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शक्तिउत्थानआश्रमलखीसरायबिहार

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Accounting for Not-for-Profit Organisation

Question 1:

Explain the statement: “Receipt and Payment Account is a summarised version of Cash Book”.

ANSWER:

Receipts and Payments Account is a summary of the Cash Book. This account is prepared by those organisations which maintain their books on cash basis. 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 the 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 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. It also forms the basis for the preparation of Income and Expenditure Account.

Similarities between Receipt and Payments Account and Cash Book

The following are the features of Receipt and Payment Account that are common to those of Cash Book:

1. **Nature:** It is a summarised version of the Cash Book. Similar to the Cash Book, the Receipt and Payment Account is also a Real Account.
2. **Nature of Transactions:** It records only cash and bank transactions similar to a Two-Column Cash Book. 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 the cash and bank receipts and payments of both capital and revenue nature. Likewise, the transactions recorded in the Cash Book are also 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. Similarly, a Cash Book also helps us to assess the cash position of an organisation.

Thus, on the basis of the above mentioned points and similarities, the statement 'Receipt and Payment Account is a summarised version of Cash Book' is justified.

Question 2:

“Income and Expenditure Account of a Not-for-Profit Organisation is akin to Profit and Loss Account of a business concern”. Explain the statement.

ANSWER:

Income and Expenditure Account (I&E) is similar to Profit and Loss Account (P&L), in the sense that the former is prepared by Not-for-profit-Organisations and the latter is prepared by profit earning organisations. Both the accounts are prepared on the accrual basis.

Similar to the P&L, all the expenses and losses pertaining to the current accounting period are recorded on the debit side (Expenditure side) and all the gains and income of the current accounting period are recorded on the credit side (Income side) of the I&E. The balancing figure of the I&E is surplus or deficit and that of the P&L is net profit or net loss. Both the accounts record only revenue items which are related to the current accounting period.

Similarities between Income and Expenditure Account and Profit and Loss Account

I&E Account of an NPO is akin to the Profit and Loss Account of a profit earning business in the following manners.

1. **Nature of Account:** Both the concerned accounts are nominal in nature.
2. **Basis of Recording:** Both the accounts record only revenue expenses and revenue income related to the current accounting period. The items of capital nature are not ignored while preparing these accounts.
3. **Period:** Transactions related to current year are recorded in Income and Expenditure account in the same manner in which profit and loss account is prepared. Transactions related to previous year or next year are excluded.

4. **Adjustments:** The treatment of adjustments like, outstanding expenses, prepaid expenses, income received in advance, income due but not received, depreciation, bad debts etc. is same as that in Profit and Loss Account. Thus, both the accounts are prepared on the accrual basis.

Question 3:

Distinguish between Receipts and Payments Account and Income and Expenditure Account.

ANSWER:

Basis of Difference	Receipts and Payments Account	Income and Expenditure Account
1. Nature	It is a summary of cash and bank transactions	It is a summary of current year's income and expenses
2. Revenue and Capital	It records transactions related to both revenue and capital nature.	It records transactions related to revenue nature only.
3. Debit Side	Debit side of this account records cash and bank receipts during an accounting period.	Debit side of this account records expenses and losses incurred in the current accounting period.
4. Credit side	Credit side of this account records payments in cash and through cheques.	Credit side of this account records income and gains earned in the current accounting period.
5. Type of account	It is a Real Account	It is a Nominal Account
6. Period	It records receipts and payments made during the year that may be related to the current accounting period or the preceding period and the succeeding accounting period.	It only records income and expenses during the current accounting period.
7. Object	This account depicts the cash position of an NPO.	This account shows the net result of surplus or deficits due to the business during the year.
8. Opening Balance	This account begins with the opening balance of cash in hand and cash at bank or overdraft.	Usually, it has no opening balance. Sometimes surplus or deficits from the last accounting period (if not transferred to Capital Fund) can be shown as opening balance of this account.
9. Closing balance	The balancing figure of this account is expressed in terms of the closing balance of cash in hand and cash at bank or overdraft.	The balancing figure is expressed in terms of either surplus (if incomes > expenses) or deficit (if expenses > incomes).

10. Depreciation	It does not include non-cash items like depreciation, appreciation, etc.	It includes non-cash items like bad-debts, provisions, etc. ascertain the actual net profit of
11. Adjustment	Receipts and Payments during the year can be adjusted before preparation of the financial statements.	Adjustments regarding both cash transactions can be made.
12. Transfer of Balance	The opening balance of this account is brought forward from the last year's Receipts and Payments Account and the closing balance of this account is carried forward to the subsequent year's Receipts and Payments Account and is shown in the Balance Sheet of the current accounting period.	If the closing balance of this account then it is added to the Capital Balance Sheet. If the closing balance then it is deducted from the Capital Balance Sheet.
13. System	It is prepared on cash basis.	It is prepared on accrual basis.
