

CHAPTER - 9
ACCOUNTING FOR A NOT FOR PROFIT ORGANIZATION
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1. PRELIMINARY

Non-Profit making organizations like schools, clubs, charitable institutions etc. do not carry the activities with an intention of earning profits. Their prime objective is to render services. Hence they do not prepare Trading and Profit & Loss Account. The final accounts of these institutions comprise of -

- Receipts and Payments Account
- Income and Expenditure Account
- Balance Sheet

Principles involved for preparing Income and Expenditure Account are the same as of Trading and Profit and Loss Account.

2. DISTINCTION BETWEEN RECEIPT & PAYMENT ACCOUNT AND INCOME & EXPENDITURE ACCOUNT

RECEIPTS AND PAYMENTS ACCOUNT	POINT OF DIFFERENCE	INCOME AND EXPENDITURE ACCOUNT
Summary of cash transactions	Summary	Summary of revenue transactions
A statement	Type	An account
Only cash transactions are included. Outstanding expenses and outstanding income are not taken into consideration.	Transaction Recorded	Includes all revenue expenses and incomes irrespective of their cash flows.
Capital as well as revenue receipts and payments are considered.	Capital / Revenue	Only revenue income and expenses are considered.
It includes receipts and payments relating to preceding period, current year and subsequent period.	Periodicity	It includes revenue income and expenses only for the current year.
Real (Cash) and Personal (Bank) Account	Accounts	Nominal / Revenue Account
It commences with opening cash and bank balance and ends with closing cash and bank balance.	Opening Balance	It does not commence with any opening balance, but difference between two sides represents net surplus or deficit for the current year.



RECEIPTS AND PAYMENTS ACCOUNT	POINT OF DIFFERENCE	INCOME AND EXPENDITURE ACCOUNT
Receipts are recorded on the left side and payments are recorded on the right side.	Ruling	Expenditure is recorded on the debit side and Income is recorded on the credit side.
It may not be accompanied with any other statement.	Accompanied with	It is always accompanied with Balance Sheet.

3. ACCOUNTING OF SPECIAL TERMS

1. Entrance fees:

Fees are collected only once i.e. at the time of admission of a member, hence Entrance Fees should be treated as '**Capital receipt**'. But for the organization, the amount is received periodically, as every year there will be admission of new members. Therefore it is customary practice to treat the fees as '**Revenue Receipt**'. The Rules or Bye laws of an institution may provide for the basis of accounting. Method of accounting should be followed consistently.

2. Life Membership Fees:

There are two types of members viz., Life members and ordinary members. Life Members pay lumpsum amount as life membership fees instead of periodic payment. Such fees are credited to '**Capital Fund**'. Alternatively the life membership fees may be credited to a special account and periodic transfer may be made to subscription account equal to an amount of annual subscription. Any balance remaining at the time of death of the member is then transferred to 'Capital Fund' Account. It is usual practice to credit Life Membership to 'Capital Fund' Account.

3. Donations:

Donation is the amount received from well-wishers by way of a gift. It may be received in kind also. The accounting treatment depends on the intention of the donor.

- If the donation is received to meet operational deficit or for incurring revenue expenditure or without any specific purpose, it is treated as revenue income and credited to Income and Expenditure Account.
- If the donation is received with a specific objective e.g. construction of Building, purchase of Library Books, purchase of Equipment etc., it should be credited to 'Respective Fund Account'. Amount spent is debited to either 'Fund Account' or Respective assets Account'.
- In absence of any specific intention of the donor, donation being a non-periodic receipt, it is not treated as a revenue income. Hence it is transferred to capital fund. However rules of an institution or Governing Body may decide upon appropriation of such donations.

Note: The word 'Fund' denotes liability and is represented by specific assets.

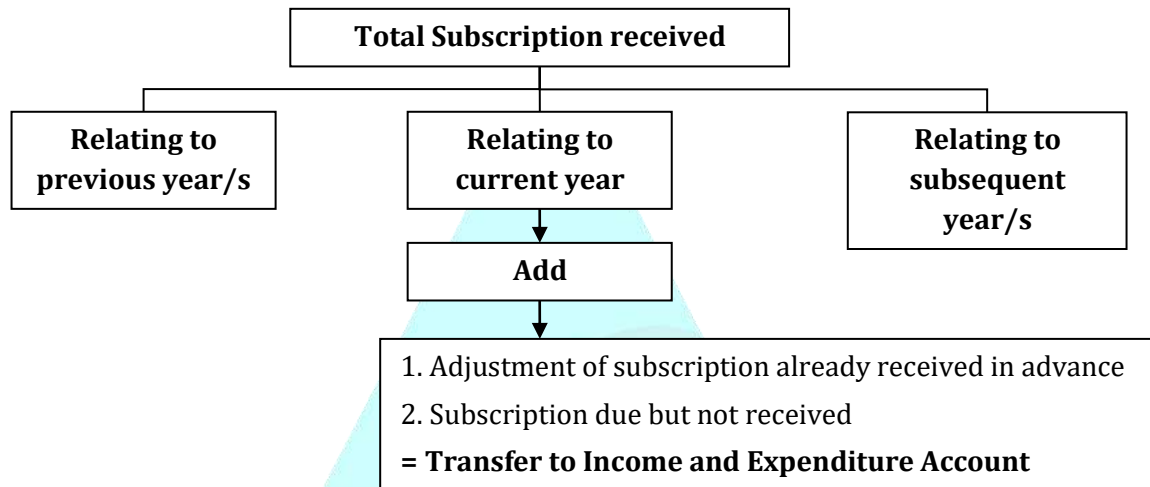
4. Subscriptions:

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.'

The following chart makes the entries clear:



A consolidated Subscription Account may alternatively be prepared if year wise break up of subscription received is not available -

Transfer of subscription to Income and Expenditure Account:

	Rs.
Subscription received during the year
Add: 1. Outstanding at the end
2. Received in advance at the beginning
Less: 1. Outstanding at the beginning
2. Received in advance at the end
Transfer to Income and Expenditure Account

Accounting Entries:

1. Subscription received during the year:

Bank A/cDr.

To Subscription Account

2. Adjustment of subscription received in advance at the beginning:

Subscription Received in Advance A/cDr.

To Subscription Account

3. Adjustment of subscription outstanding at the beginning:

Subscription A/cDr.

To Outstanding subscription A/c

4. Adjustment of subscription received in advance at the end

Subscription A/cDr.

To Subscription Received in Advance A/c

5. Adjustment of subscription outstanding at the end:

Outstanding Subscription A/cDr.

To Subscription A/c

6. Transfer of Subscription:

Subscription A/cDr.

To Income and Expenditure Account



5. **Income accruing on Fund Investment and Expenditure incurred to carry out the objective of the fund:**

Fund should always be represented by specific asset. Any income arising out of fund investments should be credited to respective Fund Account e.g. Interest on Prize Fund Investments. Similarly expenditure incurred to carry out the objectives of the fund should be charged to the respective fund Account e.g. distribution of prizes.

6. **Legacy:**

It is an amount given as per the will of a deceased person. It is like a donation. Being a non-recurring receipt it is directly added to 'Capital Fund'.

4. **SPECIAL ASPECTS INVOLVED IN ACCOUNTING OF CERTAIN INSTITUTIONS**

1. **Educational Institutions:**

The Institutions are mostly registered as societies under Indian Societies Registration Act, 1860. In some of the States they are also registered under the State Public Trust Act. The part of the expenses are met from the funds raised by the educational institutions themselves either by way of donation or from charities collected from benevolent citizens. The State Government through grant-in-aid codes have involved different patterns of giving assistance to the educational institutions.

Thus there are following three main sources through which amounts are collected by the educational institutions.

- Donations from Public
- Fees in the form of tuition fees/term fees/admission fees/library fees etc.
- Grants received from the Government (Maintenance grant, Equipment Grant, Building Grant etc.)

The Bombay Public Trust Act, requires submission of statements to the Charity Commissioner in a consolidated form of a society or trust, which controls multiple institutions.

2. **Hostels:**

The following are the usual expenses and income heads -

Sr. No.	Expenditure	Sr. No.	Income
1.	Repairs and Maintenance	1.	Room rent
2.	Electricity and water etc.	2.	Rent of furniture, appliances etc.
3.	Establishment charges	3.	Electric and water charges
4.	Depreciation	4.	Library/Reading room fee
5.	Rent of Building (if hired)	5.	Medical fees
6.	Newspapers, magazines etc.	6.	Mess charges
7.	Expenditure on sports	7.	Admission fees
8.	Mess expenditure		
9.	Medical expenses		

Note: Caution Money and Mess Deposit/Advance is kept in a separate account. This is refundable when student leaves the hostel.

5. PRACTICAL PROBLEMS

Q1. R & P A/c Only – ICAI SM Illu.1

REG. PAGE NO.

The receipts and payments for the Swaraj Club for the year ended March 31, 2016 were: Entrance fees Rs. 300; Membership Fees Rs. 3,000; Donation for Club Pavilion Rs. 10,000, Foodstuff sales Rs. 1,200; Salaries and Wages Rs. 1,200 Purchase of Foodstuff Rs. 800; Construction of Club Pavilion Rs. 11,000; General Expenses Rs.600; Rent and Taxes Rs. 400; Bank Charges Rs. 160.

Cash in hand-April. 1st Rs. 200, March. 31st Rs. 350

Cash in Bank-April. 1st Rs. 400; March. 31st Rs. 590

You are required to prepare Receipts and Payment Account.

Q2. Calculation of Subscription- ICAI SM Illu.2

REG. PAGE NO.

During 2022, subscription received in cash is Rs. 42,000. It includes Rs. 1,600 for 2021 and Rs. 600 for 2023. Also, Rs. 3,000 has still to be received for 2022.

Required: Calculate the amount to be credited to Income and Expenditure Account in respect of subscription.

Q3. Calculation of Salaries Due- ICAI SM Illu.3

REG. PAGE NO.

Suppose salaries paid during 2022 were Rs. 23,000. The following further information is available:
Rs.

Salaries unpaid on 31st March 2021	1,400
Salaries pre-paid on 31st March 2021	400
Salaries un-paid on 31st March 2022	1,800
Salaries pre-paid on 31st March 2022	600

Required

Calculate the amount to be debited to Income and expenditure account in respect of salaries and also show necessary ledger accounts.

Q4. Calculation of Subscription Due- ICAI SM Q2

REG. PAGE NO.

During the year ended 31st March, 2022, Sachin Cricket Club received subscriptions as follows:
Rs.

For year ending 31st March, 2021	12,000
For year ending 31st March, 2022	6,15,000
For year ending 31st March, 2023	18,000
Total	<u>6,45,000</u>

There are 500 members and annual subscription is Rs. 1,500 per member.

On 31st March, 2022 a sum of Rs. 15,000 was still in arrears for subscriptions for the year ended 31st March, 2021.

Ascertain the amount of subscriptions that will appear on the credit side of Income and Expenditure Account for the year ended 31st March, 2022. Also show how the items would appear in the Balance Sheet as on 31st March, 2021 and the Balance Sheet as on 31st March, 2022.



CA CS Anshul Agrawal

“We know that – Attitude decides your Altitude but at times we have to change our Attitude”.
- Anshul A. Agrawal