

5. FINANCIAL STATEMENTS OF NOT FOR PROFIT ORGANISATION

1. INTRODUCTION

Basic distinction between commercial organizations and not for profit organizations is that they have different reasons for their existence. Primary objective of a not for profit organization is to meet some socially desirable goals or to render services to its members. As the main objective of these organizations is to serve its members, and not for trading profit making, these organizations are also called non trading organization or non-business organization

2. DISTINCTION BETWEEN PROFIT MAKING ORGANISATION AND NON -PROFIT MAKING ORGANISATION

Profit Making Organisation	Non - Profit Making Organisation
Main aim is to earn profit more and more.	Main aim is to provides social services.
Selling goods and services in the markets.	Providing social services only.
Share are issued for establishing capital.	Shares are not issued because this not business.
For capital fund collection they issuing shares, Debentures, Preference shares etc	For accumulated fund collection they collect donation, subscription, legacy, membership fees etc.
In normal business financial statement are prepared like Profit and Loss Account and Balance Sheet.	In this type of organisation shows Receipt and Payment A/C or income and expenditure A/C or Balance Sheet

3. ACCOUNTING FOR NOT FOR PROFIT ORGANISATION



Does Accounting Differ? A Debit will always remain Debit and A Credit will always remain credit
Only Few changes on account of presentation and some special items



KISS

Keep It Simple Stupid

Profit Making	Non-Profit Making
Cash Book	Receipts and Payments Account
Profit and Loss Account	Income and Expenditure Account
Profit	Surplus
Loss	Deficit
Capital Account	Accumulated Fund

Let's just accumulate
The capital account is called the **Accumulated Fund** and that tells us that there are no private owners who have the right to keep the organisation and so on - non-profit making organisations belong to all of their members together.

4. FORMATS

Receipt and Payments Account

For the year ended



Receipts	Rs.	Payments	Rs.
To Balance b/d :		By Salaries	
Cash		By Insurances	
Bank		By Rates and taxes	
To Subscription received Membership fee		By Postage and telegram	
To Entrance fee/admission fee		By Printing and Stationary	
To Life membership fee		By Purchase of fixed assets	
To Interest		By Newspapers & periodicals	
To Donation		By Payments for purchase of food stock	
To Donation for building fund		By General expenses	
To Receipt for prize fund		By Sports material	
To Interest on prize fund investment		By Prizes awarded	
To Sale of refreshments		By Balance of Cash & Bank	
To Sale of assets			
To Sale of old newspapers			
To Sale of spoils material			

Income and Expenditure Account

For the year ending on

Expenditure	Rs.	Income	Rs.
To Salaries		By Subscription	
To Insurance		By Entrance fee	
To Rates & taxes		By Interest	
To Honorarium		By Donation	

To Postage & telegrams		By Profit from sale of refreshment	
To Printing & Stationary		By Profit from sale of assets	
To Newspaper & periodicals sales		By Sale of old newspapers	
To General expenses		By Sale of sports material	
To Sport material		By Excess of expenditure over income	
To Loss on sale of asset			
To Depreciation on fixed assets			
To Excess of income over expenses			

Statement of Affairs (or Balance Sheet)

As on

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
Creditors		Cash	
Outstanding expenses		Bank	
Advance subscription		Accrued Subscription	
Donation for building fund		Prepaid Expenses	
Prize fund :		Fixed Assets	
Add: Receipts		Less: Sale	
Add: Interest		Add: Purchase	
Less: Expenses		Less: Depreciation	
Capital Fund		Investments	
Add: Surplus or		Prize fund investment	
Less: Deficit		Stock	
Add: Life membership fees			
Add: Legacies			
Add: Donation			

5. ACCOUNTING TREATMENT OF SPECIAL ITEMS

5.1. Donation

a) Special purpose donation.

If donation has been received to meet some capital expenditure such as purchase of books or equipment or construction of building, it is shown in the liability side of Balance Sheet. If donation is received to meet someone time revenue expenses and such expenses have not been incurred during the current financial year, such

donation will also be shown in liability side of Balance Sheet but in case expenses have been incurred any deficit or surplus is shown in Income & Expenditure Account.

b) General donation

If donation received is not for any specific purpose, this is shown as income in Income & Expenditure Account. However, if the amount of donation is large this is shown in liability side of the balance Sheet.

5.2. Legacy

When any property is received under a will of deceased person, it is treated as capital receipt and shown in the liability side of the Balance Sheet.

5.3. Entrance or Admission Fee

Any entry fees received from the members as admission fee or entrance fees is treated as capital receipt and shown in the liability side of the Balance Sheet. However, small amount may be shown as income in Income & Expenditure Account.

5.4. Life Membership Fee

If one time subscription is received from a member for his whole life, such subscription cannot be treated as income of one year.

This item can be treated in one of the following manners:-

- a) Total amount received during the year may be credited to "Life Membership Fee A/c" and shown in the Liability side of the Balance Sheet. In case of death of a member, his subscription will be transferred to accumulated fund account.
- b) **Out of the total of life membership fee received an amount equal to normal annual subscription may be transferred to credit of Income and Expenditure Account and balance is shown in Liability side of Balance Sheet until total amount is exhausted.** However, if a member dies before his total subscription has been exhausted, his unexhausted amount is transferred to accumulated fund account.

5.5. Special Funds

Sometimes special funds are created to meet some recurring expenses such as sports fund, prize fund etc. Any amount received for such purpose is credited to the relevant fund account. Any expenses incurred for such purposes are debited to fund account. If amount of fund has been invested in some securities, income earned on such securities

is also credited to Fund Account. Closing balance of fund is shown in the Liability side of the Balance Sheet and corresponding investments in the Assets side of Balance Sheet. If donor instead of paying cash, has given some securities or some other readily saleable asset, the value of such asset should be credited to the specific fund account for which such asset has been received. Amount of fund and corresponding investments will appear in the liabilities and assets side of Balance Sheet respectively.

5.6. Endowment Fund

If Endowment Fund has been created for any specific purpose, it is treated like special funds as explained above. But if endowment fund is created for general purpose, any, income from investments made against such fund is credited to Income & Expenditure Account.

5.7. Grants

It is a **financial help received from some public funds** such as local bodies or other government body. Unless it is received for some special purpose, it is treated as revenue receipt.

5.8. Subscriptions:

Subscription is a periodic payment received from ordinary members. Subscriptions received during the year should be split into -

- relating to preceding year/s
- relating to current year
- relating to subsequent year/s

After adjustment of subscriptions received in advance relating to the current year and outstanding subscription at the end of the year balance in Subscription Account is transferred to 'Income and Expenditure Account.'

CLASS WORK

1. Smith Library Society showed the following position on 31st March, 2017:

Balance Sheet as on 31st March, 2017

Liabilities	₹	Assets	₹
Capital fund	7,93,000	Electrical fittings	1,50,000
Expenses payable	7,000	Furniture	50,000
		Books	4,00,000
		Investment in securities	1,50,000
		Cash at bank	25,000
		Cash in hand	25,000
	8,00,000		8,00,000

The receipts and payment account for the year ended on 31st March, 2018 is given below:

Particulars	₹	Particulars	₹
To Balance b/d		By Electric charges	7,200
Cash at bank 25,000		By Postage and stationary	5,000
Cash in hand 25,000	50,000	By Telephone charges	5,000
To Entrance fee	30,000	By Books purchased	60,000
To Membership subscription	2,00,000	By Outstanding expenses paid	7,000
To Sale proceeds of old papers	1,500	By Rent	88,000
To Hire of lecture hall	20,000	By Investment in securities	40,000
To Interest on securities.	8,000	By Salaries	66,000
		By Balance c/d	
		Cash at bank	20,000
		Cash in hand	11,300
	3,09,500		3,09,500

You are required to prepare income and expenditure account for the year ended 31st March, 2018 and a balance sheet as at 31st, March, 2018 after making the following adjustments:

Membership subscription included ₹ 10,000 received in advance. Provide for outstanding rent ₹ 4,000 and salaries ₹ 3,000.

Books to be depreciated @ 10% including additions. Electrical fittings and furniture are also to be depreciated at the same rate.

75% of the entrance fees is to be capitalized.

Interest on securities is to be calculated @ 5% p.a. including purchases made on 1.10.2017 for ₹ 40,000. (RTP May 2018)

Answer

Smith Library Society
Income and Expenditure Account for the
year ended 31st March, 2018

Dr.			Cr.		
Expenditure	₹	₹	Income	₹	₹
To Electric charges		7,200	By Entrance fee (25% of ₹ 30,000)		7,500
To Postage & stationary		5,000	By Membership subscription	2,00,000	
To Telephone charges		5,000	Less: Received in advance	10,000	1,90,000
To Rent	88,000				
Add: Outstanding	4,000	92,000	By Sale proceeds of old papers		1,500
To Salaries	66,000		By Hire of lecture hall		20,000
Add: Outstanding	3,000	69,000	By Interest on securities (W.N.2)	8,000	
To Depreciation (W.N.1)			Add: Receivable	500	8,500
Electrical fittings	15,000		By Deficit- excess of expenditure over income		16,700
Furniture	5,000				
Books	46,000	66,000			
		2,44,200			2,44,200

Balance Sheet of Smith Library Society as on 31st March, 2018

Liabilities	₹	₹	Asset	₹	₹
Capital fund	7,93,000		Electrical fittings	1,50,000	
Add: Entrance fees	22,500		Less: Depreciation	15,000	1,35,000
	8,15,500		Furniture	50,000	
Less: Excess of expenditure over income	16,700	7,98,800	Less: Depreciation	5,000	45,000
			Books	4,60,000	
Outstanding expenses:			Less Depreciation	46,000	4,14,000
Rent	4,000		Investment:		
Salaries	3,000	7,000	Securities	1,90,000	
Membership subscription in advance		10,000	Accrued interest	500	1,90,500
			Cash at bank		20,000
			Cash in Hand		11,300
		8,15,800			8,15,800

Working Notes:

	₹	₹
1. Depreciation		
Electrical fittings 10% of ₹1,50,000	15,000	
Furniture 10% of ₹50,000	5,000	
Books 10% of ₹4,60,000	46,000	
2. Interest on Securities		
Interest @ 5% p.a. on ₹ 1,50,000 for full year	7,500	
Interest @ 5% p.a. on ₹ 40,000 for half year	1,000	8,500
Less: Received		(8,000)
Receivable		500

2. The following information of M/s. TT Club are related for the year ended 31st March, 2018:

Balances	As on 01-04-17 (₹)	As on 31-3-18 (₹)
Stock of Sports Material	75,000	1,12,500
Amount due for Sports Material	67,500	97,500
Subscription due	11,250	16,500
Subscription received in advance	9,000	5,250

Subscription received during the year ₹ 3,75,000

Payments for Sports Material during the year ₹ 2,25,000

You are required to:

- Calculate the amount of Subscription and Sports Material that will appear in Income & Expenditure Account for the year ended 31.03.2018 and
- Also show how these items would appear in the Balance Sheet as on 31.03.2018.
(RTP Nov 18)

Answer

Subscription for the year ended 31.3.2018

Particulars	₹	₹
Subscription received during the year		3,75,000
Less: Subscription receivable on 1.4.2017	11,250	
Less: Subscription received in advance on 31.3.2018	5,250	(16,500)
		3,58,500
Add: Subscription receivable on 31.3.2018	16,500	
Add: Subscription received in advance on 1.4.2017	9,000	25,500
Amount of Subscription appearing in Income & Expenditure Account		3,84,000

Sports material consumed during the year end 31.3.2018

Particulars	₹
Payment for Sports material	2,25,000
Less: Amounts due for sports material on 1.4.2017	(67,500)
	1,57,500
Add: Amounts due for sports material on 31.3.2018	97,500
Purchase of sports material	2,55,000

Sports material consumed:	
Stock of sports material on 1.4.2017	75,000
Add: Purchase of sports material during the year	2,55,000
	3,30,000
Less: Stock of sports material on 31.3.2018	(1,12,500)
Amount of Sports Material appearing in Income & Expenditure A/c	2,17,500

Balance Sheet of M/s TT Club For the year ended 31st March, 2018 (An extract)

Liabilities	₹	Assets	₹
Unearned Subscription	5,250	Subscription receivable	16,500
Amount due for sports material	97,500	Stock of sports material	1,12,500

3. You are provided with the followings

Balance Sheet as on 31st March 2017

Liabilities	₹	Assets	₹
Capital Fund	1,06,200	Building	1,50,000
Subscription received in Advanced	6000	Outstanding Subscription	3800
Outstanding Expenses	14,000	Outstanding Locker Rent	2400
Loan	40,000	Cash in Hand	20,000
Sundry Creditors	10,000		
Total	1,76,200	Total	1,76,200

Receipt and Payment Account for the year ended on 31st March 2018

Receipts	₹	Payments	₹
To Bal b/d Cash in hand	20,000	By Expenses For 17 12,000 For 18 20,000	32,000
To Subscriptions For 17 2,000 For 18 21,000 For 19 1000	24,000	By Land	40000
To Entrance Fees	38,000	By interest	4000
To Locker Rent	7000	By Mis. Exp	4700

To Sale proceeds of old newspapers	1000	By Bal c/d	
To Mis. Income	9000	Cash in hand	18,300
Total	99,000	Total	99,000

You are required to prepare Income and Expenditure account for the year ended 31st March 2018 and a Balance Sheet as at 31st March 2018 (Workings should form part of your answer) (QP Nov 18)

Solution

Income and Expenditure Account for the year ended 31st March, 2018

Expenditure	₹	Income	₹
To Expenses	20,000	By Subscriptions (21,000 + 6,000)	27,000
To Interest	4,000	By Locker rent (7,000 - 2,400)	4,600
To Misc. Expenses	4,700	By Sale proceeds of old newspapers	1,000
To Surplus	<u>12,900</u>	By Misc. income	<u>9,000</u>
	<u>41,600</u>		<u>41,600</u>

Balance Sheet as at 31st March, 2018

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital fund		Land and Building	1,90,000
Bal. as on 1.4.2017	1,06,200	Subscription receivable (2017)	1,800
Add: Entrance fee	38,000	(3,800 - 2,000)	
Add: Surplus	<u>12,900</u>		
Loan		Cash in hand	18,300
Creditors			
Outstanding expenses (2017) (14,000-12,000)			
Subscription received in advance			
		<u>1,000</u>	<u>-----</u>
		<u>2,10,100</u>	<u>2,10,100</u>

Note: Entrance fees have been capitalized in the above solution.