

1. Accounting for Not-for- Profit Organisation

Introduction:

The very name of Not-for-profit organizations reveal that they exist only for rendering services and do not aim at any profit behind their services. Sports and arts club, charitable organizations, libraries, orphanages etc are examples of these organizations. Since the very nature of these organization is not profit making, their books of accounts will also differ in many respects.

In this chapter we are to learn mainly how do they maintain their books of accounts particularly, the accounting statements to be prepared as part of finalization of their accounts.

Values and Attitudes:

Truly kept books of accounts leaving no doubt for falsifying the transactions will only survive in the long run and enjoy reputation

Unit Frame

Ideas / Concepts	Process / Activity with Assessment	Learning Outcome
Accounting for Not-for-profit organisation. <ul style="list-style-type: none"> - Meaning and characteristics - Accounting records 	Suggested Strategy: General discussion <ul style="list-style-type: none"> • Recalls the accounting procedure of a trading concern • Cites examples of organisations set up for rendering services • Discuss the role of profit in trading and non trading firms. Assessment: <ul style="list-style-type: none"> • Participation in discussion • Generation of idea • Innovation • List of not for profit organisations Skills: <ul style="list-style-type: none"> • Comparison, Interpretation, Analysis 	Students will be able to: <ul style="list-style-type: none"> • State the meaning and the accounting records to be maintained by not for profit organisations
<ul style="list-style-type: none"> - Receipts and Payments account - Income and Expenditure account - Balance Sheet 	Suggested Strategy: Case Study and discussion <ul style="list-style-type: none"> • Recalls the preparation of cash book citing examples 	<ul style="list-style-type: none"> • Prepare receipts and payments account from the given data

	<ul style="list-style-type: none"> • Compares cash book with Receipts and Payments account • Recollects the accounting records prepared in the case of trading firms with an interaction. • Helps to distinguish between capital receipts and payments with revenue receipts and payments • Convince the students that revenue items are part of Income and Expenditure account and capital items in Balance Sheet <p>Assessment:</p> <ul style="list-style-type: none"> • Attainment of concept • Involvement in discussion • Creative suggestion <p>Skills:</p> <ul style="list-style-type: none"> • Differentiation, comparison, inference, analysis 	<ul style="list-style-type: none"> • Distinguish between the receipts and payments account and income and expenditure account • Prepare Income and Expenditure account and Balance Sheet from a given Receipts and Payments account and additional information. • Explain the treatment of certain items such as legacies, subscription of members etc.
--	---	--

Receipts and Payments Account, Income and Expenditure Account and Balance Sheet:

Suggested Strategy: Discussion and Case Study

This topic can be introduced with the following;

You might have come across a number of business as well as non business organizations. As you know all business organizations really exist to render some services with no intention to make any profit. Can you tell a few examples of such organizations which do not run for profit seeking?

- Sports club
- Library
- Charitable organizations
- Hospitals
- Entertainment clubs
- Orphanages
-

•

Last year you have learnt how financial statements are prepared and the purpose for which they are prepared. Do you remember its components? [Profit and loss account and Balance Sheet]. If you know the basic principles of the preparation of these statements, then learning of present chapter is rather easy. While financial statements are prepared by profit seeking organizations, the nonprofit seeking organizations have to prepare different statements. But they resemble the financial statements in many ways. Let us learn the peculiar nature of the statements prepared by a non trading organization

- a. Receipt and Payments account
- b. Income and Expenditure account
- c. Balance Sheet

Let us learn these statements with the help of some exercises.

Activity – 1

Aby sports club has given you certain transactions of Receipts and Payments during the year 2014

<u>Receipts:</u>	<u>Rs.</u>
Life Membership fee	4,000
Subscriptions	12,000
Legacy	3,000
Rent from hall let out	3,000
Entrance fee	1,500
Sale of news paper	100
Sale of grass	200
Donation	4,000
<u>Payments:</u>	
Salary	800
Printing Expenses	200
Furniture purchased	2,000
Sports items purchased	1,500
Repairs	1,000
Tournament Expenses	800

Can you find out the true balance left in cash from the above Receipt and Payments?

The account to be prepared here is a Receipt and Payment account. The preparation of which is exactly like a cash account. The cash book contains a receipt side and payments side which is debit and credit side respectively.

Now you have some idea how to prepare a Receipt and Payment account. The account is partially drawn for you have to be filled up now. After the column being filled up, it need be balanced.

Receipts and Payments accounts for the year ended 31/03/2014			
Receipts		Payments	
To Life membership fee	4000	By Salary	800
To Subscriptions	?	By Printing Expenses	?
To Legacy	?	By Furniture purchased	?
To Rent from hall	3000	By Sports items purchased	?
To Entrance fee	?	By Repairs	?
To Sale of news paper	?	By Tournament Expenses	800
To Sale of grass	?		
To Donation	4,000	By Balance c/d (Cash left at the end of the year)	?
			21500
	27800		27800

On consolidation, the teacher is expected to give a clear picture about the various accounts involved in it. The points to be highlighted may include:

- a. There cannot be any distinction between capital and revenue items while the account is prepared.
- b. All receipts are shown on the debit side and payments on credit in the receipts and payments account.
- You know that the revenue items shall be placed in the revenue account [Income and Expenditure] and capital items in the Balance Sheet

Teacher Input:

Students are to be made able to analyze the capital and revenue items and let them convert this into debit and credit items and the teacher can convince that revenue items shall be part of Income and Expenditure account and capital items, part of Balance Sheet.

Activity: 2

Now the above items can be pasted in the following format.

Income and Expenditure account for the year ended 31st March 2014			
Expenditure		Income	
To Salary	800	By Life membership fee	400
To Printing Expenses	200	By subscriptions	12000
To Repairs	1000	By Legacy	1500
To Tournament Expenses	800	By Rent from hall	3000
		By Entrance fee	1500
		By Sale of news paper	100
		By Sale of grass	200
To Surplus (Balancing figure)	15900		
	18700		18700

Balance Sheet as on 31st March 2014			
Liability		Asset	
Capital Fund:		Cash	21500
Life Membership 3,600		Furniture	2000
Legacy 1,500		Sports Equipments	1500
Donation 4,000			
	9,100		
Add: Surplus 15,900	25000		
	25000		25000

Assessment:

Items	I/ E account	Balance Sheet	Correct responses	Wrong responses
1. Capitalised items will be shown in				
2.Resembles a profit and loss a/c				
3. Net operating result- Surplus is shown on which side of Income and Expenditure account				

Repository of CE possibilities		
Process	Portfolio	Assessment
<ul style="list-style-type: none"> • General discussion on the meaning and characteristics of Not for profit organisation 	<ul style="list-style-type: none"> • List of Not for profit organisation • List of accounting records kept by Not for profit organisation 	Unit Test
<ul style="list-style-type: none"> • Case study and discussion on the preparation of accounts of not for profit organisation 	<ul style="list-style-type: none"> • Prepared accounting statements • Table showing differences between Receipts and Payments a/c and Income and Expenditure a/c 	

TE Questions:

1. Find out the amount to be credited to Income and Expenditure account during the year 2014.

a. Salary paid during 2014	Rs.15,000
b. Salary paid in 2013 for 2014	Rs. 3,000
c. Salary paid in 2014 for 2013	Rs. 2,000
d. Salary yet to be paid during 2014	Rs. 3,000
e. Salary to be paid in 2013	Rs. 4,000

2. A club has purchased sports equipments during the year 2014 for Rs.16,000. It had in the beginning of the year sports items worth Rs.2,000 and Rs.3,000 at the end of the year. They had also purchased sports items for Rs.4,000 on credit.
Find out the amount of sports items to be debited in the Income and Expenditure account?

3. Explain the treatment of the following items while preparing the accounting statements in respect of a very small sports club.

a. Donation Rs.4,00,000
b. Life membership fee Rs.30,000
c. Subscription received Rs.10,000
d. Hall of rentRs.3,000
e. Legacy receipts Rs.50,000
f. Tournament fund Rs.10,000
g. Tournament Expenses Rs.7,000

4. Find out the capital fund of the above club? [using the details of question no. 3]
Also Find out the surplus / deficit of the above club?