**Unit -2 Accounting for non – profit organisation**

Non – profit organisation – Meaning – Types: Social Clubs, Sports Club, Educational Institutions – Major Receipts and Payments – Preparation of Receipts and Payment Account – Preparation of Balance sheet at the beginning – Preparation of Income and expenditure account – Preparation of balance sheet at the end.

**Meaning of non – profit organisation:**

All business concerns are divided into two categories – trading concern and no-trading concern. The primary objective of a trading concern is to make and maximize profit for its owners through sale of goods and rendering service to the consumers. On the other hand the primary objective of the non-profit organisation concern is to meet some socially desirable goal or to render services t its member. As the main objective of these concern is to serve their members and not profit making these concerns are also called as “non - profit organisation”.A not-profit organisation is defined as an organisation whose primary aim is to provide a service to its members for the welfare of a group or society.

Non-trading concerns include hospitals, educational institutions, sports clubs, political associations, religious institutions, charitable societies, cultural associations, literary societies etc. These organisations are created for promotion of culture, games and sports, fine arts etc.

**Characteristics of non-profit organisation:**

* These organisations are established to provide a service either at no cost or minimal cost for the advancement of society. The nature of the service varies from education to health to recreation.
* The aim is the welfare of a specific group or society and not making profits.
* These organisations function as charitable societies and their subscribers are called members.
* The organization’s primary functions are managed by trustees or an executive group of members elected by its own members.
* These organisations do not participate in any business activities and hence, rely on income sources like subscriptions, donations, grant-in-aid, income from investment or legacies or financial assistance from the government.
* The funds or any surplus generated by such organisations are credited to the general fund or capital fund.
* It is legally binding for these organisations to provide a financial record. These organisations prepare financial statements for the statutory requirement and for maintaining control over assets/funds.

**Financial statement of non – profit organisation:**

Final accounts of non-trading concerns usually consist of the following

* Receipt and Payment Account
* Income and Expenditure Account
* Balance Sheet

**1. Receipt and Payment Account:**

Receipt and Payment Accounts provide a summary of all the cash and bank transactions that took place during the financial year. This account begins with recording cash in hand/cash in the bank on the receipt side and the closing balance includes cash in hand/bank left at the end on the payment side. It is a real account in nature. All capital and revenue receipts are entered on the debit side and all capital and revenue payments are entered on the credit side.

**Format of Receipt and Payment Account:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Receipts** | **Amount** | **Payments** | **Amount** |
| Balance b/d Cash in Hand, Cash at bank | xxx | Balance b/d (Bank overdraft) | xxx |
| **Subscriptions:**  Relating to previous year  For current year  For future year | xxx  xxx  xxx | Rent | xxx |
| General Donations | xxx | Wages and Salaries | xxx |
| Locker Rent | xxx | Rates and Taxes | xxx |
| Legacies | xxx | Insurance | xxx |
| Grant in Aid | xxx | Audit fees | xxx |
| Interest on FD | xxx | Printing and Stationery | xxx |
| Interest on investments | xxx | Maintenance | xxx |
| Membership fees | xxx | Repair and Renewals | xxx |
| Entrance fees | xxx | Purchase of assets | xxx |
| Miscellaneous Receipts | xxx | Purchase of investments | xxx |
| Balance b/d(Bank overdraft) | xxx | Closing b/dCash in handCash at bank | xxx |
| Total | xxx |  | xxx |

**2. Income and Expenditure Account:**

An income and expenditure account for a not-for-profit organisation is like a profit and loss account of any business organisation.

* The account records all the revenue items of the current period and at the bottom, it records deficit or surplus in the balance column.
* The income and expenditure account is prepared on an accrual basis and contains two columns, i.e. expenditure column which includes losses and expenses and the income column which includes incomes and gains.
* This account takes into account non-cash items like depreciation.
* It does not include an opening balance and the closing balance is written either as surplus or deficit.
* It is nominal account in nature.

**Steps to prepare income and expenditure account:**

1. Exclude the opening and closing balances of cash and bank as they are balance sheet items.

2. Exclude all capital receipts and capital payments. Only revenue receipts will appear on the credit side and revenue expenses on the debit side of income and expenditure account.

3. Make all adjustments relating to prepaid or outstanding expenses, incomes accrued or received in advance, provision for depreciation.

4. Take items only for the current period i.e items relating to the preceding and succeeding periods are to be ignored in the light of the following:

(a) Exclude income of the previous period or any income received in advance relating to future period.

(b) Provide for accrued income i.e. income earned during the current period but not received.

(c) Exclude expenditure either of preceding period or of the succeeding period.

(d) Provide for expenditure due for the current period but not yet paid.

5. Ascertain the difference which represents surplus (excess of income over expenditure) or deficit (excess of expenditure over income). Transfer this to the capital fund.

**Format of Income and Expenditure Account:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Expenditure** | **Amount** | **Income** | **Amount** |
| Rates and Taxes | xxx | Subscriptions | xxx |
| Lighting | xxx | Entrance fees | xxx |
| Insurance Premium | xxx | Locker Rent | xxx |
| Audit Fees | xxx | Outstanding Interest | xxx |
| Printing and Stationery | xxx | Interest on investment | xxx |
| Salaries and Wages | xxx | Deficit (Excess of expenditure over income ) (Bal.fig) | xxx |
| Postage and Courier charges | xxx |  |  |
| Surplus (excess of income over expenditure) (Bal. fig) | xxx |  |  |

**3. Balance Sheet:**

A balance sheet determines the financial position of a business enterprise. A balance sheet for a not-for-profit organisation includes assets, liabilities and capital or general fund and is prepared after income & expenditure.

**Steps necessary to prepare balance sheet:**

1. All opening assets after adding any additions reducing sale of assets and deducting depreciation should be shown on the assets side.

2. All opening liabilities after making additions and deducting all relevant payments should be recorded on the liabilities side.

3. Accrued income and prepaid expenses are recorded in the assets side and outstanding expenses and income received in advance on the liabilities side.

4. If amount paid to creditors is given in the payment side of receipts and payment account, then this amount should be deducted from the amount of opening creditors and amount of new credit purchase be added to it. The amount thus arrived at is recorded in the liabilities side of balance sheet.

5. If there is any specific fund existing, due adjustments are made for its incomes and expenses in the said fund on the liabilities side.

6. Closing cash and bank balances from receipts and payments account should be recorded in the assets side of balance sheet.

7. Previous year capital fund is adjusted for current year surplus or deficit and shown on the liabilities side.

8. Special receipts like donations for building not shown in the income and expenditure account are shown on the liabilities side.

|  |  |  |  |
| --- | --- | --- | --- |
| **Liabilities** | **Amount** | **Assets** | **Amount** |
| Capital | xxx | Cash in hand/bank | xxx |
| Add surplus  Subtract deficit | xxx  xxx | Outstanding Incomes | xxx |
| Legacies | xxx | Prepaid Expenses | xxx |
| Entrance fees | xxx | The stock of Consumable Items | xxx |
| Membership fees | xxx |  |  |
| Donations | xxx |  |  |
| Bank Loan | xxx |  |  |

**Peculiar Items of Non Profit Organisation:**

**1. Entrance fees or Admission fees:** Fees paid by new members at the time of joining the organisation is called entrance fees. The fees are paid only once by members, it is of non-recurring nature. It should be treated as capital receipt and shown in balance sheet as a part of the general fund. It is also received as many times in a year as persons become members.

**2. Life membership fees:** Certain non-profit organization charge fee for making persons as life members. Members have to pay fee only once in their life time. Such a receipt is of a capital in nature. It is directly added to capital fund or general fund in the liabilities side of balance sheet.

**3. Subscriptions:** It is a primary source of income of a no-profit organisation. It is usually collected every month from all the ordinary members. Subscription received is always treated as revenue receipts.

**4. Donations:** Non-profit organisations may received amount as donation from general public. It is shown on the debit side of receipts and payment account. Donations may be specific donations or general donations.

**(a) Specific donations:** Donation has been received for a specific purpose, the donation is termed as specific donation. They include donation for building, extension of library hall, library books and sports activities. When a donation is utilised for the purpose any balance of donation is transferred to capital fund.

**(b) General donations:** A donation not received for a specific purpose is treated as general donation. Its treatment depends upon the amount received. If the donation received is a substantial amount it should be capitalized and should be shown on the liabilities side of the balance sheet.

**5. Legacy:** Amount received by non-profit organisation as per will of a deceased person is called legacy. It is given on the debit side of receipts and payment account. As it is received rarely and is of non-recurring in nature. It should be capitalized and added to capital fund on the liabilities side of the balance sheet.

**6. Sale of an asset:** Sale price of old asset is capital receipt and not recorded in income and expenditure account. Profit or loss on sale of asset is transferred to income and expenditure account.

**7. Sale of old newspaper and magazines:** Amount received on account of sale of old newspaper and magazines is of a recurring in nature and should be shown as income in the income and expenditure account.

**8. Government grant:** Government schools, colleges, public hospitals etc depend upon government grants for their activities. The recurring grants in the form of maintenance grant are by and large. Spent in the year of receipt and are treated as revenue receipt and credited to income and expenditure account. Other grants such as building grant, library grant etc are treated as capital receipt and transferred to a final account.

**9. Capital Fund:** Excess of assets over liabilities is called capital fund or general fund. It is similar to capital account of commercial organisations. It is shown on the liabilities side of balance sheet.

**10. Sale of used sports material:** Any amount realized from sale of sports material is treated as income. It is shown on the receipt side of receipts and payment account and on the credit side of income and expenditure account.

**11. Endowment fund:** It refers to a fund from a quest or gift. It is shown on the liabilities side of the balance sheet. Its income which is by way of interest is shown on the income side of income and expenditure account.

**12. Special funds:** If a fund has been kept for special purpose like building or charity or giving prizes etc., then it is known as special fund. It is recorded in the liabilities side of the balance sheet. The expenses related to it are deducted from that fund in the liabilities side of the balance sheet and these expenses are not recorded in the income & expenditure account. Similarly income from investments of special fund is added directly to fund and not credited to income and expenditure account.

**13. Honorarium:** It refers to the amount paid to a person to reimburse the actual expenses incurred for delivering a lecture or giving his performance as an artist. It is usually given on the payment side of receipt and payment account. It is shown on expenditure side of income and expenditure account.

**Difference between receipts and payment account and income and expenditure account:**

|  |  |  |
| --- | --- | --- |
| **Basis** | **Receipts and Payment account** | **Income and expenditure account** |
| Purpose | It is prepared to know the cash receipts and cash payment | It is prepared to know whether there is an excess of income over expenditure during the current period. |
| Nature of account | It is a real account. It is a summary of cash account. Cash receipts are recorded on the debit side and cash payment are recorded on the credit side. | It is a nominal account. It is similar to profit and loss account. Expenses are recorded on the debit side and incomes are recorded on the credit side. |
| Basis of accounting | It is based on cash system of accounting. Non-cash items are not recorded. | It is based on accrual system of accounting. Non-cash items like outstanding expenses, depreciation etc are also recorded. |
| Opening and closing balance | It commences with opening balance of cash and bank and ends with closing balance of cash and bank. | There is no opening balance. It ends with surplus or deficit |
| Nature of items | It contains actual receipts and payments irrespective of revenue or capital items in nature. | It contains only revenue items, that is, only revenue expenses and revenue income. |
| Period | All cash receipts and payments made during the year pertaining to the past period, current period and subsequent period are recorded. | It contains only the items relating to the current period. |

**Problems:**

**1.** From the following details, ascertain the amount of subscriptions to be credited to Income and Expenditure Account for the Year 2009. Subscription received in 2009- Rs. 48,000 which include Rs. 4,000 for 2008 and Rs. 8,000 for 2010. Subscriptions due but not received at the end of the year 2009 were Rs. 20,000. Subscriptions received in 2008 in advance for 2009 were Rs. 12,000.

**Solution: Computation of Net Subscription for 2009**

|  |  |
| --- | --- |
| **Particulars** | **Rs** |
| Subscriptions received during the year | 48,000 |
| **Less:** Received for previous year (2008) | 4,000 |
|  | **44,000** |
| **Less:** Received for next year (2010) | 8,000 |
|  | **36,000** |
| **Add:** Outstanding subscriptions for 2009 | 20,000 |
|  | **56,000** |
| **Add:** Received in advance in 2008 for 2009 | 12,000 |
| **Subscriptions to be taken to income & expenditure A/c** | **68,000** |

**2.** How do you incorporate the following in the Tanjore Turf Club Balance Sheet for the Year 31-3-2009? Medal Distribution Fund- Rs. 98,400; Interest on the Fund Investments- Rs. 28,900; Medals Distributed- Rs. 28,700; Medal Distribution Fund Investment- Rs. 98,000.

**Solution: Balance sheet of Tanjore Turf Club as on 31.3.2009**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Liabilities** | **Rs** | **Rs** | **Assets** | **Rs** | **Rs** |
| Medal distribution fund  **Add:** Interest on investments  **Less:** Medals distributed | 98,400  28,900  **1,27,300**  28,700 | **98,600** | Medals distribution fund investments |  | 98,000 |

**3.** From the Following Particulars of Tamil Educational Society, Prepare Receipts and Payments account for the year ended 31st March, 2019. Opening Cash Balance as on 1.4.2018- Rs. 18,000; Rent Paid- Rs. 6,000; Scholarship given- Rs. 15,200; Entrance Fees Received- Rs. 18,500; Building Purchased- Rs. 2,10,000; Staff Salary- Rs. 55,000; Subscription Received- Rs. 2,65,000.

**Solution: Receipts and Payments Account of Tamil Educational Society for the year ended 31.303.2019**

|  |  |  |  |
| --- | --- | --- | --- |
| **Receipts** | **Rs** | **Payments** | **Rs** |
| To balance b/d: Cash in hand  To entrance fees  To Subscription received | 18,000  18,500  2,65,000  3,01,500 | By rent paid  BY scholarship given  By building purchased  By staff salary  By Balance c/d: Cash in hand | 6,000  15,200  2,10,000  55,000  **15,300**  3,01,500 |

**4.** Compute Income from Subscription for the Year 2018 from the following particulars relating to a Club. Outstanding Subscription for the Year 1.1.2018 was Rs. 10,000 and 31.12.2018 was Rs. 7,000. Subscription Received in Advance 1.1.2018 was Rs. 3,000 and 31.12.2018 was Rs. 5,000. Subscription Received during the year 2018 was Rs. 1,50,000.

**Solution: Calculation of income from subscription for the year 2018**

|  |  |  |
| --- | --- | --- |
| **Particulars** | **Rs** | **Rs** |
| Subscription received during the year 2018 |  | 1,50,000 |
| **Add:** Subscription received for 2018 in 2017 | 3,000 |  |
| Subscription outstanding for 2018 | 7,000 | 10,000 |
|  |  | **1,60,000** |
| **Less:** Subscription outstanding in 2017 | 10,000 |  |
| Subscription received in advance in 2018 | 5,000 | 15,000 |
| Income from subscription for the year 2018 |  | **1,45,000** |

**5.** How will the Following items appear in the final accounts of a Club for the year ending 31st March 2017? A Club received Subscription of Rs. 25,000 during the year 2016-2017. This includes Subscription of Rs. 2,000 for 2015-2016 and Rs. 1,500 for the year 2017-2018. Subscription of Rs. 500 is still outstanding for the year 2016-17.

**Solution: Income and Expenditure account for the year ended 31.03.2017**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Expenditure** | **Rs** | **Income** | **Rs** | **Rs** |
|  |  | By subscription  **Less:** Subscription for the year 2015 -16  **Less:** Subscription for the year 2017 -18  **Add:** Outstanding subscription for the year 2016 – 17 | 25,000  2,000  23,000  1,500  21,500  500 | **22,000** |

**Balance sheet as on 31.03.2017**

|  |  |  |  |
| --- | --- | --- | --- |
| **Liabilities** | **Rs** | **Assets** | **Rs** |
| Subscription received in advance for the year 2017 - 18 | 1,500 | Outstanding subscription for the year 2016 - 17 | 500 |

**6.** From the Following details relating to Subscriptions of Coimbatore Sports Club, Calculate the Subscriptions income for the year ending 31st December 2000. Subscriptions received as per Receipts and Payments Accounts for the year ending 31-12-2000- Rs. 10,000. Subscription outstanding as on 31-12-1999- Rs. 2,000, Subscription Outstanding as on 31-12-2000- Rs. 4,000, Subscriptions received in advance as on 31-12-1999- Rs. 3,000 and Subscriptions received in advance as on 31-12-2000- Rs. 2,000.

**Solution: Calculation of income from subscription for the year 2000**

|  |  |
| --- | --- |
| **Particulars** | **Rs** |
| Subscriptions received during the year 2000 | 10,000 |
| **Add:** Subscription outstanding as on 31.12.1999 | 2,000 |
| Subscription outstanding as on 31.12.2000 | 4,000 |
|  | **16,000** |
| **Less:** Subscription received in advance as on 31.12.1999 | 3,000 |
| **Subscriptions to be taken to income & expenditure A/c** | **13,000** |

7. How will the Following appear in the Final Accounts of Trichy Sports Club? Stock of Sports Materials on 1-1-2009 was Rs. 3,000; Sports Material Purchased during 2009 was Rs. 8,500; Sale of Old Sports Material during 2009 was Rs. 100 and Stock-of-Sports Material on 31-12-2009 was Rs. 600.

**Solution: Income and Expenditure account for the year ended 31.03.2009**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Expenditure** | **Rs** |  | **Income** | **Rs** |
| To Sports materials consumed: opening Stock  **Add:** Purchased in the current year  **Less:** Closing stock | 3,000  8,500  11,500  600 | 10,900 | By sale of old sports material | 100 |

**Balance sheet as on 31.12.2009**

|  |  |  |  |
| --- | --- | --- | --- |
| **Liabilities** | **Rs** | **Assets** | **Rs** |
|  |  | Stock of sports material | 600 |

8. Find out the amount of Salaries to be debited to Income and Expenditure Account for the 2019 from the details given below: Payments made for Salaries during 2019 was Rs. 48,000; Outstanding Salary as on 31-12-2018 was Rs. 2,000; Outstanding Salary as on 31-12-2019 was Rs. 3,200; Prepaid Salary as on 31-12-2018 was Rs. 1,200 and Prepaid Salary as on 31-12-2019 was Rs. 1, 600.

**Solution: Computation of salary to be debited to Income and Expenditure Account**

|  |  |
| --- | --- |
| **Particulars** | **Rs** |
| **Salaried paid during 1999** | 48,000 |
| Less: Last year outstanding paid (1998) | 2,000 |
|  | **46,000** |
| Add: Outstanding for the current year (1999) | 3,200 |
|  | **49,200** |
| Add; Prepaid in 1998 | 1,200 |
|  | **50,400** |
| Less: Prepaid in 1999 | 1,600 |
| Net salaries to be shown on the debit side of income & expenditure account | **48,800** |

9. From the Following Particulars Prepare a Receipts and Payments Account: Cash in Hand - Rs. 100; Cash at Bank - Rs. 500; Subscription Received - Rs. 3,300; Donation Received - Rs. 260; Investment Purchased - Rs. 1,000; Rent Paid - Rs. 400; General Expenses -Rs. 210; Postage and Stationery - Rs. 70; Sundry Expenses -Rs. 30; Closing Cash Balance -Rs.20.

**Solution: Receipts and Payments Account**

|  |  |  |  |
| --- | --- | --- | --- |
| **Receipts** | **Rs** | **Payments** | **Rs** |
| To Cash in hand  To Cash at bank  To subscription received  To donation received | 100  500  3,300  260  **4,160** | By Investment purchased  By rent paid  By General expenses  By postage and stationery  By sundry expenses  By cash balance at close  By balance c/d: Bank (bal/fig) | 1,000  400  210  70  30  20  **2,430**  **4,160** |

10. From the Following Particulars of Vellore Recreation Club, Prepare Receipts and Payments account for the Year Ended 31st March 2017. Opening Cash Balance as on 1.4.2016 - Rs. 3,000; Opening Bank Balance as on 1.4.2016 -Rs. 12,000; Furniture Purchased - Rs.11,000; Sports Equipment Purchased - Rs. 11,000; Donations Received for Pavilion - Rs. 8,000; Sale of Old Tennis Balls -Rs.1,500; Newspapers Bought -Rs. 500; Travelling Expenses -Rs. 4,500; Receipts from Entertainment -Rs. 20,000; Admission Fees Received -Rs. 1,000; Municipal Taxes - Rs. 22,000; Expenses of Charity Show - Rs. 2,000; Billiards Table Purchased - Rs. 15,000; Construction of new tennis court - Rs. 18,000; Receipts from Charity Show -Rs. 2,500; Closing Balance of Cash in Hand -Rs. 8,000.

**Solution: Receipts and Payment account of Vellore Recreation Club for the year ended 31.3.2017**

|  |  |  |  |
| --- | --- | --- | --- |
| **Receipts** | **Rs** | **Payments** | **Rs** |
| To balance b/d: Cash in hand  Cash at bank  To donation received for pavilion  To sale of old tennis balls  To Receipts from entertainment  To Admission fees  To receipts from charity show  To balance c/d (Bank overdraft) (bal.fig) | 3,000  12,000  8,000  1,500  20,000  1,000  2,500  44,000  92,000 | By furniture purchased  By Sports equipment purchased  By Newspaper bought  By Travelling expenses  By Municipal taxes  By Expenses of charity show  By Billiards table purchased  By Construction of new tennis court  By balance c/d: Cash in hand | 11,000  11,000  500  4,500  22,000  2,000  15,000  18,000  8,000  92,000 |

11. From the Following Receipts and Payments Account of Trichy Recreation Club, Prepare Income and Expenditure Account for the year ended 31.03.2018? i) To Opening Balance Cash in Hand - Rs. 11,000; ii) To Dividend Received - Rs.27,600; iii) To Sale of Old Newspaper - Rs. 3,000 iv) To Member's Subscription -Rs. 31,000 v) To Locker Rent -Rs. 8,000 vi) To Interest on Investments -Rs. 1,250 vii) To Sale of Furniture -Rs. 5,000 and (Book Value Rs. 4,400); viii) By Furniture Purchased - Rs. 10,000; ix) By Rent -Rs. 2,800; x) By Secretary Honorarium -Rs. 15,000; xi) By Postage - Rs. 1,700; xii) By General Expenses - Rs. 4,350; xiii) By Printing and Stationery -Rs. 45,000; xiv) By Audit Fees- Rs. 5,000; xv) By Closing Balance (Cash in Hand) - Rs. 3,000.

**Solution: Income and Expenditure account of Trichy Recreation Club for the year ended 31.3.2018**

|  |  |  |  |
| --- | --- | --- | --- |
| **Expenditure** | **Rs** | **Income** | **Rs** |
| To rent  To Secretary’s honorarium  To Postage  To General expenses  To Printing and stationery  To audit fees | 2,800  15,000  1,700  4,350  45,000  5,000  73,850 | By dividend received  By Sale of old newspaper  By Members subscription  By Locker rent  By Interest on investments  By profit on sale of furniture (5,000 – 4,400)  BY deficit (Excess of expenditure over income) | 27,600  3,000  31,000  8,000  1,250  600  **2,400**  73,850 |