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(Affiliated to CBSE up to +2 Level)

Class: 12th

Subject: Accountancy

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Accounting for Not for Profit Organization

Question 1: State the meaning of 'Not-for-Profit' Organisations.

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.

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.

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?

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).

Question 6: What is subscription? How is it calculated?

Subscription is the main source of income for an NPO besides entrance fees, donations, grants, etc. Subscriptions refer to the amount of money paid by the members on periodic basis for keeping their membership with the organisation alive. It is paid monthly, quarterly, half yearly or annually by the members. It is shown in the debit side of the Receipt and Payment Account with the total amount received during the year that may be related to the current period and to the previous and next accounting period. While calculating subscription for the current period, advance subscription received for the current period in the previous period and outstanding subscription for the current period are added to the subscription received during the current period. Whereas, on the other hand, advance subscription received for the next accounting period during the current period and outstanding subscription for the preceding period are deducted from the subscription received during the current period.

Calculation of Subscription

Subscription received during the year		***
Add: Subscription received (in advance) during previous year for current year	***	
Add: Subscription outstanding at the end of the year	***	

Less: Subscription received in advance for the next year	***	
Less: Subscription outstanding for the previous year	***	
## Subscription shown in Income and Expenditure Account		***

This subscription is related to the current accounting period and is shown in the Income side of the Income and Expenditure Account.

Question 7: What is Capital Fund? How is it calculated?

Capital fund is the excess of NPOs' assets over its liabilities. In other words, the excess of assets over the liabilities for a profit earning organisation is termed as capital and the same for an NPO is termed as capital fund. Any surplus or deficit ascertained from Income and Expenditure account is added to (deducted from) the capital fund. It is also termed as Accumulated Fund.

Calculation of Capital Fund

Capital Fund at the beginning of the year		**
Add: Surplus from Income and Expenditure Account	**	
Add: Subscription Amount (Capitalised amount)	**	
Add: Life membership fee.	**	**
Less: Deficit from Income and Expenditure Account		**
Capital Fund at the end of the year		***

Question 1:, Explain the statement: “Receipt and Payment Account is a summarised version of Cash Book”.

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.

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.

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 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 expenditure made during the current accounting period.
7. Object	This account depicts the cash position of an NPO.	This account shows the net result in terms of surplus or deficits due to the business activities 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 but sometimes surplus or deficits forwarded from the last accounting period (if not added to the Capital Fund) can be shown as the 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 depreciation, bad-debts, provisions, etc. in order to ascertain the actual net profit or net loss.
11. Adjustment	Receipts and Payments during the year can be adjusted before preparation of the financial statements.	Adjustments regarding both cash and non-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	If the closing balance of this account is surplus then it is added to the Capital Fund in the Balance Sheet. If the closing balance is deficit then it is

	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.	deducted from the Capital Fund in the Balance Sheet.
13. System	It is prepared on cash basis.	It is prepared on accrual basis.