

CHAPTER 21

ACCOUNTING FOR NOT-FOR-PROFIT ORGANISATIONS

❖ **Meaning of Not-for-Profit Organisations**

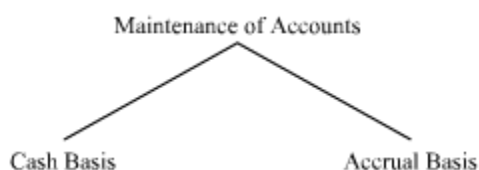
These are the institutions that are set-up with general or specific objectives for rendering services and providing other social activities to enhance the welfare of general or a particular group of people. The main motive of these organisations is to render services for enhancing welfare and not to earn profit. For example, charitable schools, hospitals, etc.

❖ **Features or Characteristics of NPO**

- These organisations are **formed by the promoters** who can either be individual or group of individuals and enterprises.
- These organisations are managed and owned by their **trustees**.
- These organisations have **separate existence from its members, i.e.** the life of an NPO is unaffected by the life of its members or trustees.
- The **sole motive** of these organisations is to render services and not to earn profit. For example, charitable schools, colleges, hospitals, etc.
- The **main source of their income** is subscription, donations, government grants and other receipts.
- Unlike, profit-seeking organisations they do not prepare **Profit and Loss Account**, rather they prepare **Income and Expenditure Account** to show the summary of revenue incomes and revenue expenses.
- 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.

❖ **Difference between NPO and Profit-Motive Organisation**

Basis of Difference	NPO	Profit-Motive Organisation
Formation	Formed by promoters who are not entitled to share surplus and bear deficiency of organisation.	Formed by entrepreneur(s) , who are entitled to profit and bear loss of the business.
Management	Managed by the trustees .	Managed by the owner(s) or managers .
Motive	To render services	To earn profits
Sources of Revenue	Main sources of revenue are subscriptions, gifts, donations, etc.	Main Sources of revenue are profit on sale and purchase of goods and services, etc.
Financial Statements	Income and Expenditure Account and Balance Sheet are prepared as Financial Statements.	Income Statement (Trading Account and Profit and Loss Account) and Balance Sheet are main Financial Statements.



❖ **Basis of Maintaining Accounts by Not-for-Profit Organisations**

- **Cash Basis:** Maintenance of accounts on Cash Basis is usually adopted by the organisations that do not strictly follow the Double Entry System and maintain daily records only for cash transactions.
- **Accrual Basis:** Maintenance of accounts on Accrual Basis provides complete record of each and every transaction. This system helps in proper checking and provides better understanding of financial transactions.

❖ **Difference between Cash Basis and Accrual Basis**

Basis of Difference	Cash Basis	Accrual Basis
Daily Records	Only transactions related to Cash or Bank are recorded on daily basis by maintaining Cash Book.	Journals and Ledgers are maintained to record all the transactions irrespective of the fact whether they are cash or credit.
Summary of Transaction	Receipts and Payments Account is prepared to exhibit the summary of all cash transactions.	Trial Balance is prepared to exhibit the summary of all transactions.
Sources for Preparing Income and Expenditure Account and Balance Sheet	Receipts and Payment Account and additional information of items affecting Income and Expenditure Account and Balance Sheet.	Trial Balance and additional information of items affecting Income and Expenditure Account and Balance Sheet.

❖ **Meaning of Receipts and Payments Account**

Receipts and Payments Account 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 of Receipts and Payments Account**

- It is a **Real Account**.
- It provides the **summary of all cash and bank transactions** in a chronological order.
- It records all cash and bank transactions of both **capital and revenue nature**.
- It is **prepared at end of accounting period** to show the receipts and payments during an accounting period along with the opening and closing balances of cash and bank.

❖ Limitations of Receipts and Payments Account

- As this account is prepared on the Cash Basis, so it does not provide information about credit transactions.
- It is **not a perfect substitute of Trial Balance**. Unlike Trial Balance, this account fails to reveal the closing balances of all accounts.

❖ Comparison between Receipts and Payment Account and Cash Book

Basis of Difference	Receipts and Payments Account	Cash Book
Statement or 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.
Period	It is prepared at the end of an accounting period .	It is prepared (or maintained) on daily basis
Date Column	Date column is not present because it shows the summary of receipts and payments.	Date column is present as it shows detailed records of receipts and payments date-wise.
Objectives	To provide summary of cash transactions	To provide detailed record of each and every cash transactions in the order of their occurrence .
Organisations	It prepared by the organisation who want to show summary of cash receipts and payments separately	It is prepared by all those organisation who maintain books of accounts

❖ **Format of Receipts and Payments Account**

Format of Receipts and Payments Account

Receipts & Payment Account

for the year ending...

Dr.		Cr.	
Receipts	Amount Rs	Payments	Amount Rs
Balance b/d:		Balance b/d (Bank Overdraft)	* * *
Cash in Hand	* * *	Capital Payments:	
Cash at Bank	* * *	Purchase of Fixed Assets	
Capital Receipts:		Purchase of Investments	
Life Membership Fees		Fixed Deposits	
Specific Donation		Revenue Payments:	
Sale of Investment		Rent	
Sale of Fixed Assets		Rent and Taxes	
Legacies (<i>capital nature</i>)		Wages and Salaries	
Endowment Fund		Insurance	
Entrance Fees (<i>if it is assumed to be capitalized</i>)		Audit Fees	
Revenue Receipts:		Advertisement Expenses	
Subscription		Postage and Courier	
Sale of Old Newspapers/ Periodicals/Waste Paper		Printing and Stationery	
Locker Rent		Sundry Expenses	
Sale of Old Sports Material		Telephone Expenses	
Interest on Fixed Deposit		Conveyance	
Interest/Dividends on Investment		Repair and Renewals	
Sale of Scraps		Entertainment expenses	
General Donation		Honorarium	
Proceeds from Charity Show		Electric Charges	
Grant (Grant in aid)		Upkeep of Ground	
Miscellaneous Receipts		Petty Cash Payment	
Entrance Fees (If it is not assumed to be capitalised)		Newspaper and Periodicals	
**Balance c/d:		*Balance c/d:	
(Bank Overdraft)		Cash in Hand	* * *
		Cash at Bank	* * *

** 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.*

❖ **Meaning of Income and Expenditure Account**

Income and Expenditure Account is an account that shows all revenue income earned and revenue expenses incurred during an accounting period. It is prepared on the Accrual Basis to ascertain surplus or deficit arising after meeting revenue expenses against revenue incomes at the end of an accounting period.

❖ **Features of Income and Expenditure Account**

- It is a statement showing **summary** of revenue incomes earned (either received or receivable) and revenue expenses incurred (either paid or payable) during an accounting period.
- It is a **Nominal Account**. 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.
- It is prepared on the **Accrual Basis** to ascertain Surplus or Deficit arising after meeting all revenue expenses against all revenue incomes at the end of an accounting period.
- It is **akin to Profit and Loss Account**. Both Income and Expenditure Account as well as Profit and Loss Account provide summary of revenue incomes and revenue expenses incurred during an accounting period.
- The **balancing figure** of Income and Expenditure Account is expressed in terms of either Surplus (if incomes > expenses) or Deficit (if expenses > incomes).
- It is prepared period **at end of an accounting period** (say, quarter, half-year or year, etc.)

❖ **Format of Income and Expenditure Account**

Income and Expenditure Account
for the year ending...

Dr.			Cr.
Expenditure	Amount Rs	Income	Amount Rs
All revenue expenses for current period (<i>after making adjustment for outstanding and prepaid expenses</i>)	* * *	All revenue income for current period (<i>after making adjustments for outstanding and advance income</i>)	* * *
Salaries and Wages		Subscription	
Telephone Charges		Entrance Fees (<i>if treated as revenue</i>)	
Electricity Charges		Donation (<i>not specific</i>)	
Insurance Premium		Rent from the Use of Hall	
Audit Fees		Sale of Old Newspaper	
Printing and Stationery		Sundry Receipts	
Postage and Stamps		Interest Received	
Repairs and Renewals		Admission Fees	
Honorarium		Tuition Fees	
Sports Material Consumed		Entertainment Receipts	
Meeting Expense		Dividends	
Rent, Rates and Taxes		Profit on Sale of Fixed Assets	
Entertainment Expenses		Deficit (<i>or excess of expenditure over income</i>)	* * *
General Expenses			
Miscellaneous Expense			
Tournament Expenses			
Advertisements			
Sundry Expenses			
Power and Fuel			
Refreshment Expenses			
Charity Show Expenses			
Canteen Expenses			
Legacies (<i>ordinary</i>)			
Match Expenses			
Depreciation			
Loss on Sale of Fixed Assets			
Consumed part of Medicine, Stationery, Sports Equipments, etc.			
Surplus (<i>or excess of income over expenditure</i>)			
	* * *		

- ❖ Difference/Comparison between Receipts and Payments Account and Income and Expenditure Account.

Basis of Difference	Receipts and Payments Account	Income and Expenditure Account
Meaning	It is an account showing summary of all cash transactions along with opening and closing balances of cash and bank during an accounting period.	It is account showing revenue income earned and revenue expenses incurred during an accounting period.
Nature	It is a Real Account in nature.	It is a Nominal Account in nature.
Objective	It is prepared with an objective to show summary of all cash receipts and all cash payments during an account period.	It is prepared with an objective to ascertain surplus or deficit arising from revenue incomes and revenue expenses during an accounting period.
System of Account	It is prepared by following Cash Basis .	It prepared by following Mercantile (Accrual) Basis .
Nature of Transactions	It records transactions related to both capital and revenue nature.	It records transactions related to revenue nature only.

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

Basis of Difference	Income and Expenditure Account	Profit and Loss Account
Summary	It shows the summary of all revenue, income and revenue expenses of a Not-for-Profit Organisation.	It shows summary of all revenue incomes and revenue expenses of a profit-seeking organisation.
Objective	To ascertain Surplus or Deficit .	To ascertain Net Profit or Net Loss
Sources Required	Receipts and Payments Account is the basis for preparing this account.	Trial Balance is the basis for preparing this account.

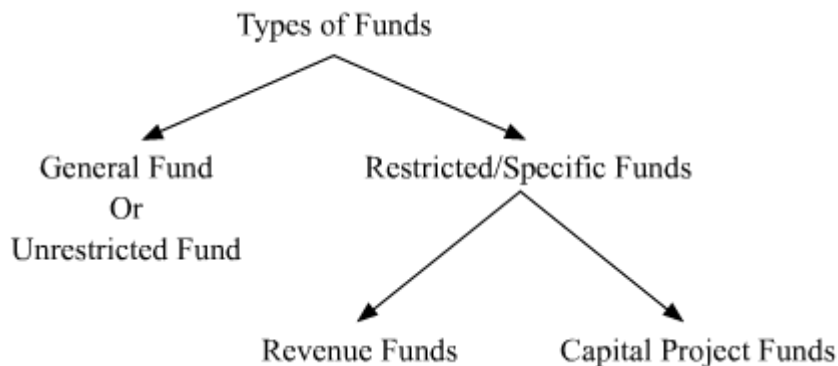
❖ **Meaning of Fund Based Accounting**

It is an accounting method or practice that is followed for preparation of accounts in which amount (funds) available for specific purpose is shown by under **Specific Fund Account (head)**. Any income (or receipts) and expenditure (or payment) related to the fund is adjusted to that particular fund.

❖ **Objective of Fund Based Accounting**

- It ensures efficient management of funds.
- It provide information about revenues and expenses attributing to each fund separately from general revenues and expenses
- It ensures whether the funds have been used in the instructed manner or not.

❖ **Types of Funds**



- **General Funds-** These funds are is used to carry out the general operations of a business. The incomes (or receipts) and expenses (or payments) which are not attributed to any specific fund are adjusted to the general fund. For example, Surplus or Deficit arising from the ordinary revenue transactions are adjusted to the Capital Fund
- **Restricted/Specific Funds-** These funds are created and maintained to carry out specific operations of a business. The receipts (or incomes) and expenses (or payments) are attributed to a particular fund that must be adjusted to that specific fund only.
- **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.

Treatment of receipts and expenditures related to the specific fund can be better understood with the help of the following example of Tournament Fund.

Example: Treatment of Tournament Fund

Liabilities		Amount Rs	Assets	Amount Rs
Tournament Fund	20,000	27,000		
Sale of Ticket for Tournament	10,000			
Donation for Tournament	2,000			
Less: Tournament Expenses	(5,000)			

- **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	5,00,000	10,00,000	Construction of Building in progress	5,00,000
Add: Construction of Building in progress	5,00,000			
Building Fund	10,00,000	7,00,000		
Donation	2,00,000			
Less: Construction of Building in progress	(5,00,000)			

- **Endowment Funds**-These funds arise 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 (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.
- **Annuity Funds**- These funds are created to pay regular fixed amount at fixed interval of time (annually) to the specified beneficiary. This amount is paid during the life time of the beneficiary or till the termination of agreement. After the death of the beneficiary or termination of the agreement, the funds become the property of the organisation.
- **Loan Funds**- These funds are maintained to provide 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 to prosecute the studies and loans to victim of an earthquake disaster, etc.

❖ **Balance Sheet**

It is a statement that reveals the financial position of an organisation at the end of an accounting period. It is simply a statement of assets and 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.

❖ Format of Balance Sheet

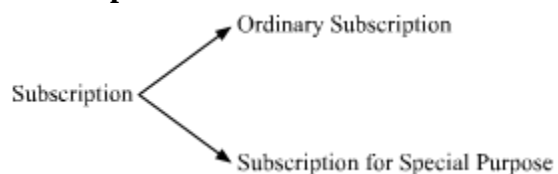
Balance Sheet

as on

Liabilities	Amount Rs	Assets	Amount Rs
Capital Fund		Cash in Hand	* * *
(+) Surplus or	* * *	Cash at Bank	* * *
(-) Deficit	* * *		
(+) Life Membership Fees (<i>and other items to be capitalised</i>)	***		
Funds (e.g. <i>Sports Fund</i>)	* * *	Fixed Assets:	
(+) Donation and other receipts for the fund	* * *	e.g. Furniture,	* * *
(+) Interest or other income on the fund	* * *	Machinery	
		(+) Additions	* * *
		(-) Depreciation	* * *
		(-) Book-value of Asset Sold	* * *
Creditors		Stock (e.g. <i>Stock of Printing and Stationery, Stock of Medicine, etc.- at the end</i>)	
Expenses Outstanding (e.g. <i>Outstanding- Rent, Salary and other expenses</i>)		Prepaid expenses (<i>Rent, Salary and other expenses- at the end</i>)	
Income Received in Advance (e.g. <i>Advance-Subscription, Locker Rent and other incomes</i>)		Outstanding incomes (<i>Subscription, Locker Rent other incomes- at the end</i>)	

❖ Treatment of Some Peculiar Items and Adjustments in the Income and Expenditure Account and Balance Sheet

- **Subscription**



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. Members pay their amount of subscription periodically to keep their membership alive with the organisation.

Calculation of Subscription Amount

Subscription received during the year (<i>as shown in the Receipt and Payments A/c</i>)	xxx
Add: Subscription outstanding at the end of the year	xx
Add: Subscription received in advance at the beginning of the year	xx
Less: Subscription outstanding at the beginning of the year	(xx)
Less: Subscription received in advance at the end of the year	(xx)
Subscription to be shown in the Income and Expenditure Account	xxx

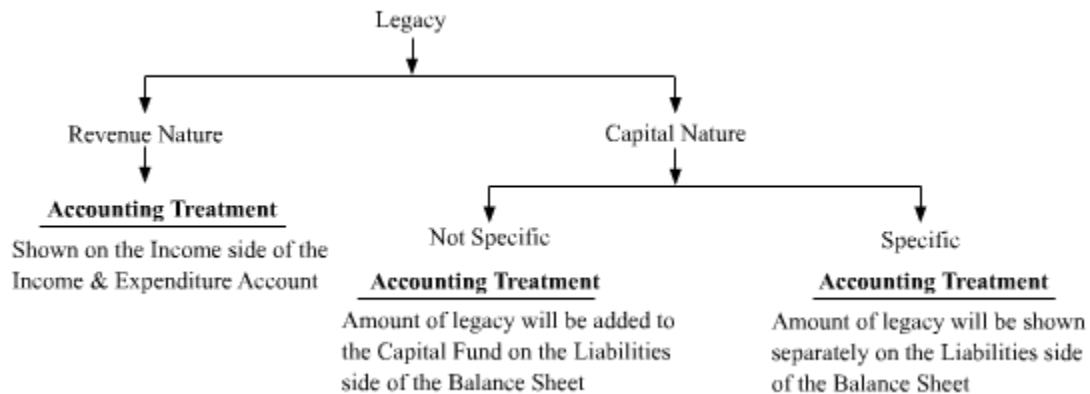
Accounting Format

Subscription Account

Dr.		Cr.	
Particulars	Amount Rs	Particulars	Amount Rs
Outstanding Subscription A/c (<i>in the beginning</i>)	xxx	Advance Subscription A/c (<i>in the beginning</i>)	xxx
Advance Subscription A/c (<i>at the end</i>)	xxx	Bank A/c (<i>Subscription received during the year</i>)	xxx
Income and Expenditure A/c (<i>Balancing Figure</i>)	xxx	Outstanding subscription A/c (<i>at the end</i>)	xxx

- **Legacy-** Legacy is a donation that is received as per the WILL of a deceased person.

Accounting Treatment: The treatment of legacy depends on the nature of receipt and the condition specified with that receipt.



- **Honorarium-** It is a payment that is made to a person in honour of his/her voluntary services to the organisation. This payment is of revenue nature. It can be either in cash or in kind.

Accounting Treatment: It is shown on the Expenditure side of the Income and Expenditure Account.

- **Life Membership Fees-** The fee that is paid by the people to get the membership of an organisation for the lifetime. Usually, this fee is treated as a capital receipt as it is non-recurring in nature and the benefit of this fee is available for the lifetime.

Accounting Treatment: Its accounting treatment depends on the practices adopted by an organisation. If nothing is specified about the Life Membership Fee, then it is treated as a capital receipt and added to the Capital Fund on the Liabilities side of the Closing Balance Sheet.

❖ **Donations:** 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.

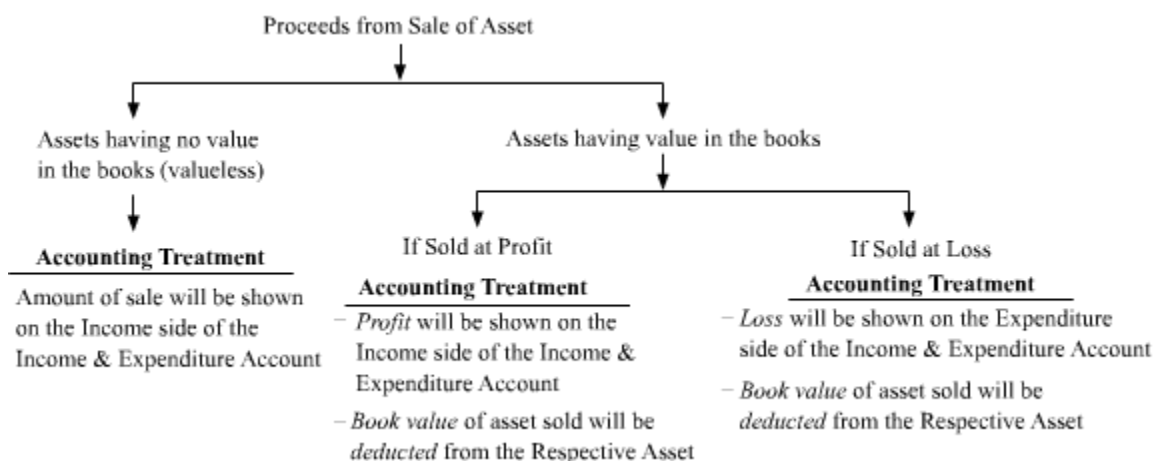
If it is treated a **general revenue receipt**, then it is shown on the Income side of the Income and Expenditure Account.

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.

❖ Sale of Old Assets



❖ Sale of Old Newspapers, Magazines, etc.

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.

- ❖ **Government Grants-** These are the financial assistance from the government agencies to the NPOs such as, schools, colleges, hospital, etc. It is a source of revenue for the NPOs.

There can be following two cases with respect to the government grants.

Situation 1- If the government grant is ***revenue*** in nature and nothing is specified for the use of grant.

Accounting Treatment- It will be shown on the Income side of the Income and Expenditure Account.

Situation 2- If the purpose of the government grant is ***specified***

Accounting Treatment- It will be shown on the Liabilities side of the Balance Sheet. The expenses attributing to the grant will be deducted from the amount available in the account of such grant.