VIDYA BHAWAN BALIKA VIDYA PITH

शक्तिउत्थानआश्रमलखीसरायबिहार

Class 12 commerce Sub. ACT Date 03.05.2021

Teacher name – Ajay Kumar Sharma

Accounting for Not-for-Profit Organisation

Question 1:

State the meaning of 'Not-for-Profit' Organisations.

ANSWER:

Not-for-Profit Organisations (NPO) are set up with the prime objective of providing services and not to earn profit thereby enhancing the welfare of society. Such organisations include schools, hospitals, trade unions, religious organisations, etc. The person/s or the groups of individuals who govern and manage the working of an NPO are known as trustees. NPO's main sources of income are donations, subscriptions, life membership fees, grants etc. As these organisations are not set up with profit motive, they do not prepare Trading and Profit and Loss Account. Instead, they maintain Receipt and Payments Account, Income and Expenditure Account and Balance Sheet.

Question 2:

State the meaning of Receipt and Payment Account.

ANSWER:

Receipts and Payments Account is a summary of the Cash Book. All cash receipts are recorded on the Receipts side (i.e. Debit side) and all cash payments are recorded on the Payments side (i.e. Credit side) of Receipts and Payments Account. It is prepared on the basis of cash and bank transactions recorded in the Cash Book. It begins with the opening balance of cash and bank and ends with the closing balances of cash and bank (balancing figure) at the end of the accounting period. It records all cash and bank transactions both of capital and revenue nature. It not only records the cash and bank transactions relating to the current accounting period, but also the cash and bank receipts (or payments) received during the current accounting period that may be related to the previous or next accounting period.

This account only helps us to ascertain the closing balance of the cash and bank and helps in assessing the cash position of an NPO

Question 3:

State the meaning of Income and Expenditure Account.

ANSWER:

Income and Expenditure Account (I&E) is similar to the Profit and Loss Account in the sense that while the former is prepared to ascertain surplus or deficit during an accounting period, the latter is prepared to ascertain net profit or net loss incurred during an accounting period. I&E Account is a nominal account and is prepared on the accrual basis. It records all transactions of revenue nature that are related to the current accounting period (whether outstanding or prepaid) for which the books are maintained. All expenses and losses are recorded on the debit side (Expenditure side) and all income and gains are recorded on the credit side (Income side) of I&E Account. The closing balance or the balancing figure of I&E Account is termed as surplus (or deficit), if the sum total of the Income side exceeds (is lesser than) the sum total of the Expenditure side.

Question 4:

What are the features of Receipt and Payment Account?

ANSWER:

The following are the features of Receipt and Payment Account:

1. ***Nature***: It is a Real Account. It is a summarised version of Cash Book.

2. ***Nature of Transactions***: It records only cash and bank transactions. Transactions other than cash and bank like depreciation, loss/ profit on sale of assets, etc. are not recorded in this account.

3. ***No distinction between Capital and Revenue items***: It records all cash and bank receipts and payments of both capital and revenue nature.

4. ***Opening and closing balance***: It begins with the opening balance of cash and bank and ends with the closing balance of the cash and bank (balancing figure) at the end of the accounting period.

5. ***Purpose***: It reveals the cash position of an organisation. It helps to ascertain the total amount paid and received during an accounting period.

Question 5:

What steps are taken to prepare Income and Expenditure Account from a Receipt and Payment Account?

ANSWER:

The following steps are taken to prepare Income and Expenditure Account (I&E) from Receipts and Payment Account (R&P).

Step 1: All the revenue expenditures paid for the current accounting period are transferred from the Payments side of R&P to the Expenditure side of I&E.

Step 2: All the revenue receipts for the current accounting period are transferred from the Receipts side of R&P to the Income side of I&E.

Step 3: Expenses outstanding for the current period and expenses paid in advance (prepaid expenses) for the current period in the preceding accounting periods are to be added (adjusted) to their related expenses in the Step 1.

Step 4: Income outstanding (accrued income) for the current period and income received in advance for the current period in the preceding accounting periods are to be added (adjusted) to their related incomes in Step 2.

Step 5: Non-cash items like depreciation, appreciation for the current accounting period are to be adjusted in the I&E.

Step 6: After adjusting all the revenue items for the current accounting period, the Income and the Expenditure sides are totaled. If the sum total of the Income side exceeds (or is lesser than) the sum total of the Expenditure side, then the balancing figure is termed as surplus (or deficit).