

Revision Notes

Chapter-1 Non-for Profit Organization

Learning Objectives:

After studying this chapter, you should be able to:

- State the meaning of Not - for - Profit organization.
- Explain the various items of accounting in Not-for-Profit organization.
- Explain the Financial Statements of Not-for-profit organization.
- Show the Accounting Treatment of various items of accounting in Not-for-profit organization.
- Distinguish between Receipts and Payments Account and Income and Expenditure Account.

Teaching Methods

- Teachers are advised to use various examples of Not-for-profit organizations.
- Story telling method can also be used for various items of Not-for-profit organization.

Meaning of Not-for-profit Organization

Not-for-Profit organisations are those organisations which are formed for the purpose of promoting commerce, art, science, religion, charity or any other useful object. Not-for-profit organisations intend to spend their income in promoting their objectives. Not-for-Profit organisations prohibit the payment of any dividend to their members.

The primary motive of not-for-profit organization is to render services to their members to promote culture, art, education and other religious, social and charitable activities. Main Sources of their Income are **Subscription, Donation, Aid by the Govt, etc.**

Examples of not-for-profit organizations:

Hospitals, dispensaries, sports clubs, libraries, churches, recreation clubs, masjids, temples, dharamshalas, orphanage, etc. such organisations may or may not have trading activities. If trading activities are carried on by such entities, then the profit arising therefrom is used for

the purposes of promoting the objectives for which such organisations were formed. For example, if a sports club also runs a restaurant, the profit of such a restaurant is used to promote the service objectives.

It may be noted that the restriction is on the application of income and not on the earning of income by not-for-profit organisations.

Such organizations prepare following financial statement at the end of accounting period:

1. Receipts and Payments Account
2. Income and Expenditure Account
3. Balance Sheet

Receipts and Payments Account: This account is merely a summary of the transactions appearing in the cash book. All receipts are shown on its debit side and all payments are shown on its credit side.

Features of Receipts and Payments Account

1. It is a real account. Thus Receipts are shown on its debit side and payments on the credit side.
2. Excess of receipts over payments is the closing balance which is shown in Balance sheet on Asset side.
3. This account begins with the opening balance of cash in hand and cash at bank.
4. An item may be repeated many times in a cash book, but it is shown only once in 'Receipts and Payments Account'.
5. All cash payments are shown on its credit side irrespective of the fact whether these are of capital nature or of revenue nature and whether they relate to current year, previous year or next year.
6. Receipts and payments Account records only the actual receipts and payments of cash. Non Cash expense such as Depreciation, outstanding expenses. etc. are not shown in it.

Income and Expenditure Account

Income and Expenditure Account serves the same purpose for a Not-for-profit organization as the Profit and Loss Account for a business enterprise. This is a **nominal account**.

It is also based on accrual concept of accounting according to which every transaction which

belongs to current year should be recorded in the books in the current financial year whether payment is made or not and Income is received or not.

Features of Income and Expenditure Account:

1. It is a nominal account.
2. No capital item is entered in this account.
3. Its debit side includes all the expenses pertaining to the particular period and credit side includes all the incomes pertaining to the same period.
4. No opening and closing balance are recorded in it.
5. This account is prepared in the same manner in which a Profit & Loss Account is prepared.
6. Credit balance is "Excess of Income over Expenditure" and debit balance is "Excess of Expenditure over Income".

Important Items of Not for Profit Organizations

1. **Legacy:** Legacy represents the amount of property received by organization under a will on death of the contribution. In other words we can say that legacies are the donations made by a person at his own will, so the donation is called legacy.
2. **Entrance Fees:** Entrance fee is called Admission fee. It is a fee paid by members at the time of joining a not-for-profit organization.
 1. It is an item of **recurring** nature.
 2. Generally Entrance fees is **treated as income**.
3. **Grant:** Grant is an aid issued by a Govt agency to any Not-for- profit organization for specific purpose or general purpose. Specific Grant should be capitalized & General grant may be treated as Revenue income and shown on credit side of Income & Expenditure Account.
4. **Donation:** Donation is the amount received by Not-for-profit Organization from **any person or institution without any consideration and not periodically**.

Types of Donation

Category	Explanation	Treatment
General	If donation received is not for a specific purpose and can be	Revenue

Donation	utilized for any purpose, it is known as general donation.	Receipt
Specific Donation	If donation is received for a particular purpose and can be utilised for the same purpose only it is known as specific donation such as Donation for Building.	Capital Receipt

5. **Subscription:** Subscription is the amount payable by members of Not- for- profit Organization for renewal of membership periodically.
1. It is recurring in nature.
 2. It is treated as Revenue Receipt.
6. **Life Membership Fee:** Life Membership Fee is the fee received from those members who do not pay periodic fee or subscription but pay a lump sum amount to become life time members. It can be shown by **adding to capital fund or separately on the liabilities side of Balance sheet.**
7. **Honorarium:** Honorarium is an amount paid to a person (other than employee) for rendering some special services for Not-for-profit organization. It is treated as an expense of Not-for-profit organization.

Calculation of Subscription to be shown in the Income and Expenditure Account for current year.

(a) Statement of Actual amount of subscription for the current year.

Particulars	Details	Amount
Subscription received during the year	-----	-----
Add: Outstanding Subscription (at the end of Current Year)	-----	-----
Prepaid or advance (at the beginning Of previous year)	-----	
Less: Outstanding Subscription (at the beginning of Current Year)	-----	-----
Prepaid or Advance (at the end of current year)		
Amount of subscription to be shown in Income & Exp. A/C		-----

(b) Preparing ledger Account.

Subscription Account

Particulars	Amount	Particulars	Amount
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To Bal. b/d ((outstanding Subscription at the Beginning)	XXXX	By Bal. b/d (Prepaid Subscription at the Beginning)	XXXX
To Income & Expenditure A/C (Balancing Figure)	XXXX	By Receipts & Payment A/C By Bal. c/d (Outstanding subscription at the end)	XXXX
To Bal. c/d ((Prepaid Subscription at the end)	XXXX		XXXX

II.Calculation of Stationary (A consumable item) to be shown in income and expenditure Account

<i>Particulars</i>	<i>Details</i>	<i>Amount</i>
Amount paid to creditors for stationary during current year	-----	-----
Add: Opening Stock of stationary	-----	-----
Closing Creditors of Stationary	-----	-----
Prepaid or advance (Beginning of previous year) Less: Closing Stock of stationary	-----	-----
Opening Creditors of Stationary	-----	-----
Prepaid or Advance (End of current year)		
Amount of subscription to be shown in Income & Exp. A/C		-----

Note: In both the statements only the amount pertaining to current year is to be shown in the Income & Expenditure Account because it is based on the revenue concept of accounting which states that any expense or expenditure, the full benefit of which is received during one accounting period is to be shown in the current financial year statements whether the amount is received (or paid) or not.

Case: II Income & Expenditure Account

For the year ended on March 31, 2015

Expenditure	Income	Amount
		1,50,000
		6,400
		3,000
	By Subscription Add: Outstanding(End) Prepaid(Beginning)	

Less: Outstanding (Beginning) Prepaid (End)	1,59,400
	5,000
	4,100
	1,50,300

Note: In this case the outstanding subscription as on 31-03-2015 is already given so there is no need to add previous years outstanding amount in it.

Illustration: If the number of members is given and the amount is always equal to the amount which the members have to pay in any one year i.e. $500 \times 200 = 1,00,000$

Calculation of Outstanding Subscription as on 31-03-2015 (End)

Total amount to be received during the year	$500 \times 200 =$	1,00,000
Amount received during the year (2014-15)		90,000
Outstanding subscription for the current year (2014-15)		10,000
Outstanding subscription as on 31-03-2014 (Previous Year)	9,500	
Subscription Received during the year	5,000	
Still outstanding subscription as on 31-03-2015	4,500	
Outstanding subscription for the current year (2014-15)		10,000
Still outstanding subscription as on 31-03-2015		4,500
Outstanding subscription as on 31-03-2015		14,500

Important Points:

Creditors for Stationary are not considered because 'Stationary purchased during the year' and 'Amount paid to Creditors during the year' are not given.

Interest on Investment is given in the question but value of investment is not shown in 'Receipts and Payments Account', it means that investment was purchased before the current year and was mentioned in the Balance Sheet at the beginning of the year. Therefore, the value of the invest-ments calculated is as under:

$$\text{Value of investment} = 18000 \times \frac{100}{9} = 200000$$