

UNIT EIGHT

THEORY

ACCOUNTING
RIHAB FAISAL

Unit 8 | Not For Profit Accounts

- NFP organizations
- NFP financial statements

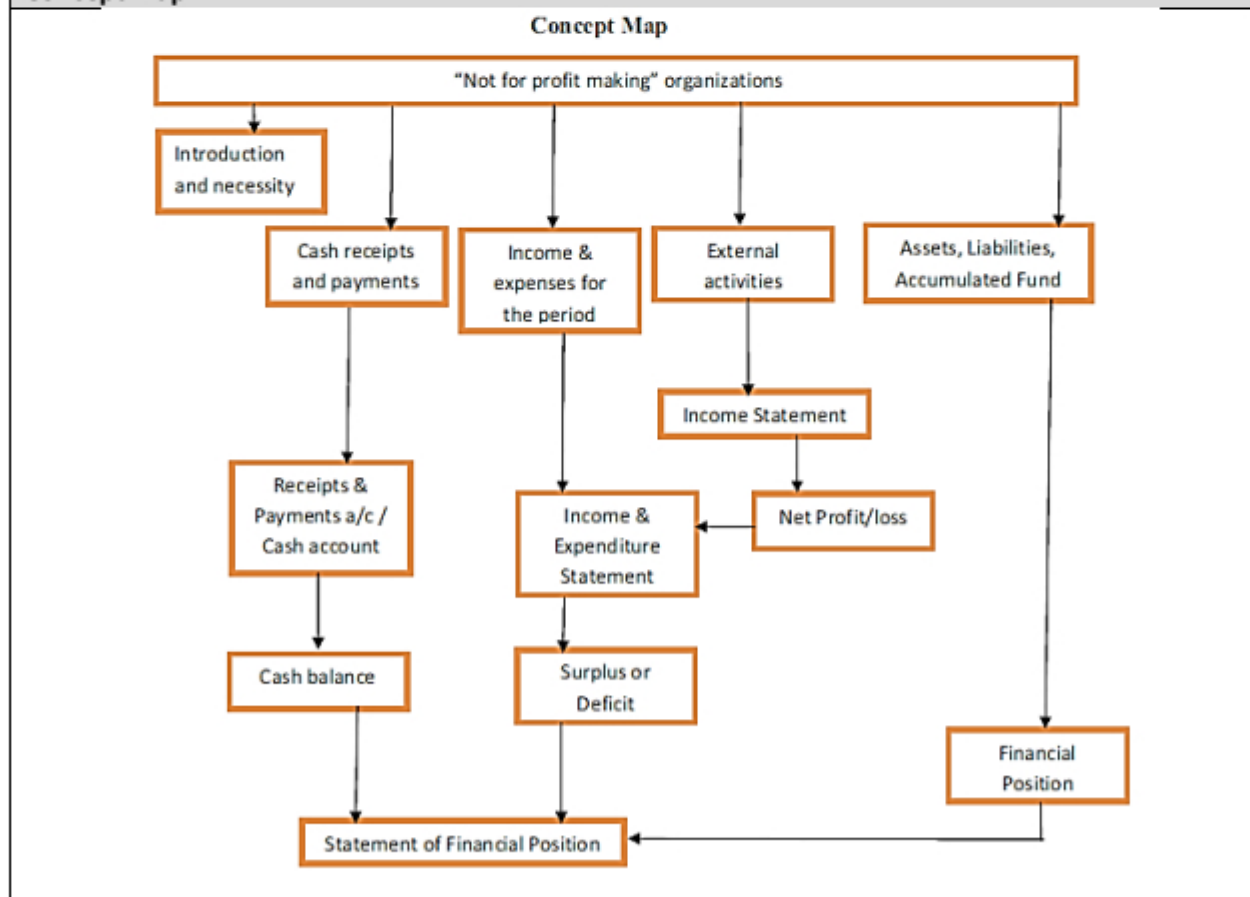
ACCOUNTING RIHAB FAISAL

8.1 | NFP Accounts

- NFP organizations
- NFP financial statements

NFP organizations

- Not-for-profit organizations do not have a profit objective, and work towards the welfare and well-being of its members.
 - Examples: sports clubs, death donation services, youth clubs, religious organizations, women's clubs, welfare societies
- Importance of maintaining accounts:
 - Even though profit is not an objective, these organizations engage in economic activity. They also obtain fees from members. Since they engage in economic activities, there is a need to maintain accounts in order to be able to provide members with accurate information.
- Accounts and reports prepared by NFP organizations:
 - Cash account (Receipts & Payments account)
 - Membership fees account
 - Income statement (Income & Expenditures account)
 - Income statement for external activities
 - Statement of Financial Position

Concept map

Receipts & Payments account (Cash account)

- The monetary values received and paid by the NFP organization during the period are summarized and entered in the account known as the Receipts and Payments account.
- This is similar to the Cash account prepared by profit making organizations. This is prepared on a cash basis, with the cash receipts recorded on the DR side and cash payments under CR.
- Importance of maintaining Receipts & Payments accounts:
 - To get an idea of the available cash balance
 - To control cash and utilize excess money productively
 - To minimize frauds and misuse of cash
- Format of a Receipts & Payments account:

<u>Receipts and Payments account for the year ended xxx</u>			
Balance b/f	xx	Cash payments	xx
Cash receipts	xx	Balance c/d	xx
	xxxx		xxxx
Balance b/f	xxxx		

Income & Expenditures account (Income statement)

- The document prepared with the income and expenditure for the period is the Income Statement (prepared on an accrual basis). The result is identified as a surplus or deficit.
- Surplus:** When income for the period exceeds the expenditure, this is known as surplus. When this surplus is collected over a period, it is known as the accumulated fund.
- Deficit:** When income for the period is less than the expenditure, this is known as deficit.
- Format of the Income Statement:

<u>Income statement for the year ended xxx</u>		
Income		
Subscription	x	
Donation	x	
Life membership fee	x	
Registration fee	x	
Sale of magazines	x	xx
Expenses		
Donation paid	x	
Stationery expenses	x	
Administration expenses	x	
Depreciation	x	(xx)
Surplus/Deficit		xx / (xx)

Differences between R&P account and I&E account

Receipt and Payment account	Income and Expenditure account
Similar to the cash control account	Similar to the income statement
Records cash receipts and cash payments	Records income and expenses
Records transactions on cash basis	Records transactions on accruals basis
Shows cash balance as at period end	Shows surplus/deficit for the period ended

Membership fees account (Subscription account)

- The main source of income for NFPs is membership fees and hence, it is necessary to maintain a membership fees account/ subscription account.
- Subscriptions can be collected weekly, monthly, or annually. Some members pay their fees on time, while there are other circumstances where they can be delayed or paid in advance.
- Journal entries:
 - Subscription received in cash
DR Receipts and payments a/c
CR Subscription a/c
 - Annual subscription
DR Subscription a/c
CR Income statement
- Adjustments related to subscriptions:
 - Subscription receivable (accrued income)
Subscription that is relevant to the current accounting period but which has not yet been received. It is treated as an asset to the business.
 - Subscription received in advance (pre-received income)
Subscription that is relevant to the next accounting period but which has been received in advance. It is treated as a liability to the business.
- Information incorporated in the membership fees account:

• As at the beginning of the year	—	Unpaid subscription fees
	—	Prepaid subscription fees
• As at the end of the year	—	Unpaid subscription fees
	—	Prepaid subscription fees
• Subscription fees received during the year		
• Subscription fees in respect of the current year		

