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Accounting for Not-for-Profit Organisation

LEARNING OBJECTIVES

After studying this chapter, you will be able to;

- Identify the need for, and nature of accounting records relating to not-for-profit organisations;
- List the principal financial statements prepared by not-for-profit organisations;
- Prepare the Receipt, and Payment Account and Income and Expenditure Account;
- Prepare Income and Expenditure Account and Balance Sheet from a given Receipt and Payment Account;
- Explain treatment of certain peculiar items of Receipts and Payments such as subscriptions from members, special funds, legacies, sale of old fixed assets, etc.

There are certain organisations which are set up for providing service to its members and the public in general. Such organisations include clubs, charitable institutions, schools, religious organisations, trade unions, welfare societies and societies for the promotion of art and culture. These organisations have service as the main objective and not the profit as is the case of organisations in business. Normally, these organisations do not undertake any business activity, and are managed by trustees who are fully accountable to their members and the society for the utilization of the funds raised for meeting the objectives of the organisation. Hence, they also have to maintain proper accounts and prepare the financial statement which take the form of Receipt and Payment Account; Income and Expenditure Account; and Balance Sheet, at the end of for every accounting period (normally a financial year).

This is also a legal requirement and helps them to keep track of their income and expenditure, the nature of which is different from those of the business organisations. In this chapter we shall learn about the accounting aspects relating to not-for-profit organisation.

1.1 Meaning and Characteristics of Not-for-Profit Organisation

Not-for-Profit Organisations refer to the organisations that are used for the welfare of the society and are set up as charitable institutions

which function without any profit motive. Their main aim is to provide service to a specific group or the public at large. Normally, they do not manufacture, purchase or sell goods and may not have credit transactions. Hence they need not maintain many books of account (as the trading concerns do) and Trading and Profit and Loss Account. The funds raised by such organisations are credited to capital fund or general fund. The major sources of their income usually are subscriptions from their members donations, grants-in-aid, income from investments, etc. The main objective of keeping records in such organisations is to meet the statutory requirement and help them in exercising control over utilisation of their funds. They also have to prepare the financial statements at the end of each accounting period (usually a financial year) and ascertain their income and expenditure and the financial position, and submit them to the statutory authority called Registrar of Societies.

The main characteristics of such organisations are:

1. Such organisations are formed for providing service to a specific group or public at large such as education, health care, recreation, unions and so on without any consideration of caste, creed and colour. Its sole aim is to provide service either free of cost or at nominal cost, and not to earn profit.
2. These are organised as charitable trusts/societies and subscribers to such organisation are called members.
3. Their affairs are usually managed by a managing/executive committee elected by its members.
4. The main sources of income of such organisations are: (i) subscriptions from members, (ii) donations, (iii) legacies, (iv) grant-in-aid, (v) income from investments, etc.
5. The funds raised by such organisations through various sources are credited to capital fund or general fund.
6. The surplus generated in the form of excess of income over expenditure is not distributed amongst the members. It is simply added in the capital fund.
7. The Not-for-Profit Organisations earn their reputation on the basis of their contributions to the welfare of the society rather than on the customers' owners' satisfaction.
8. The accounting information provided by such organisations is meant for the present and potential contributors and to meet the statutory requirement.

1.2 Accounting Records of Not-for-Profit Organisations

As stated earlier, normally such organisations are not engaged in any trading or business activities. The main sources of their income are subscriptions from members, donations, financial assistance from government and income from investments. Most of their transactions are in *cash* or through the bank. These

institutions are required by law to keep proper accounting records and keep proper control over the utilization of their funds. This is why they usually keep a cash book in which all receipts and payments are duly recorded. They also maintain a ledger containing the accounts of all incomes, expenses, assets and liabilities which facilitates the preparation of financial statements at the end of the accounting period. In addition, they are required to maintain a stock register to keep complete record of all fixed assets and the consumables.

They do not maintain any capital account. Instead they maintain capital fund which is also called general fund that goes on accumulating due to surpluses generated, life membership fee, donation, legacies, etc. received from year to year. In fact, a proper system of accounting is desirable to avoid or minimise the chances of misappropriations or embezzlement of the funds contributed by the members and other donors.

Final Accounts or Financial Statements: The Not-for-Profit Organisations are also required to prepare financial statements at the end of the each accounting period. Although these organisations are non-profit making entities and they are not required to make Trading and Profit & Loss Account but it is necessary to know whether the income during the year was sufficient to meet the expenses or not. Not only that they have to provide the necessary financial information to members, donors, and contributors and also to the Registrar of Societies. For this purpose, they have to prepare their final accounts at the end of the accounting period and the general principles of accounting are fully applicable in their preparation as stated earlier, the final accounts of a 'not-for-profit organisation' consist of the following:

- (i) Receipt and Payment Account
- (ii) Income and Expenditure Account, and
- (iii) Balance Sheet.

The Receipt and Payment Account is the summary of cash and bank transactions which helps in the preparation of Income and Expenditure Account and the Balance Sheet. Besides it is a legal requirement as the Receipts and Payments Account has also to be submitted to the Registrar of Societies along with the Income and Expenditure Account, and the Balance Sheet.

Income and Expenditure Account is akin to Profit and Loss Account. The Not-for-Profit Organisations usually prepare the Income and Expenditure Account and a Balance Sheet with the help of Receipt and Payment Account. However, this does not imply that they do not make a trial balance. In order to check the accuracy of the ledger accounts, they also prepare a trial balance which facilitates the preparation of accurate Receipt and Payment Account as well as the Income and Expenditure Account and the Balance Sheet.

In fact, If an organisation has followed the double entry system they must prepare a trial balance for checking the accuracy of the ledger accounts and it will also facilitate the preparation of Receipt and Payment account. Income and Expenditure Account and the Balance Sheet.

1.3 Receipt and Payment Account

It is prepared at the end of the accounting year on the basis of cash receipts and cash payments recorded in the cash book. It is a summary of cash and bank transactions under various heads. For example, subscriptions received from the members on different dates which appear on the debit side of the cash book, shall be shown on the receipts side of the Receipt and Payment Account as one item with its total amount. Similarly, salary, rent, electricity charges paid from time to time as recorded on the credit side of the cash book but the total salary paid, total rent paid, total electricity charges paid during the year appear on the payment side of the Receipt and Payment Account. Thus, Receipt and Payment Account gives summarised picture of various receipts and payments, irrespective of whether they pertain to the current period, previous period or succeeding period or whether they are of capital or revenue nature. It may be noted that this account does not show any non cash item like depreciation. The opening balance in Receipt and Payment Account represents cash in hand/cash at bank which is shown on its receipts side and the closing balance of this account represents cash in hand and bank balance as at the end of the year, which appear on the credit side of the Receipt and Payment Account. However, if it is bank overdraft at the end it shall be shown on its debit side as the last item. Let us look at the cash book of Golden Cricket Club given in the example to know how the total amount of each item of receipt and payment has been worked out.

Example 1

Golden Cricket Club Cash Book (Columnar)										
Dr.	Receipts	L.F.	Bank Amount (Rs.)	Office Amount (Rs.)	Date	Payments	L.F.	Bank Amount (Rs.)	Office Amount (Rs.)	Cr.
					2014					
2014					April 15					
April 1	Balance b/d		35,000	0,000	May 12	Insurance premium		15,000		
April 10	Subscriptions		1,20,000		May 20	Printing and stationery		10,750		
April 10	Entrance fees		3,000		June 16	Postage and courier fees			430	
May 20	Life membership fees		12,000		July 10	Telephone expenses			810	
June 12	Locker rent			42,000	July 15	Wages and salaries			22,000	
July 23	Life membership fees		8,000		July 30	Rates and Taxes		17,000		
Aug. 20	Donation for building		60,000		Aug. 13	Govt. securities		1,00,000		
Sept. 15	Subscriptions (2013-14)		30,000		Sept. 10	Printing and stationery		15,000		
Sept. 13	Subscription		45,000			Postage and courier service			480	
						Lighting		12,250		

Sept. 14	Entrance fees		10,000	Sept 13	Telephone expenses			830
Nov. 9	Subscription		35,000	Oct. 1	Wages and salaries			
				Oct. 18	Printing and stationery		10,000	12,000
Nov. 9	Subscription (2015-16)		10,000	Oct. 31	Govt. securities		13,000	
2015				Dec. 31	Wages and Salaries		1,00,000	
Feb. 07	Subscription		25,000	2015			22,000	
				Jan. 21	Courier charges			240
Mar. 28	Interest on government securities		18,000	Feb. 2	Telephone expenses			960
				Mar. 10	Postage and Courier fees			850
				Mar. 27	Lighting		14,000	
				Mar. 27	Wages and Salaries		22,000	
				Mar. 31	Balance c/d		70,000	23,000
							4,21,000	4,21,000

Part A*Item wise Aggregation of various Receipts*

Subscriptions (2014-2015)

Date	Amount (Rs.)
April 10, 2014	1,20,000
Sept. 13, 2014	45,000
Nov. 9, 2014	35,000
Feb. 7, 2015	25,000
Total	1,25,000

Subscriptions (2013-14)

Date	Amount (Rs.)
Sept. 13, 2014	30,000
Total	30,000

Subscription (2015-16)

Date	Amount (Rs)
Nov. 9, 2014	10,000
Total	10,000

Entrance fees

Date	Amount (Rs)
April 10, 2014	13,000
Sept. 14, 2014	10,000
Total	23,000

Locker Rent

Date	Amount (Rs)
June 12, 2014	42,000
Total	42,000

Life Membership fee

Date	Amount (Rs)
May 20, 2014	12,000
July 23, 2014	8,000
Total	20,000

Donation for Buildings

Date	Amount (Rs)
Aug. 20, 2014	60,000
Total	60,000

Interest on Government securities

Date	Amount (Rs)
March 28, 2015	18,000
Total	18,000

Part B*Item wise Aggregation of various Payments*

Insurance Premium

Date	Amount (Rs)
April 15, 2014	15,000
Total	15,000

Printing and Stationery

Date	Amount (Rs.)
May 12, 2014	10,750
Aug. 13, 2014	15,000
Oct. 18, 2014	13,000
Total	38,750

Lighting

Date	Amount (Rs.)
Sept. 10, 2014	12,250
March 27, 2015	14,000
Total	26,250

Telephone Expenses

Date	Amount (Rs.)
June 16, 2014	810
Sept. 13, 2014	830
Feb. 2, 2015	960
Total	2,600

Rates and Taxes

Date	Amount (Rs.)
July 15, 2014	17,000
Total	17,000

Government Securities

Date	Amount (Rs.)
July 30, 2014	1,00,000
Oct. 31, 2014	1,00,000
Total	2,00,000

Wages and Salaries

Date	Amount (Rs.)
July 10, 2014	22,000
Oct. 1, 2014	22,000
Dec. 31, 2014	22,000
March 31, 2015	22,000
Total	88,000

Postage and Courier Service

Date	Amount (Rs.)
May 20, 2014	430
Aug. 15, 2014	480
Jan. 21, 2015	240
March 10, 2015	850
Total	2,000

The above data can also be shown in the form of the respective accounts in the ledger. A detailed illustrative list of items of receipts and payments is given in figure 1.

Figure 1

<i>Receipts</i>	<i>Payments</i>
<ol style="list-style-type: none"> 1. Donations <ol style="list-style-type: none"> (a) General (b) Specific purpose 2. Entrance Fees 3. Legacies 4. Sale of Investments 5. Sale of Fixed Assets 6. Subscriptions from Members 7. Life Membership Fees 8. Sale of old Newspapers 9. Sale of Old Sports Material 10. Interest on Fixed Deposits 11. Interest/ Dividend on Investments 12. Proceed from Charity Shows 13. Sale of Scrap 14. Grant-in-aid 15. Interest/Dividend on Specific Fund Investments 16. Miscellaneous Receipts. 	<ol style="list-style-type: none"> 1. Purchase of Fixed Assets 2. Purchase of Sports Material 3. Investment in Securities 4. Printing and Stationery 5. Postage and Courier Charges 6. Advertisements 7. Wages and Salary 8. Honorarium 9. Telephone Charges 10. Electricity and Water Charges 11. Repairs and Renewals 12. Upkeep of Play Ground 13. Conveyance Charges 14. Subscription for Periodicals 15. Audit Fees 16. Entertainment Expenses 17. Municipal Taxes 18. Charity 19. Insurance

Receipt and Payment Account is given below:

Receipt and Payment Account for the year ending _____

<i>Receipts</i>	<i>Amount (Rs.)</i>	<i>Payments</i>	<i>Amount (Rs.)</i>
Balance b/d		Balance b/d (Bank overdraft)	xxx
Cash in Hand	xxx	Wages and Salaries	xxx
Cash at Bank	xxx	Rent	xxx
Subscriptions	xxx	Rates and Taxes	xxx
General Donations	xxx	Insurance	xxx
Sale of newspaper/ periodicals/waste paper	xxx	Printing and Stationery	xxx
Sale of old sports materials	xxx	Postage and courier	xxx
Interest on fixed deposits	xxx	Advertisement	xxx
Interest/Dividend on general investments	xxx	Sundry expenses	xxx
Locker Rent	xxx	Telephone charges	xxx
Sale of scraps	xxx	Entertainment expenses	xxx
Proceeds from charity show	xxx	Audit fees	xxx
Miscellaneous receipts	xxx	Honorarium	xxx
Grant-in-aid	xxx	Repair and Renewals	xxx
Legacies	xxx	Upkeep of ground	xxx
Specific Donations	xxx	Conveyance	xxx
Sale of Investments	xxx	Newspapers and Periodicals	xxx
Sale of Fixed Assets	xxx	Purchases of Assets	xxx
		Purchase of Investments	xxx
		Balance c/d	xxx

Life membership fees	xxx	Cash in hand	xxx
Entrance fees	xxx	Cash at Bank*	xxx
Receipts on account of specific purpose funds	xxx		
Interest on specific funds' investments	xxx		
Balance b/d (Bank Overdraft)*	xxx		xxxxx
	xxxxx		

Fig. 1.1: Format of Receipt and Payment Account

* There will be either of the two amounts i.e., each at bank or bank overdraft, not both.

It may be noted that the receipts side of the Receipt and Payment Account gives a list of revenue receipts (for past, current and future periods) as well as capital receipts. Similarly, the payments side of the Receipts and Payments Account lists the Revenue Payments (for past, current and future periods) as well as Capital Payments.

1.3.1 Salient Features

1. It is a summary of the cash book. Its form is identical with that of simple cash book (without discount) and bank column) with debit and credit sides. Receipts are recorded on the debit side while payments are entered on the credit side.
2. It shows the total amounts of all receipts and payments irrespective of the period to which they pertain. For example, in the Receipt and Payment account for the year ending on March 31, 2016, we record the total subscriptions received during 2015–16 including the amounts related to the years 2014–2015 and 2016–2017. Similarly, taxes paid during 2015–16 even if they relate to the years 2014–15 and 2016–2017.
3. It includes all receipts and payments whether they are of capital nature or of revenue nature.
4. No distinction is made in receipts/payments made in cash or through bank. With the exception of the opening and closing balances, the total amount of each receipt and payment is shown in this account.
5. No non-cash items such as depreciation outstanding expenses accrued income, etc. are shown in this account.
6. It begins with opening balance of cash in hand and cash at bank (or bank overdraft) and closes with the year end balance of cash in hand/cash at bank or bank overdraft. In fact, the closing balance in this account (difference between the total amount of receipts and payments) which is usually a debit balance reflects cash in hand and cash at bank unless there is a bank overdraft.

1.3.2 Steps in the Preparation of Receipt and Payment Account

1. Take the opening balances of cash in hand and cash at bank and enter them on the debit side. In case there is bank overdraft at the beginning of the year, enter the same on the credit side of this account.
 2. Show the total amounts of all receipts on its debit side irrespective of their nature (whether capital or revenue) and whether they pertain to past, current and future periods.
 3. Show the total amounts of all payments on its credit side irrespective of their nature (whether capital or revenue) and whether they pertain to past, current and future periods.
 4. None of the receivable income and payable expense is to be entered in this account as they do not involve inflow or outflow of cash.
 5. Find out the difference between the total of debit side and the total of credit side of the account and enter the same on the credit side as the closing balance of cash/bank. In case, however, the total of the credit side is more than that of the total of the debit side, show the difference on the debit as bank overdraft and close the account.

~~Unsolved~~

~~RELEVANT INFORMATION~~ From the following information based on the data assimilated from the cash book given in *example 1*, at page 4, the Receipt and Payment Account of Golden Cricket Club for the year ended on March 31, 2015 will be prepared as follows:

Details	Amount (Rs.)
Cash in hand as on April 1, 2014	20,000
Cash at bank as on April 1, 2014	35,000
Subscription:	Rs.
2013-14	30,000
2014-15	2,25,000
2015-16	<u>10,000</u>
	2,65,000
Donation for Building	60,000
Entrance fees	23,000
Life membership fee	20,000
Printing and Stationery	38,750
Lighting	26,250
Rates and Taxes	17,000
Telephone charges	2,600
Postage and courier	2,000
Wages and Salaries	88,000
Insurance Premium	15,000
Interest on government securities	18,000
Locker rent	42,000
Purchase of government securities	2,00,000
Cash in hand as on March 31, 2015	23,400
Cash at bank as on March 31, 2015	70,000