UNIT-09

ACCOUNTING FOR NOT FOR PROFIT ORGANISATIONS

***Unit at a Glance* : -**

- Meaning
- Features of NPO
- Final Accounts of NPO
- Difference between Receipts & Payments A/c & Income & Expenditure A/c.
- Calculation of Subscriptions
- Fund based Accounting
- Calculation of Material Consumed
- Comprehensive Illustrations
- Mistakes generally committed by students
- Practice Questions

1. Meaning of NPO :-

Non profit organizations are those organizations which are established for a Social/Charitable/Cultural purpose & not for earning profit. They render services for the promotion of Art, Culture, Sports, Education & Healthcare etc.

2. Features of NPO :-

a) They are registered distinct entities

b) They render services to the society at nominal charges

c) Their basic motive is not profit earning but social service.

3. Final Accounts of NPO :-

They prepare the following financial statements at the end of the accounting period:-

1. Receipts & Payments A/c;
2. Income & Expenditure A/c;
3. Balance sheet.

4. Distinction between Receipts & Payments A/c & Income & Expenditure A/c :-

Basis	**Receipts & Payments A/c**	**Income & Expenditure A/c**
1.Nature of A/c	It's a Real A/c	It's a Nominal A/c
2. Form	It's a summarized form of cash book	It's similar to P& L a/c
3. Basis	Prepared on Cash basis of accounting	Prepared on Accrual basis of accounting
4. Period	Includes receipts & payments of cash made during the year, whether they relate to past, current or future period	Includes incomes & expenses of current year only
5. Revenue & Capital Items	It records both revenue & capital receipts & payments	It records only revenue items
6. Balance sheet	It's not accompanied with Balance sheet	It's accompanied with Balance sheet
7. Opening & Closing balance	It represents opening & closing balance of cash in hand & at bank	It does not contain opening balance. The closing balance represents surplus or deficit
8. Adjustments	Does not contain any adjustments	Adjustments for outstanding, prepaid & accrued items is done in it.

4. Calculation of Subscription to be credited to Income & Exp. A/c.

Note : - Taking the figure of subscriptions received from the Receipts & Payments a/c as the base, additions for subscription of the current year though outstanding and subtraction of the subscription of the past & future period should be done to arrive at the figure to be credited to Income & Expenditure a/c. It should be clearly kept in mind that only the subscription of the current year should be considered even if it is outstanding and the subscription of the past & future period even if received in the current year should be excluded.

The following illustrations shall clarify the point:-

Illustration : - 1

	Rs.
Subscription received during 2007-08	50,000
Subscription outstanding on 31-3-08	8,000
Subscription outstanding on 1-04-07	6,000

Calculate the amount of subscription to be credited to Income & Expenditure a/c for the yr. 2007-08.

Ans.1

	Rs.
Subscription received during the yr.	50,000
Add: Subscription outstanding on 31-3-08	8,000

	58,000
Less: Subscription outstanding on 1-04-07	6,000

Amount to be credited to Income & Expenditure A/c =====➔	52,000

Illustration : - 2

	Rs.
Mumbai Club received subscription during the yr. 2005-06	1,50,000
Subscription received on 31-3-05	4,500
Subscription received on 31-3-06	5,100
Subscription outstanding on 31-3-06 for 2005-06	3,800
Subscription outstanding 2004-05 (of which Rs.4,000 received in 2005-06)	6,000

Calculate the subscription to be taken to Income & Exp. a/c for 2005-06.

<u>Ans. 2</u>

		Rs.
Total Subscription Received during the yr. 2005-06		1,50,000
Add: Sub. Outstanding for 2005-06		3,800
Sub. Received in advance on 31-3-05		4,500

		1,58,300
Less: Sub received in advance on 31-3-06	5,100	
Sub. Of 2004-05 received in 2005-06	4,000	9,100
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Sub for 2005-06 to be taken to Income & Exp. a/c. ====➔		Rs.1,49,200

<u>Calculation of expenses for the year for Income & Expenditure a/c</u>.

<u>Note</u> : Here too, it is important to understand that - the guiding principle is - that the expenses of the current year whether paid or not should be considered. Similarly expenses of previous or future period though paid in the current year should be excluded.

The following Illustration shall clarify the concept further.

<u>Illustration :- 3</u>

Ascertain the amount of salary chargeable to Income & Expenditure A/c for 2006-07

	Rs.
Total salaries paid in 2006-07	10,200
Prepaid salaries on 31-3-2006	1,200
Prepaid salaries on 31-3-2007	600
Outstanding salaries on 31-3-2006	900
Outstanding salaries on 31-3-2007	750

Ans. 3

		Rs.
Total Salaries paid in 2006-07		10,200
Add: - Outstanding salaries on 31-3-07		750
Prepaid salary on 31-3-06		1,200

		12,150
Less:- Outstanding on 31-3-06 -	900	
Prepaid on 31-3-07 -	600	1,500
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Salaries dr. to Income & Exp. A/c for 2006-07		10,650

Fund & Non-Fund Based Accounting :

Illustration: - 4

How would you deal with the following items in the Balance sheet of a NPO?

	Rs.
1. Donations received for Auditorium construction (Expected total cost of the auditorium Rs.40,00,000)	25,00,000
2. Expenditure on construction of Auditorium	21,00,000
3. Receipts from Charity show	10,000
4. Charity show expenses	11,000
5. Prize Fund	25,000
6. 6% Prize fund Investment	25,000
7. Donation for Prize Fund	5,000
8. Prizes awarded	6,000

Ans. 4

Income & Expenditure A/c

(for the year ending on-----)

Expenditure	Amount	Income	Amount
To charity show expenses	11,000	By Receipts from charity show	10,000

Balance Sheet (As at ----------)

Liabilities		Amount	Assets	Amount
Capital Fund		xxx	Auditorium in Progress	21,00,000
Add: Transfer From Auditorium fund		21,00,000		
			6% Prize Fund Investment	25,000
Auditorium Fund	xxx			
Add: Donation	25,00,000			
Less: Transferred to Capital fund	21,00,000		Accrued Interest on Prize fund	
		4,00,000	investment	1,500
Prize Fund :	25,000			
Add: Donation	5,000			
	30,000			
Add: Accrued Interest	1,500			
	31,500			
Less: Prizes awarded	6,000			
	--------	25,500		

Calculation of Cost of Material Consumed
(E.g. Stationery/Sports Materials/Medicines/Postage etc.)

Case 1. When Opening Stock, Purchases & Closing Stock are given

		Rs.
Illustration 5.	Stock of Cricket equipments on 1.1.2008	1,000
	Stock of Cricket equipments on 31.12.2008	1,500
	Cricket equipments purchased during the yr.	4,150

Ans. 5

Calculation of Cricket Material Consumed during the yr. 2008.

Particulars	**Amount (Rs.)**
Opening Stock on 1.1.2008 Add: Purchases during the yr.	1,000 4,150
Total Cricket Equipment Less: Closing Stock	5,150 1,500
------------------------------------ Cricket equipment consumed During the yr.	3,650

Case 2. When Opening & Closing Stock, Opening & Closing Creditors and Payments made for such items during the year are given.

Illustration 6.

Calculate the sports material to be debited to Income & Expenditure a/c.
For the yr. ended 31-3-2007 on the basis of the following information:

Particulars	1-4-2006 (Rs.)	31.3.2007 (Rs.)
Stock of sports material	7,500	6,400
Creditors for sports material	2,000	2,600

Amount paid for sports material during the yr. was Rs.19,000

Ans. Illustration 6 :

Purchase of Sports Material during the yr: Rs.

Total payments made during the yr. for sports material	-	19,000
Less: Creditors on 1/4/2006	-	2,000

		17,000
Add: Creditors on 31/3/2007		2,600

Sports material purchased during the year		19,600

Sports goods consumed during the yr.		Rs.
Opening stock		7,500
Add: Purchases during the yr.		19,600

		27,100
Less: Closing stock		6,400

Sports material consumed	➔	20,700

Comprehensive Problems:

Illustration 7 :-

From the following particulars of M/s. Jalaram Charity Hospital, prepare Income & Expenditure a/c & the balance sheet as on 31st March 2007.

Receipts	**Rs.**	**Payments**	**Rs.**
To Cash in hand 1/4/06	7,130	By Medicines	30,590
To Subscriptions	47,996	By Doctor's Honorarium	9,000
To Donations	14,500	By salaries	27,500
To Interest on Bank Fixed Deposit For full yr.	7,000	Petty expenses	461
		By Equipments	15,000
To charity show proceeds	10,450	By charity show expenses	750
		Cash in hand 31/3/2007	3,775
	87,076		**87,076**

Additional information:	**1/4/2006 Rs.**	**31.3.2007 Rs.**
Subscription due	240	280
Subscription received in advance	64	100
Stock of medicines	8810	9740
Estimated value of equipment	21200	31600
Building (Cost less depreciation)	40000	38000

Ans. 7.

Income & Expenditure A/c
(Year ended on 31st March 2007)

Expenditure		**Rs.**	**Income**		**Rs.**
To Medicines consumed			By Subscriptions	47996	
Opening stock	8810		Add: O/S (of 2007)	280	
Add: Purchases	30590		Adv in 2006	64	
Less: Closing. stock	9740	29660	Less: O/S (of 2006)	240	
			Adv of 2008	100	48000
To Doctor's honorarium		9000	By Donations		14500
To salaries		27500	By Interest on Bank FD		7000
To petty expenses		461	By charity show proceeds		10450
To expenses charity show		750			
To Depreciation: Equipment		4600			
Building		2000			
To Surplus		5979			
		79950			**79950**

Balance Sheet as at 31.3.2007

Liabilities	**Rs.**	**Assets**	**Rs.**
Advance Subscription	100	Cash in Hand	3775
Capital Fund 177316		Subscription o/s	280
Add: Surplus 5979	183295	Stock of Medicines	9740
		Bank Fixed Deposit	100000
		Equipments Op. 21200	
		+ Purchases 15000 - Depreciation 4600	31600
		Building 40000	
		- Depreciation 2000	38000
	183395		**183395**

Balance Sheet as at 31.3.2006

Liabilities	**Rs.**	**Assets**	**Rs.**
Advance Subscription	64	Cash	7130
Capital Fund (Bal. fig.)	177316	Subscription o/s	240
		Stock of Medicines	8810
		Bank Fixed Deposit	100000
		Equipments	21200
		Building	40000
	177380		**177380**

Working Notes: -

1. Bank Deposit = $\dfrac{\text{Rs.}7000 \times 100}{7}$ = Rs.100000

2. Depreciation has been calculated on the basis of :

(Opening balance of the Asset + Purchases of Assets during the yr.)
- the Closing balance of the Asset

ILLUSTRATI ON 8 :

Prepare Income & Expenditure A/c & Balance Sheet of Leo Club Mumbai for the yr. ended 31st Dec. 2007 from the following:

Receipts & Payments A/c
(Year ended 31-3-2007)

Receipts	Rs.	Payments	Rs.
Cash in hand b/d	4500	Salaries (11 months)	1100
Subscriptions: 2006 – 100 2007- 2400 2008 - 200	2700	Tournament exp.	1600
		Investments	1000
		Furniture	400
Sale of old furniture (Costing Rs.200)	140	Stationery	1200
Tournament Receipts	2000	Sports expenses	15000
Sports Fund	10000	Misc. expenses	200
Donations for Sports	3000	Rent paid up-to Feb. 2009	1400
		Cash in hand	440
	22340		**22340**

The club has 300 members each paying an annual subscription of Rs.10.
Rs.70 are still outstanding for the yr.2006. In 2006, 10 members had paid their subscription for 2007 in advance. Stock of stationery in 2006 was Rs.100 & in 2007 Rs.140.

On 1-1-2007, club owned Land & Building valued at Rs.20,000 & furniture of Rs.1300. Interest accrued on investment @6% p.a. for 3 months.

Ans. 8

Income & Expenditure A/c
(Year ended 31st Dec.2007)

Expenditure	Rs.	Income	Rs.
To Loss on sale of furniture	60	By Subscriptions 2700 Less: O/s (2006) 100 Less: Advance (2008) 200 Add: Advance (2006) 100 Add: O/s 500	3000
To sports expenses	2000		
To Salaries 1100		By Tournament Receipts	2000

Add: Outstanding	100	1200	By Accrued interest	15
To Tournament exp.		1600	By Deficit	2405
To stationery Op. Stock	100			
Add: Purchases	1200			
Less: Closing stock	140	1160		
To Misc. Exp.		200		
To Rent Less: Prepaid	1400 200	1200		
		7420		**7420**

Balance Sheet as at 31.12.2007

Liabilities		Rs.	Assets		Rs.
Advance Subscriptions		200	Cash in hand		440
Salary o/s		100	Prepaid Rent		200
Capital Fund Less: Deficit	25970 2405	23565	Subscription Add: O/s	500 70	570
			Accrued Interest		15
			Stock of stationery		140
			Investment		1000
			Furniture Add: Purchase Less: Sold	1300 400 200	1500
			Land & Building		20000
		23865			**23865**

Balance Sheet as at 31.12.2006

Liabilities	Rs.	Assets	Rs.
Advance Subscription	100	Cash in hand	4500
Capital Fund (Bal fig)	25970	Subscription o/s	170
		Stock of stationery	100
		Furniture	1300
			20000
	26070		**26070**

Generally students commit these mistakes, please avoid

1. Students get confused between Capital & Capital Fund.

   Please Remember that : Capital represents the difference between Assets & Liabilities whereas Capital Fund is a General Fund.

2. Generally the confusion on treatment of Specific Donation & General Donation prevails amongst the students.

   Please Remember that : Specific donation can be utilized only for that particular purpose for which it is received therefore it is to be taken to the liability side of Balance Sheet. Whereas general donation is of revenue nature & to be taken to the Income side of Income & Expenditure A/c.

3. The treatment of Entrance Fees:

   Please Remember that : As it may be treated as both income or liability, Students are advised to see the instructions in the question as to treat it as an income or a liability. In the absence of any instructions students are advised to kindly give a note on how they have treated the same.

4. Life membership fees : It is a liability.

   Please Remember that : It is to be taken to the liability side of the Balance sheet.

5. Grant received on an yearly basis is a revenue income & grant received for a specific purpose is a capital nature income.

   Please Remember that revenue grant should be taken to the income side of Income & Expenditure a/c whereas specific grant should be taken to the liability side of the Balance Sheet.

Questions for practice:

1. Calculate the stationery consumed to be shown in Income & Expenditure A/c for the year ended 31^{st} March 2012, from the following details:

   Stock of stationery on 1/4/2011 Rs. 50,000

Stock of stationery on 31/3/2012	Rs. 40,000
Payment during the year for stationery	Rs. 2,00,000
Creditors for stationery on 1/4/2011	Rs. 20,000
Creditors for stationery on 31/3/2012	Rs. 10,000

(Ans. Rs. 2,00,000)

2. From the following calculate the subscription for the current year:

	1.1.2012 (Rs.)	31.12.2012(Rs.)
Outstanding Subscription	9500	10000
Subscription received in advance	6200	8700
Subscription received during the year 2012	Rs.2,50,000	

(Ans. Rs. 2,48,000)

3. From the following prepare Income & Expenditure a/c for the yr. ended 31.3.12 & ascertain the Capital fund on 31.3.2011

Receipts	Amount Rs.	Payments	Amount Rs.
Balance b/d	39100	By Salary	6000
To Subscriptions 2009-10 - 2400 2010-11 -53000 2011-12 - 1000	56400	By Newspaper	4100
To Sale of scrap	2500	By Electricity charges	2000
To Govt. Grants	20000	By Fixed Deposit (on 1/7/2011 @9% p.a.)	40000
To Sale of old furniture (of book value Rs. 8000)	11400	By Books	21200
		By Rent	13600

To Interest on Fixed deposit	900	By Furniture	21000
		By Balance c/d	22400
	130300		130300

Additional Information:

1. Subscription outstanding as on 31.3.2011 Rs.4000 & on 31.3.12 Rs.5000
2.
3. On 31.3.12 Salary outstanding Rs.1200 & Rent outstanding Rs.2400
4.
5. On 1/4/2011 assets were Furniture – Rs.30000 & Books Rs.14000

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