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शक्तिउत्थानआश्रमलखीसरायबिहार

Class 12 commerce Sub. ACT Date 10.05.2021

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Accounting for Not-for-Profit Organisation

Question 4:

Explain the basic features of Income and Expenditure Account and of Receipt and Payment Account.

ANSWER:

Income and Expenditure Account (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.

The following are the basic features of Income and Expenditure Account

1. **Nature:** It is a Nominal Account. The debit side of I&E records all expenses and losses and the credit side records all incomes and gains related to the current accounting period.
2. **Basis:** It is prepared on the basis of Receipt and Payment Account (R&P). All the revenues items whether incomes or expenditures are transferred from R&P.
3. **Excludes Capital Transactions:** The transactions those are capital in nature are excluded from this account. For example, only profit or loss on sale of fixed assets is recorded but the total amount of sales is not recorded since sale of fixed asset is considered as a capital receipt.
4. **Akin to Profit and Loss Account:** 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.
5. **Records only Current Year's items:** This account records only those transactions that are related to current accounting year. In other words, transactions related to the

preceding or succeeding accounting period are excluded even if these transactions are realised in the current period.

6. **Adjustments:** Various cash and non-cash items like, outstanding expenses, prepaid expenses, income received in advance, income due but not received, depreciation, bad debts, etc. can be adjusted in this account.

7. **Balancing Figure:** The balancing figure of this account is expressed in terms of either surplus (if incomes > expenses) or deficit (if expenses > incomes). The surplus balance, if any, is added to the Capital Fund, whereas, the deficit balance, if any, is deducted from the Capital Fund.

Receipts and Payments Account is a summary of the Cash Book. All the cash receipts are recorded on the Receipts side (i.e. Debit side) and all the 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.

The following are the features of Receipt and Payment Account.

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

Show the treatment of the following items by a Not-for-Profit Organisation:

- (i) Annual subscription

- (ii) Specific donation
- (iii) Sale of fixed assets
- (iv) Sale of old periodicals
- (v) Sale of sports materials
- (vi) Life membership fee

ANSWER:

i) Annual Subscription

- a) Subscriptions received during an accounting year (whether related to the current year or previous and subsequent year) are shown on the debit side of the Receipts and Payments Account.
- b) Subscription amount related to the current accounting year only, whether received or yet to be received are shown on the credit side of the Income and Expenditure Account.
- c) Subscriptions received in advance for the subsequent year are shown on the Liabilities side of the Balance Sheet.
- d) Subscriptions due but not received are shown in the Assets side of the Balance Sheet.

ii) Specific donation

- a) The amount received for specific donation is shown on the debit side of the Receipts and Payments Accounts.
- b) The amount received for specific donation is shown on the Liabilities side of the Balance Sheet as it is used for the specific purpose for which it is received.

iii) Sale of fixed assets

- a) The amount received from the sale of fixed assets are recorded on the debit side of the Receipts and Payments Account.
- b) Profit (or loss) on the sale of fixed assets is credited (or debited) to the Income and Expenditure Account.
- c) The book-value of the fixed assets sold is deducted from its respective assets on the Assets side of the Balance Sheet.

iv) Sale of old periodicals

a) The amount received from the sale of old periodicals are shown on the debit side of the Receipts and Payments Account.

b) As the sale of old periodicals by any organisation is considered as revenue receipts, so it is shown on the credit side of the Income and Expenditure Account.

v) Sale of sport Materials

a) The amount received from the sale of sport materials are debited to the Receipt and Payments Account.

b) As the sale of sport materials by any sport club is considered as revenue income, so it is shown on the credit side of the Income and Expenditure Account.

vi) Life Membership Fees

a) The amount paid by a person to become a member of an organisation is called life membership fees. As this is a receipt for an NPO, so it is debited to the Receipt and Payment Account.

b) Life Membership fees is not recurring in nature and received once for a whole life from a member. Thus, as Life Membership Fees are capital receipts, so these are added to the Capital Fund on the Liabilities side of the Balance Sheet.

Question 6:

Show the treatment of items of Income and Expenditure Account when there is a specific fund for those items.

ANSWER:

There are various sources of receipts like donations, subscriptions, government grants, etc. to an NPO. Some receipts are specific while others are general. While the former can only be used for the specific purpose for which they are received, the latter can be used for any purpose. For example, if donation is received for construction of buildings, then this donation is a specific donation and thereby can only be used for construction of the building. The specific receipts are not considered as revenue income for the NPO and hence are not shown in the Income and Expenditure Account. In fact, such receipts are considered as liabilities to the NPO as these amounts are received for specific purpose and cannot be used for any other purpose. Specific receipts are shown in the Liabilities side of the Balance Sheet, until and unless they are fully set off against the purpose for which they are received. On the other hand, if these amounts are invested outside the organisations (in the form of shares, debentures, etc.), then these are called funds like, match funds, prize fund, etc. The interest and income earned on such investments are not credited to the Income and Expenditure Account but in fact are credited to the respective Fund Account. Similarly, the expenses incurred for such funds

are not debited to the Income and Expenditure Account but, in fact, are debited to the respective Fund Account. These special funds are shown in the Liabilities side of the Balance Sheet. In case, if the related expenses exceed the related receipts of the fund, then the difference is shown in the income and Expenditure Account.

Treatment

(Tournament/Match/Prize, etc.) Fund Account

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Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
	Expenses (expenses incurred like, match expenses, tournament expenses)				Balance b/d		
					Incomes (income or interest earned on funds invested in the form of donation, interests, dividends, etc.)		
	Balanace c/d (see explanation)		(a)		Income and Expenditure A/c (see explanation)		(b)

Explanation (a)

If the receipts exceed the expenses for specific purpose then the difference between the two is shown in the Liabilities side of the Balance Sheet

Balance Sheet

Specific Fund (i.e. Tournament, Match, Prize Fund, etc.)		Tournament Fund Investment	
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Explanation (b)

If the expenses exceed the receipts for the specific purpose then the difference between the two is shown in the Expenditure side of the Income and Expenditure Account.

Income and Expenditure A/c

Expenditure	Amount	Income	Amount
Expenses (i.e. Tournament, Match, Prize Expenses etc. except capital expenditure like, i.e. expenses on construction of building)			
