Sheet.

  Specific Donations- These are the donations that are received as gifts with specific conditions attached. These donations can only be used to carry out the specific operation as per the condition attached with the donation. These donations are used to accomplish a particular objective. For example, donations for building cannot be used for any other purpose other than constructing building.

  Accounting Treatment- These donations are transferred to respective Fund Account and are shown on the Liabilities side of the Balance Sheet.

- **Legacy:** The amount which is received as donation by a Not-for-Profit Organisation under WILL of a deceased person is known as Legacy. The accounting treatment of legacy depends upon the nature of receipt and conditions specified with that receipt.
  - i. In case there are any specific conditions, they are to be classified as 'Specific Donation'. Such amounts are recorded as Capital Receipt and therefore credited to a 'Specific Fund Account' else Capital Fund Account when received in nature of capital receipt without any specific condition.
  - ii. In case there are no specific conditions, it is accounted as 'General Donation'. Such amounts are recorded as revenue receipt and therefore credited to Income and Expenditure Account.

- **Sale of Used Sports Materials:** Amount of Sports Materials available or used in the organisation are to be recorded in the books in different statements. Stock of such materials is shown as an asset in the Balance Sheet and any amount of sports material consumed is shown on the debit side of the Income and Expenditure Account. This concept explains us the treatment to be given if materials shown in the Balance Sheet or Income and Expenditure Account are sold during the year:
  - i. **If old sports materials shown as consumed are sold:** The amount received as sale consideration is credited to Income and Expenditure Account to show it as an income.

ii. **If old sports materials shown as stock are sold:** Any amount of gain/profit on sale of such old material is credited to Income and Expenditure Account to show it as an income.
iii. **If sale of such old sports materials results into loss:** Such amount of loss will be debited to the Income and Expenditure Account.

- **Proceeds from Sale of Old Assets:** Sale of an asset may result into profit or loss or neither profit nor loss. In such cases, actual profit/loss is calculated as follows:
  1. Determine the book value of the assets by charging depreciation on the same up to the date of sale.
  2. Determine the sale value of the asset being sold.
  3. Such sale value is credited to the Asset Account.
  4. If the sale value is in excess of the book value of the asset, it is a gain on sale and such gain is credited to the Income and Expenditure Account.
  5. If the sale value is less than the book value of the asset, it is a loss and is debited to the Income and Expenditure Account.

- **Sale of Old Newspapers:** The sale of items such as, magazines, newspapers, etc. are of recurring nature, thereby the income received from their sale is considered as revenue income.

  Accounting Treatment: As the income received from the sale of such items is considered as revenue income, so the sale of old newspapers, etc. is shown on the Income side of the Income and Expenditure Account.

- **Subscriptions:**
  i. It is a source of income for an NPO.
  ii. It is paid by the members periodically which can be quarterly or half yearly so that their membership remains alive.
  iii. The total amount of subscription relating to the current year, whether received or not are to be shown on the credit side of the Income and Expenditure Account.
  iv. Amount relating to the current year, not received till the end of the year is to be shown as an asset in the Balance Sheet as outstanding income.
  v. Amount received in advance for future years is also shown as a liability in the Balance Sheet as advance income.
  vi. Subscription can be Ordinary or Special based on purpose, if specified.

  Special Subscription: It is a type of subscription that is received for accomplishing a specific task or organising specific activities from the participants. For example, subscription for tournament, subscription for governor's party, etc.

  Accounting Treatment: Special Subscription are shown separately on the Liabilities side of the Balance Sheet and the expenses attributing to the subscription is deducted from such subscription.

  Situation 1: After completing the specific task, if any surplus remains, then it will be added to the capital fund.
  Situation 2: If expenses are more than the subscription amount, then the expenses that remain after adjusting all the expenses from the subscription amount will be shown on the Expenditure side of the Income and Expenditure Account.

  Ordinary Subscriptions: It is the main source of revenue income which is received from the members of an NPO. The members pay their amount of subscription periodically to keep their membership alive with the organisation.

  Format of the table showing calculation of Subscriptions is given as follows:

Particulars		Amount
Subscription received during year as shown in Receipts and Payments Account		…
Add: Outstanding at the end of the year	…	
Received in advance in the beginning of the year	…	…
		…
Less: Outstanding at the beginning of the year	…	
Received in advance at the end of the year	…	…
Subscriptions to be shown in the Income and Expenditure A/c		…

Accounting Format

Subscription Account

Dr. **Cr.**

Particulars	Amount Rs	Particulars	Amount Rs
Outstanding Subscription A/c (*in the beginning*)	×××	Advance Subscription A/c (*in the beginning*)	×××
Advance Subscription A/c (*at the end*)	×××	Bank A/c (*Subscription received during the year*)	×××
Income and Expenditure A/c (*Balancing Figure*)	×××	Outstanding subscription A/c (*at the end)*	×××

- **Honorarium:** An amount or token of payment made to a person who has voluntarily undertaken a service which would normally command a fee is termed as Honorarium. It is more of an expression of gratitude rather than a consideration for service.
  Accounting Treatment: It is shown on the Expenditure side of the Income and Expenditure Account.

- **Capital Expenditure:**
  i. It is an expenditure, which benefits the organisations for more than one accounting period.
  ii. It results in the acquisition of assets which are used for the furtherance of activities carried on by the NPO.
  iii. Examples include cost of land, building, furniture and any addition thereto.
  iv. It is shown on Assets side of the Balance Sheet.

- **Revenue Expenses:**
  i. It is an expenditure, the benefits of which expire within the accounting period.
  ii. In case of an NPO, such expenditure means expenditure incurred for social or charitable activities carried on by the NPO.
  iii. Examples include materials used, rent, insurance, salaries, honorariums paid, etc.
  iv. They are shown on the debit side of the Income and Expenditure Account.

- **Capital Receipt:**
  i. Receipts from donor for the specified purpose are also termed as Capital Receipts.
  ii. Examples include Life Membership Fee, Corpus Donations, and Furniture Fund etc.

- **Revenue Receipt:**
  i. Any income received from the activities carried out by organisation is termed as revenue receipts.
  ii. Examples include Subscription from members, General Donations, Rent Received, etc.
  iii. They are shown on the credit side of the Income and Expenditure Account.

- **Cost of Goods Consumed:** This head helps in determining the total amount of consumables consumed during a particular year. Consumables for an NPO includes stationery, sports materials, etc. To identify the amount consumed for each of these consumables, separate Stock Account is maintained for each of these consumables. If the closing stock is shown in the Balance Sheet and the amount of goods consumed are debited to the Income and Expenditure Account, only then it is possible to determine the 'Surplus or Deficit' from the Income and Expenditure Account.

Goods Consumed During the Year	**Amount**
Opening Stock of Consumable Items	…
Add: Purchases during the year	…
Less: Closing Stock	(…)
Balance to be shown in the Income and Expenditure A/c	…

Notes:
(i) *Opening Stock appears in Opening Balance Sheet*
(ii) *Closing Stock appears in Closing Balance Sheet*
(iii) *In case if credit purchases of consumables not provided, prepare creditors for consumables goods account.*
(iv) *Receipts from sale of consumables, if any are accounted as revenue receipts.*

Preparation of Income and Expenditure Account and Balance Sheet from Receipts and Payments Account with additional information

Following are the steps which are to be followed to prepare necessary statements for an NPO based on Receipts and Payments Account with additional information:

i. **Step 1: Determine Opening Capital Fund:** This is required to be computed in case where no information is given with respect to opening capital fund. Such opening capital fund is therefore computed taking opening cash and bank balance as given in Receipts and Payments Account and all other assets and liabilities given in the additional information. Once this is done, capital fund is determined by taking difference between the total assets and liabilities.

ii. **Step 2: Identify Incomes from Receipts and Payments Account:** Since, Receipts and Payments Account shows all the amounts received during the year whether they relate to current, previous or future years, it is necessary to identify revenue receipts of current accounting period only which are actually required to be shown in the Income and Expenditure Account. Capital receipts are shown in the Balance Sheet.

iii. **Step 3: Identify Expenses from Receipts and Payments Account:** Since, Receipts and Payments Account shows all the amounts spent during the year whether they relate to current, previous or future years, it is necessary to identify revenue payment of current accounting period only which are actually required to be shown in the Income and Expenditure Account. Capital payments are shown in the Balance Sheet.

iv. **Step 4: Identify the items not in Receipts and Payments Account but are to be shown in the Income and Expenditure Account:** These amounts are mostly non-cash items and therefore not recorded in the Receipts and Payments Account but are to be shown in the Income and Expenditure Account. Example of items are as follows:
   a. Depreciation on fixed assets;
   b. Gain or loss on sale of fixed assets.

v. **Step 5: Compute Surplus or Deficit in Income and Expenditure Account:** Surplus or deficit in the Income and Expenditure Account is to be computed by comparing the credit side and debit side of the Account. Excess of credit over debit side indicates surplus and excess of debit side over credit side indicates deficit.

vi. **Step 6: Preparation of Closing Balance Sheet:** Closing balance sheet is prepared at the end of the year by taking into consideration opening balances of assets, liabilities and capital fund, surplus or deficit during the year and depreciation charged on the assets.