

Accounts of Non-Profit Organizations

Non-profit organizations are set up not for the purpose of earning profit but for promoting social & cultural activities and render public services. Financial statements prepared by N.P.O.'s are:

1. Receipt and payment account
2. Income and expenditure account
3. Balance sheet

Receipt & Payment Account:-

Basis of preparation – Cash basis of accounting

Nature – Real

Income & Expenditure Account:-

Basis of preparation – Accrual basis of accounting.

Nature – Nominal

Format of Income and Expenditure account is as follows:

Income & Expenditure Account for the year ended

To Salaries		By Subscription	
To Rent		By Entrance fee/Admission fee	
To Audit fee		By General donation	
To Printing & Stationery		By Sale of old news papers	
To Honorarium		By Hall rent	
To Telephone Expenses		By Gain on sale of fixed assets	
To Loss on Sale of fixed assets		By Sundry receipts	
To Depreciation on assets			
To Surplus – excess of income over expenditure (B.F.)		By Deficit- excess of expenditure over income (B.F.)	

Following items are not considered while preparing Income & Expenditure Account:

1. Opening and Closing balances of Cash & Bank
2. Life membership fees
3. Legacy for specific purpose
4. Capitalized items
5. Sale/Purchase of Fixed Assets/Investments & Bonds, Billiard Table, Sports Equipment
6. Specific purpose donation
7. Expenses and incomes related to specific purpose fund if specific fund is given.

Treatment of important items

1. Opening & closing balance of cash and bank -- shown in opening and closing balance sheet.
2. Legacy -- liability side of balance sheet if it is for any specific purpose.
3. Life membership fee – liability side of balance sheet
4. Specific purpose fund – will be shown on liability side of balance sheet e.g.

Balance Sheet (Extract)

Tournament Fund + Donation for Tournament -Tournament Expenses + Interest and accrued interest on Tournament Fund Investments.	Tournament Fund Investments + Accrued Interest on Tournament Fund Investments
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If the net balance is negative it will be shown on the debit side of income & expenditure account.

Calculation of consumable items consumed during the year (e.g. stationary, sports material etc.) :

Purchase of Consumable Items

+ Opening stock

- Closing Stock

But if the amount of purchase of consumable item is not given then it can be calculated as follows –

Dr.		Creditors For Consumable Goods Account				Cr.
Date	Particulars	Amount	Date	Particulars	Amount	
	To Balance B/d (opening advances)			By Balance B/d (opening creditors)		
	To Cash /Bank A/c (Payment to creditors)			By Purchases A/c (B.F.)		
	To Balance C/d (closing creditors)			By Balance C/d (closing advances)		

The amount of consumable items consumed during the year is calculated by using above method for items like medicine, stationery, sports material etc.

Treatment of interest on investment

Case-I Receipt and Payment account

	By 10% Investment 1,00,000
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In the above case interest an investment will be shown on credit side of Income & Expenditure Account and also on the Asset side of Balance sheet but only if it is accrued.

Case-II Receipt and Payment account

To interest on Investment 6000	By 10% Investment 1,00,000
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In this case the amount of interest on investment will be Rs.10000 shown on credit side of income & expenditure account and accrued interest on investment amounted to Rs.4000 will be shown on asset side of balance sheet.

Case-III Receipt and Payment account for the year ended 31-3-19

To Interest on Investment 4000	By 10% Investment 1,00,000 (investment made on 1-10-18)
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In the above case interest on investment amount Rs.5000 will be shown on credit side of income & expenditure account whereas accrued interest of Rs. 1000 will be shown on asset side of Balance Sheet.

Case-IV Receipt and Payment account

To interest on investment Rs. 10000 @ 10%	
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In this value of investment will be calculated by using formula given as below:

$$\text{Investment} = \frac{\text{Amount of interest} \times 100}{\text{rate of interest}}$$

Subscription :- It will be shown on the credit side of income expenditure account. Calculation of amount of subscription to be credited to income & expenditure account will be as follows:

- Subscription received during the year
- + Outstanding at the end for the current year
- Outstanding in the beginning
- + Prepaid in the beginning
- Prepaid at the end

In account form

Dr.			Cr.		
Subscription Account					
Date	Particulars	Amount	Date	Particulars	Amount
	To outstanding subscriptions account (Beginning)			By Advance subscription account (Beginning)	
	To Income & Expenditure Account (B.F.)			By Bank Account (Received during the year)	
	To Advance subscription on Account (End)			By Outstanding subscription account (End)	

Subscription Written off : Part of subscription which is not receivable is written off by passing the following journal entries:

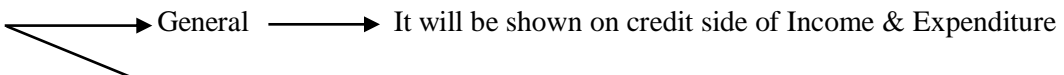
- (i) For writing off subscription not receivable:

Subscription Written Off A/c-----Dr.
 To Subscription A/c

(ii) For transfer of Subscription Written –off:
 Income and Expenditure A/c-----Dr.
 To Subscription Written-off A/c

Likewise all incomes are calculated by using above mentioned method.

Entrance fee/Admission Fee – These will be shown as credit side of income & expenditure account.

Donations  General → It will be shown on credit side of Income & Expenditure account

Specific – It will be shown on Liability side of Balance Sheet

Sale of old newspaper- It will be shown as an income in income and expenditure account.

Sale of old Assets – Its gain/loss will be shown in income & expenditure account and book value of assets sold will be deducted from value of assets in the balance sheet.

Sale of used sports materials: Stock of sports material is shown in the assets side of the Balance Sheet. However, a part of it may be consumed during the year. Sports material consumed during the year is debited to Income and Expenditure Account and balance amount is carried forward in the balance sheet.

Honorarium – Shown on Debit side of Income & Expenditure Account as an expense.

Points To Remember:

1. While preparing Income and Expenditure Account we should consider only revenue nature items.
2. All items given in adjustments having two effects.
3. If it is given in the question outstanding subscription for the year then it means it does not include subscription outstanding in the beginning which is not yet received but it is included in case of outstanding subscription as on.
4. Sale/ Purchase of assets is not shown in Income & Expenditure Account.
5. Always give working notes for calculation of amount of subscription to be credited, depreciation of assets, consumption of sports material, consumption of consumable items etc.

Common Errors-

1. Students usually commit errors while calculating depreciation proper care should be taken while reading date of purchase of asset.
2. Students usually commit errors while calculating interest on investments and bonds so it is advisable to read the date of investment and it is calculated from the date of purchase till date of closing of financial year.
3. Student should take care while calculating amount of subscription to be credited to Income and Expenditure Account like subscription outstanding as on and subscription outstanding for the year ended.