

NOT –FOR PROFIT ORGANIZATIONS

Introduction

Organizations established for social welfare, development in sports and for benefits of the members can be identified as non-profit organizations. These organizations, can also be treated as “Non-trading organizations”, hence their main function is not trading activities. Charitable institutions such as clubs, government hospitals etc. do not carry out trading activities and therefore, do not earn profits.

The primary objective of these organizations is not to make profits but to provide social services, such organizations may be in the form of societies, government incorporated bodies, charities, welfare funds employees unions, education institutions, churches and temples etc.

Accounting System of Non-Profit Organizations

Although, the main objective is not to earn profits, we can see these organizations may enter into many economic transactions. The nature and the value of such transactions are substantial. Therefore, maintaining an accounting system with separate ledger accounts and subsidiary ledgers is important for non-profit organizations too.

Following financial statements are prepared by non-profit organizations to present their financial positions and results of activities to the members.

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Differences between Profit making organizations & Non-profit making organizations

Profit making organizations	Non-profit making organizations

Receipts and Payments Account

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Exercise 01

Using the following information, prepare the receipts and payments account of “Sinha” sports club for the year ending 31st March 2020. (The cash and bank balance at the beginning of the year was Rs. 4,800,000).

	Rs. ‘000		Rs. ‘000
Membership fees received	9,600	Purchase of news papers	1,400
Donations received	1,800	Stationery	600
Purchase of sports Items	2,400	Entertainment	500
Salaries to staff	3,600	Postage and telephone	1,200
Rent paid	1,200	Purchase of furniture	2,200
Electricity	800	Sale of used news papers	200

Income and Expenditure Account

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 If, Income > Expenses →
 If, Income < Expenses →

Exercise 02

Using the following information provided by “Samagi” sports club, prepare the income and expenditure account for the year ending 31st December 2020.

	Rs. '000
Subscription Income	46,000
Sports equipments depreciation	8,000
Sports day expenses	2,000
Sports day income	8,000
Entertainment	5,000
Sports equipments repairs	4,000
Transport charges	2,800
Donations received	2,100
Donations granted	1,600
Electricity	300
Insurance	200
Office rent	500
Staff salaries	2,900
Sports equipment maintenance	4,000
Interest received	600
Interest paid	300
Sundry income	200
Other expenses	300
Magazines and news papers	400

Differences between receipts and payments account & income and expenditure account

Receipts and payments account	Income and expenditure account

Subscription/Members Fees

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 Subscription income for the accounting period should be calculated under accrued basis after making following adjustments.

Subscription in arrears

Subscription in advance

Subscription/Membership Fees Account

Subscription Account

	XXXX		XXXX
	XXXX		XXXX
	XXXX		XXXX
	XXXX		XXXX

Subscription/Members fees written off

Subscription in arrears is generally identifies as an asset. However, if the subscription in arrears is not received by the organization, it is written off from the books of accounts. Such subscription in arrears can be written off by cancelling the membership or without cancelling the membership. Following double entry can be used to record subscription written off.

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Exercise 03

Following information is related to the subscription of “Sigiri” sports club for the year ending 31st December 2019.

	Rs. ‘000
Subscription in arrears as at 01.01.2019	72,500
Subscription received in advance as at 01.01.2019	92,200
Subscription received during the year	
For 2018	72,500
For 2019	1,245,000
For 2020	43,500
Subscription in arrears as at 31.12.2019	54,200

Using the above information, prepare the subscription account for the year ended 31st December 2019.

Exercise 04

Following information is related to the subscription of Rantharu sports club for the year ending 31st December 2019.

- (1) Number of members is 200
- (2) Monthly subscription per member is Rs. 50
- (3) Balances as at 01.01.2019
 - Subscription in arrears – Four members for two months and six members for one month
 - Subscription received in advance – Eight members for two months and six members for one month
- (4) Balances as at 31.12.2019
 - Subscription in arrears – Five members for two months
 - Subscription received in advance – Twelve members for one month

Required: Subscription account for the year ended 31st December 2019

Life Membership

In some societies, members can make a payment for life membership. It means that by paying a fairly substantial amount now, the members of the society can enjoy the facilities of the society for the rest of their lives. Such a receipt **should not** be treated as income in the income and expenditure account solely in the year in which the members paid money. It should be credited to a life membership account, and transfers should be made from that life membership account to the

credit of income and expenditure account annually. As the society has to provide facilities for life members without any further payment, the credit balance remaining in the life membership account, after transferring of an agreed amount to income and expenditure account should be shown in the **statement of financial position as liability**.

Accounting entries for Life Membership Fees

Receipt of Life Membership fees

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Amount relevant to current year transferred to income and expenditure account

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Exercise 05

During the year ended 31.03.2020, a sports club introduced a life membership scheme and collected Rs. 500,000 as life membership fees.

The policy of the club is to write off life membership fee over a period of 10 years commencing from the year of granting the membership.

Required: Life Membership fees account for the year ended 31.03.2020.

Entrance Fees (Admission Fees)

When they first join a society, new members often have to pay an entrance fee in addition to the membership fee for that year. One of the following methods can be used to account entrance fees.

- (1) Treat it as an income in the year in which entrance fees were received

 - (2) Treat it as a direct increase in the accumulated fund

 - (3) Treat it as a reserve and transfer an agreed amount to income and expenditure account annually
 - (a) Receipts of entrance fees

 - (b) Amount transferred to the income Expenditure account

- If the entrance fee is a small amount compared with membership fee, it is identified as an income in the year in which it is received.
 - However, if the entrance fee is a considerable value compared with membership fee, one of the above methods (2nd or 3rd method) can be used without treating it is an income in the current account period.

Exercise 06

Following information was provided by Sandakalum Sports Club for the year ended 31st March 2020.

Entrance fees collected during the year - Rs. 600,000

The organizations policy is to identify 50% of the entrance fees as an income in the year in which it is received and the balance as an income in next financial year.

Required : Entrance fees account for the year ended 31.03.2020

Donations and Special Funds

Donations can be identified as another source of collecting funds for the day today activities in a non-profit making organization.

There are two types of donations

1. General donations
2. Special donations

General Donations

A donation not received for a specific purpose can be identified as a general donation. It is often credited to the income and expenditure account considering as an income in the year in which it was received.

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Special Donations

If the donation received is for a specific purpose then it can be identified as a special Donation.

Example : Donation of a motor vehicle valued at 2 million.

Such a special donation is not usually taken as an income for the current year. Therefore this donation can be accounted for as follows.

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Proportionate portions of the balance in the donations account can be taken as income for the year. This is a decision that must be taken by the management of the organization. In this manner when a portion is taken as income.

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The balance in the donation account must be shown below the accumulated fund balance in the statement of financial position.

Special Funds

Non-profit organizations may have special funds for specific objectives

Eg -: Building fund, Sports Complex Fund, Library Fund

When funds received

Receipts and payment account	Dr	
Building Fund account		Cr

These funds are treated as liabilities, till the targeted objective is achieved. If there is any balance of the fund account even after completion of the Project, the balance should be transferred to the **accumulated fund** account.

If the cash received for the specific project is invested somewhere, following entry is passed in the ledger.

Investment account	-	Dr	xxx	
Receipts and payment account	--	Cr		xxx

- The balance of the investment account is recorded in the Statement of financial position as an asset.
- If assets were purchased/constructed using that money, they should also be recorded in the statement of financial position as assets.

Creating asset using special fund

1.
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2.
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Other activities (Trading activities)

Non-profit organizations may sometime involve in trading activities as a source of collecting funds for its principal activities.

Eg -: Maintaining a canteen, Musical show, Magic show

Following methods can be used to record these other activities.

01. Maintaining separate accounts for other activities

In a situation where a special attention is given for other activities

Separate accounting records are maintained for other activities to show such results to the Members

Eg -: Preparing separate income statement for a canteen maintained by the organization.

The final profit or loss is transferred to the income and expenditure account.

If there is any income or expenses which cannot be directly attributed (identified) to other activities, they are recorded in the income and expenditure account

02. Recording other activities in the income and expenditure account

If the other activities are not important, compared with the main function of the organization, the transactions related to other activities are recorded in the income and expenditure account.

Accumulated Fund

The capital in a nonprofit organization is generally known as the “Accumulated Fund” or the “General Fund”. The excess of assets over liabilities is treated as the accumulated fund.

Accumulated Fund (Net Assets) =

The accumulated fund at the beginning of the accounting period can be calculated using a statement of affairs

Exercise 07

Calculate the accumulated fund using following balances.

	Rs. '000		Rs. '000
Land and buildings	1,000,000	Furniture	400,000
Subscription receivable	100,000	Building fund	150,000
Electricity payable	25,000	Subscription received in advance	100,000
Unused stationery	50,000	Life membership fund	100,000
Pre-paid insurance	15,000	Cash in hand	60,000

ADVANCED LEVEL – 2011

A trade union which was formed on 01.04.2010 has provided the following information.

Item	At 31.03.2013 Rs. '000	At 31.03.2012 Rs. '000	At 31.03.2011 Rs. '000
Cash at bank	14,500	16,000	10,000
Petty cash	3,000	2,000	2,000
Stationery stock	2,000	2,500	1,500
Total Assets	19,500	20,500	13,500

Compute the following assuming that the trade union did not have any liability, at the end of each year.

- (a) Surplus or deficit for the year ended 31.03.2012 - Rs.
- (b) Accumulated fund as at 31.03.2013 - Rs.

Statement of Financial Position

Non-profit organizations also prepare a statement of financial position to show its financial position to the members of the organization. The way of preparing the balance sheet in a non-profit organization is also similar to the way that it is prepared in a profit making organization.

ADVANCED LEVEL – 2012

The following information has been extracted from the records of Udara Welfare Association, a not-for-profit organization involved in conducting programmes to improve English Language proficiency among youth.

- (i) The number of members of the association as at 31.03.2012 is 50 and the annual subscription per member is Rs. 2,000.
- (ii) Assets and liabilities of the Association:

Item	At 31.03.2012 Rs. '000	At 31.03.2011 Rs. '000
Subscription in arrears	6	10
Subscription received in advance	12	8
Inventory – English language books	60	50
Furniture and fittings (carrying amount)	160	180
Cash at bank	?	10

- (iii) The following expenses were incurred and paid in cash during the year ended 31.03.2012

	(Rs. '000)
English language books purchases	100
Office rent	60
Salary of accounts clerk	60
Office expense	30

- (iv) Donation amounting Rs. 200,000 were received by the Association during the year ending 31.03.2012. The policy of the Association is to recognize donations as an income in the year in which they are received.

- Required :**
- (1) Accumulated fund as at 01.04.2011
 - (2) Cash at bank as at 31.03.2012
 - (3) Income and Expenditure account for the year ended 31.03.2012

☞ ADVANCED LEVEL – 2013

Udara Sports Club maintains an indoor sports stadium and a swimming pool for the use of its members. Its assets and liabilities as at 31.03.2013 and 31.03.2012 were as follows

Item	31.03.2013 Rs. '000	31.03.2012 Rs. '000
Building (carrying amount)	2,000	2,400
Swimming pool (carrying amount)	3,750	4,000
Swimming pool hiring income received in advance	50	60
Subscription receivable	90	80
Fixed deposit	1,200	-
Cash	?	100

The following information related to the year ending 31.03.2013.

(i) All expenses given below were paid in cash

	(Rs. '000)
Annual salary of swimming pool keeper	300
Annual salaries of other staff	1,200
Other expenses	300

(ii) The swimming pool is also rented to outside organizations. The fees charged and the number of days rented during the current year are as follows :

Fees (Rs.)	No. of days rented
Rs. 50,000 per day	30
Rs. 25,000 per half day	20

- (iii) Subscription per month for a member is Rs. 1,000. There were 100 members as at 01.04.2012 and 10 new members joined the Club on the same day. New members paid the full year's subscription. 15 of the founder members left the club on 30.09.2012 and they had settled all their dues by that date. The entire subscription in arrears as at 31.03.2012 was received during the current year.
- (iv) Cafeteria of the club is managed by an outside organization and 20% of its income is payable to the club. Cafeteria income during the year was Rs. 300,000 and the amount due to sports club has been received.
- (v) The fixed deposit account was opened on 01.12.2012 for a one year period at an interest rate of 10% per annum.
- (iv) There were no acquisitions or disposal of property, plant and equipment during the year

Required :

- (1) Accumulated fund and cash balance as at 31.03.2013
- (2) Income and Expenditure account for the year ended 31.03.2013

☞ ADVANCED LEVEL – 2014

A professional Educational Development Centre was established in a school on 01.04.2013 to train the youth in the surrounding areas for self-employment. The following information relates for the year ending 31.03.2014.

(1) Admission fee and subscription

- This centre was established with 50 member
- Each member has paid the admission fee of Rs 500
- The monthly subscription per member is Rs. 500
- 40 members have paid subscription for the year while the other 10 have paid subscription only for 9 months

(2) Conduct of the course

- As the first programme, a motor mechanics course of one year duration was introduced on 01.06.2013.
- Course fee per student is Rs. 1,000 per month, 25 students registered for the course. Of them, 20 paid full course fee and the rest paid only for 6 months.
- This course was conducted in the school itself and a monthly payment of Rs 2,000 was paid for use of its facilities. The instructor of the course did not charge a fee but was paid Rs. 3,000 per month as travelling expenses

(3) Management of the centre

- A three wheeler worth of Rs. 360,000 with 4 year useful life was received as a donation on 01.04.2013. It has been in use from this date and is depreciated on straight-line method.
- This donation is recognized within the income equally over a 4 year period starting from the current year.
- The manager of the centre is paid a monthly allowance of Rs 10,000 from 01.04.2013 and it is payable on the 10th day of the following month
- During the year, Rs. 60,000 and Rs. 20,000 were paid for stationery and three wheeler running expenses respectively. Stationery worth Rs. 40,000 has only been used during the year.

Required :

The following for the professional education development centre

- (1) Receipts and Payments Account for the year ending 31.03.2014
- (2) Income and Expenditure Account for the year ending 31.03.2014
- (3) Accumulated Fund as at 31.03.2014

ADVANCED LEVEL – 2015

The receipts and payments account of Rantharu Sports Club for the year ending 31.03.2015 was as follows:

Receipts and Payments Account (Rs. '000)

Balance b/f	80	Pavilion renovation	300
Donations for sports equipment	500	Salary:	
Subscription	390	- Grounds man	360
Entry fees	120	- Manger	240
Ground hire fees	660	Office expenses	50
		Ground maintenance	150
		Sports equipment	500
		Balance C/f	150
	1,750		1,750

Additional information:

- (i) The following information related to property plant and equipment available as at 01.04.2014

Item	Cost (Rs. '000)	Accumulated Depreciation (Rs. '000)	Expected useful life (years)
Sports ground	2,000	-	-
Pavilion	1,500	- 750	20
Sports equipment	500	- 300	05

- (ii) The renovation of the pavilion was completed on 01.04.2014 and it was used from this date. This amount is not yet recognized in the pavilion account. Further, the remaining useful life of the pavilion has increased to 15 years from this date.
- (iii) The cash donation was received 01.04.2014 to purchase of sports equipment and these items were purchased on 01.10.2014 . The expected useful life of these equipment is 5 years. It is the policy of the sports club to recognize donations in income over a period of 5years from the year of receipt.
- (iv) The annual subscription per member is Rs. 6,000. The number of members of the club as at 01.04.2014 was 40. On this day another 10 members joined and they paid two years subscription at once. Subscription received during the current year also includes Rs.30,000 received in respect on year 2013/2014. There were no subscription receivables as at 31.03.2015
- (v) The sports ground is hired to outsiders by charging Rs.300,000 per sports festival. 60% of this amount is payable as an advance at the time of the ground is booked and the balance on the day of sports festival. The details of these sports festivals are as follows:

Festival No	Stage of the festival	Receipt of cash during the current year
1	Completed on 01.07.2014	Full amount including the advance was received
2	Completed on 08.11.2014	Only the advance was received
3	To be held in the first week of April 2015	The advance was received in March 2015

Required: The following for Rantharu Sports Club

- (1) Accumulated Fund as at 01.04.2014
- (2) Income Statement for the year ending 31.03.2015
- (3) Statement of Financial Position as at 31.03.2015

☞ ADVANCED LEVEL – 2016

An old Girl's Association of a school was formed on 01.04.2013. Its founding members joined as life members contributing Rs. 500,000. The following information has been extracted from the books of association.

Description	As at 31.03.2016 (Rs. '000)	As at 31.03.2015 (Rs. '000)
Subscription receivable	20	15
Subscription received in advance	30	25
Accumulated fund	?	200
Life membership fund	?	400
Inventory of T shirts at cost	40	-
Hall reservation advance	-	25
Receivables from the musical show	?	-
Cash	?	50

Additional information:

- (i) The annual subscription per person is Rs. 500. There were 600 members (excluding life members) as at 31.03.2016.
- (ii) Life membership fee is recognized in income over a period of 10 years.
- (iii) The following information relates to the musical show conducted on 01.10.2015 to raise funds for the association.

Description	Cash received/paid (Rs. '000)
Sale of tickets	
100 tickets at Rs. 1,000 per ticket	100
400 tickets at Rs. 500 per ticket (only 80% is received)	160
Sponsorships for the show (only 75% is collected)	375
Payments to musicians	
5 singers paid at Rs. 40,000 each	200
Music group	80
Hall hire charges	50
Refreshments	30

- (iv) The association purchased 500 T-shirts on cash at Rs. 200 each. 300 of these were sold on cash among the members at Rs. 250 each.
- (v) The administrative assistant is paid a monthly salary of Rs. 30,000

Required:

- (1) Cash account for the year ending 31.03.2016
- (2) The following for the year ending 31.03.2016
 - (i) Subscription income
 - (ii) Surplus/deficit of Musical show
 - (iii) Surplus/deficit from sale of T-shirts
- (3) The balance of the following items as at 31.03.2016
 - (i) Accumulated fund
 - (ii) Life membership fund
 - (iii) Receivable from the Musical show

☞ ADVANCED LEVEL – 2017

Udara sports club has been formed with the objective of improving the health condition of the people living in the surrounding area. It has a swimming pool and gymnasium.

The annual subscription per member is Rs. 10,000 and it is payable at the time of joining the sports club. However, subscription recognized in the income based on the number of months of membership held during the year. There were 105 members as at 31.03.2017, of which the composition is as follows:

Description	Number of members
Members as at 01.04.2016	60
New members joined during the year	

On 01.07.2016	30
On 01.10.2016	15

The facilities of the sports club are also open for nonmembers on a monthly basis for cash and their usage of facilities during the current year was as follows :

Facilities used	Monthly fee per person	No of persons used	No of months used
Both swimming pool and gymnasium	Rs. 1,000	30	6
		20	8
Either the swimming pool or the gymnasium	Rs. 500	60	10

Further, the sports club rents out the swimming pool at the rate of Rs. 150,000 per day to conduct sports festivals for external parties. 80% of this fee should be paid at the time of booking and the balance on the day of the festival. Two sports festival took place during the year, the first for 3 days and the second for 2 days. Further, a booking has been made on 20.03.2017 to reserve the swimming pool for sports festival to be held on 08.04.2017.

The total expenses incurred during the year were Rs. 1,370,000. This has been paid in cash

The carrying amount of assets of the sports club:

Assets	As at 31.03.2017 (Rs. '000)	As at 31.03.2016 (Rs. '000)
Property, plant and equipment	8,500	9,250
12% fixed deposit	1,500	-
Cash	?	400

There were no liabilities as at 31.03.2016. There were also no acquisitions or disposal of property, plant and equipment during the year.

The fixed deposit has been opened for a one year period on 01.07.2016 and its interest is received at maturity

Required : The following for the Sports club

- (1) Cash account for the year ending 31.03.2017
- (2) Income statement for the year ending 31.03.2017
- (3) Liabilities as at 31.03.2017 (Indicate each item separately)

ADVANCED LEVEL – 2018

The summarized Statement of Financial Position as at 01.01.2017 of an Old boys Association of a school is as follows:

Description	Amount (Rs.'000)
Assets:	
Property, Plant and Equipment carrying amount	4 500
Inventory of stationery	80
10% Fixed Deposit	1 400
Cash	20
	6 000
Accumulated Fund	4 580
Building Construction Fund	1 400
Accrued Electricity Expenses	20
	6 000

Additional Information:

- (i) Association has 800 members as at 31.12.2017 including those who have obtained membership during 2017
- (ii) The fixed deposit was opened on 31.12.2016 for a six month period using the cash received for the building construction fund
- (iii) The cash receipts during the year:
 - Entrance fees of 50 new members at Rs. 1 000 each (all new members joined the Association on 01.01.2017)
 - The annual subscription of Rs. 2 000 per member has been received from 640 members
 - The fixed deposit has matured on 01.07.2017 and cash was received including interest income.
- (iv) Payments during the year:
 - Electricity charges Rs. 120 000 including Rs. 20 000 payable for the month of December 2016
 - Refreshments for the annual general meeting Rs. 170 000

- Purchase of stationery Rs. 200 000 (Inventory of stationery as at 31.12.2017 was Rs. 40 000)
- Maintenance expenses Rs. 160 000
- Completed the construction of the association's building using Rs. 1 000 000 of the cash received on maturity of the fixed deposit

(v) The annual get together of the association was held in the new building on 31.12.2017. The expenses incurred in this respect were Rs. 550 000, which was paid on 10.01.2018.

(vi) Annual depreciation on property, plant and equipment was Rs. 450 000.

Required: With respect to the Old Boys Association.

- (1) Cash Account for the year ending 31.12.2017
- (2) Income Statement for the year ending 31.12.2017
- (3) Equity as at 31.12.2017 (Use a format similar to the one given below)

Description	Equity Items (Rs. '000)	
	Accumulated Fund	Building Construction Fund
Balance as at 01.01.2017
Additions:		
.....
Deductions:		
.....
Balance as at 31.12.2017

☞ ADVANCED LEVEL – 2019

The following information relates to Suhada Sports Club for the month of March 2019. This club operates without a profit motive

Description	As at 31.03.2019	As at 28.02.2019
	(Rs. '000)	(Rs. '000)
Property, Plant and Equipment (at carrying amount)	1 000	800
Subscription received	60	40
Subscription received in advance	?	100
Cash at bank	?	80
Accumulated fund	?	820

The following transactions have occurred in the Sports Club during the month ending 31.03.2019.

- Received subscription Rs. 300 000 (This includes Rs. 40 000 subscription receivable at the beginning of the month and Rs. 70 000 received for April 2019)
- 14 new members joined the club during the month and paid an entrance fee of Rs. 10 000 each
- Purchased office equipment costing Rs. 300 000 on cash on 01.03.2019
- Paid Rs. 180 000 as salaries (The accrued salaries as at 31.03.2019 was Rs. 30 000)

The sports club carries out all its cash transactions through a bank current account. The cash balance of the club as at 28.02.2019 agreed with the bank statement balance on this date. However, the balance of the bank statement as at 31.03.2019 did not agree with the cash account balance on this date. As per the bank statements following transactions have taken place during the month of March 2019.

	Rs.
Cheques realized	400 000
Cheques presented for payment	350 000
A donation directly deposited in the bank	20 000
Standing order payment for office rent	10 000

The direct deposit of donation and the standing order payment for office rent have been recorded in the cash account after receiving the bank statement. Donations and entrance fees are recognized as income in the month of receipt.

Required:

- (1) Cash account for the month ending 31.03.2019
- (2) Bank Reconciliation Statement for the month of March 2019
- (3) Income Statement for the month ending 31.03.2019
- (4) Subscription Received in advance and Accumulated Fund as at 31.03.2019