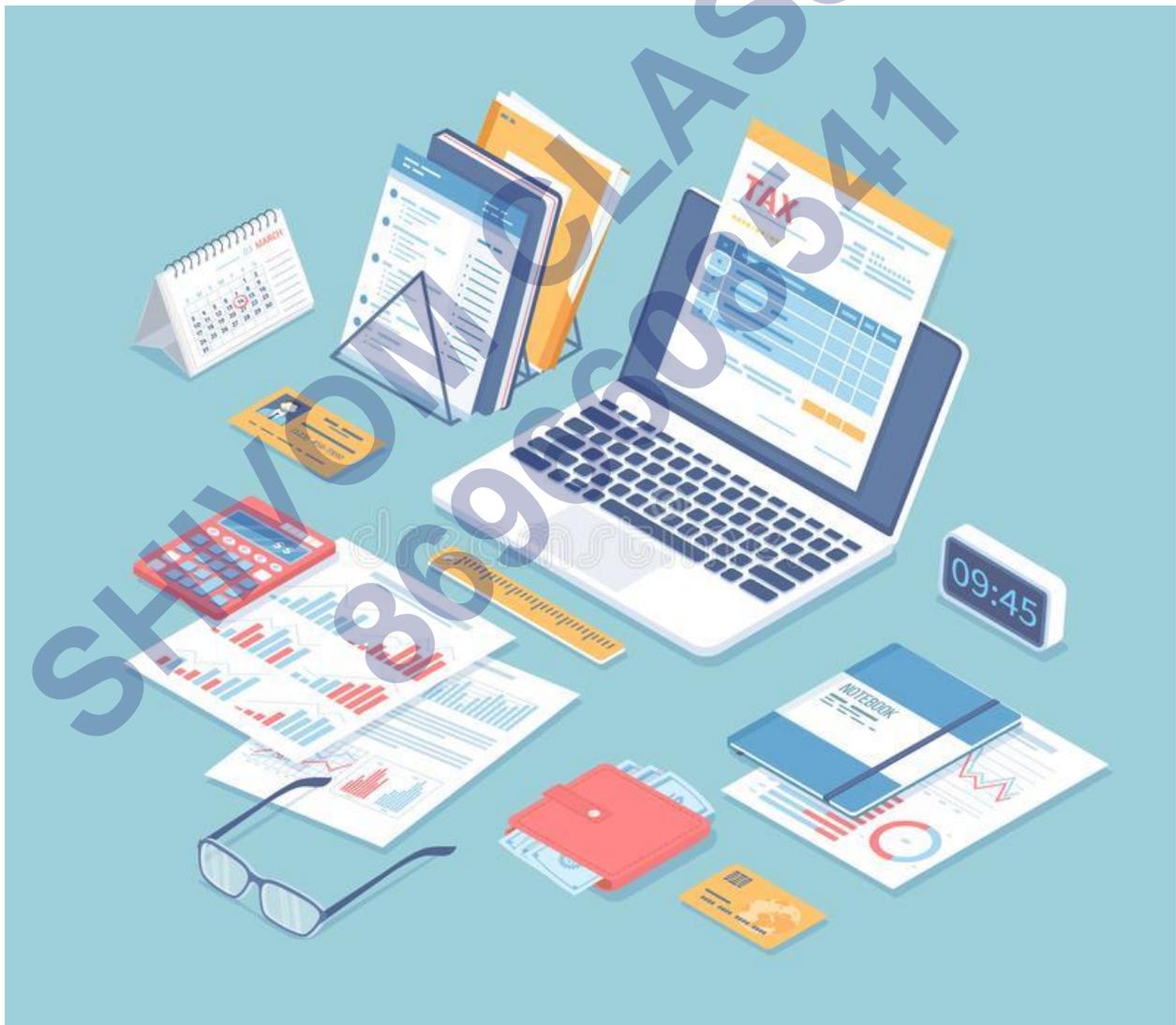


ACCOUNTANCY

Chapter 1: Accounting for Not-for-Profit Organisation



Accounting for Not-for-Profit Organisation

Introduction to Not-for-Profit Organisation

Meaning, Features and Financial Statements of a Not-for-Profit Organisation:

- **Meaning and Concept of Not-for-Profit Organisations:**

- These are the institutions/organisations that are set-up with general or specific objectives for rendering services and providing other social activities to enhance the welfare of general or a particular group of people.
- The aim of such institutions is not to earn profit, however, the organisations are capable of earning profit.
- A separate legal entity not owned by any individual or an enterprise.
- Examples of such organisations are schools, colleges, public hospitals, literacy societies for promoting sports, arts, culture, etc.

- **Characteristics or Features of Not-for-Profit Organisations:**

- Formed by Promoters:** These organisations are formed by the promoters who can be either individual or groups of individuals and enterprises.
- Separate Existence:** These organisations have separate existence from its members, i.e. the life of an NPO is unaffected by the life of its members.
- Purpose:** Its purpose is to further cultural, educational, religious, professional or public service objectives.
- Form:** It is set-up as a charitable society or trust.
- No Profit Motive:** Its aim is not to earn profit, however, the organisation is capable of earning profit. Any surplus is used by the organisation for its prescribed objectives rather than distributing it among the members.
- Management:** It is managed by a group of individuals known as Trustees or Managing Committee.
- Funding:** The main source of their income is subscription, donations, government grants and other receipts
- Accounts:** Unlike profit-seeking organisations, NPOs do not prepare Profit and Loss Account; rather they prepare Income and Expenditure Account to show a summary of revenue incomes and revenue expenses. The NPOs prepare final accounts every year which comprises of Receipt and Payment Account, Income and Expenditure Account and Balance Sheet.

- **Difference between Not-for-Profit Organisation and Profit Earning Organisation:**

Sr. no.	Basis	Not-for-Profit Organisation	Profit Earning Organisation no. (Business Firm)
1	Purpose	To render services	Its purpose is to earn profits
2	Formation & Management	Formed by Promoters and managed by Trustees	Formed by Entrepreneur(s) managed by Owners or Managers
3	Funds	It raises funds by way of Membership Fee, Donations, and Surplus from Operations which are shown in the books as General or Capital or Corpus funds	It receives funds from the proprietor, partners in the form of capital (in case of proprietorship and partnership) and from shareholders in the form Share Capital (in case of Companies) Profits which are not distributed to partners and shareholders are shown as reserves.
4	Financial Statement	Final accounts are prepared every year that comprises of Receipt and Payment Account, Income and Expenditure Account and Balance Sheet	Final accounts comprises of Trading, Profit and Loss Account and Balance Sheet
5	Surplus/Profit	Excess of income over expenditure in the Income and expenditure Account is termed as Surplus/Profit.	Excess of credit side over the debit side of the Profit and Loss Account is termed as Net Profit.

● **Financial Statements of a Not-for-Profit Organisation:**

- i. It prepares annual or final accounts every year showing the financial transactions of the organisation.

- ii. These annual or final accounts are prepared for its members and to comply with statutory requirements.
- iii. Financial Statements of an NPO comprise of the following:
 - a. Receipts and Payments Account,
 - b. Income and Expenditure Account and.
 - c. Balance Sheet.

Understanding Receipts and Payments Account

Meaning, Features, Format and Limitations of Receipts and Payments Account:

Meaning: It is an account that shows the summary of all cash and bank transactions occurred during an accounting period. It starts with the opening balances of cash and bank and ends with the closing balances of cash and bank. This account is a Real Account and lays the basis for the preparation of Income and Expenditure Account and the Balance Sheet.

Features: Following are the features of Receipts and Payments Account:

- i. **Nature:** It is a summary of cash receipts and payments and hence, it is an Asset Account/Real Account
- ii. **Recording:** It provides the summary of all cash and bank transactions in a chronological order.
- iii. **Basis of Preparing:** It is prepared on cash basis, i.e., it records only cash inflow and outflow. Accrued and outstanding transactions are not recorded in this account.
- iv. **Capital and Revenue:** It records all the transactions whether capital or revenue.
- v. **Period:** It records all the cash and bank transactions irrespective of whether they relate to current, previous or succeeding accounting periods.
- vi. **Opening and Closing Balances:** Opening balance of this account is the cash in hand/ bank at the beginning of the accounting year and the closing balance shows cash in hand/bank at the end of the accounting period.

Format:

Dr.	Receipts and Payments Account for the year	Cr
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Receipts	Amount	Payments	Amount
To Balance b/d(Opening Balance):		By Balance b/d (Opening Balance)(in case of Bank Overdraft)	
Cash in Hand	...	By Salaries	...
Cash at Banks	...	By Rent	...
To Subscriptions:		By Postage Expenses	...
For Previous Year	...	By Newspapers and Magazines, etc.	...
For Current Year	...	By Repairs	...
For Next Year	...	By Audit Fee	...
To General Donations	...	By Maintenance Expenses	...
To Entrance/Admission Fees	...	By Insurance	...
To General Grants	...	By Secretary's Honorarium	...
To Sale of Newspaper, Grass, etc.	...	By Honorarium	...
To Sale of Old Used Sports Materials	...	By Municipal Tax	...
To Interest on Investments	...	By Prize Distributed	...
To Income from Concerts/Lectures	...	By Office Expenses	...
To Dividends	...	By Expenses on Show	...
To Rent Received	...	By Miscellaneous Payments	...
To Interest Received	...	By Purchase of Fixed Assets (e.g., Furniture)	...
To Miscellaneous Receipts	...	By Sports Equipment	...
To Life Membership Fees	...	By Investments	...
To Subscriptions for Specific Purpose	...	By Books	...
To Donation for Specific Purpose	...	By Loan (Repayment)	...
To Legacies	...	By Building	...
To Endowment Fund	...	By Balance c/d (Closing Balance):	...
To Sale of Fixed Assets	...	Cash in Hand	...
To Receipts on Account of Special Fund, i.e., Match Fund, Prize Fund, etc.	...	Cash at Bank*	...
To Balance c/d (Bank Overdraft)*

Limitations of Receipts and Payments Account:

- It follows cash basis of accounting and therefore, does not show incomes and expenses on accrual basis.
- It is not capable of showing whether the NPO is able to meet its day-to-day expenses out of its income or not as the credit transactions are ignored.
- It is not a perfect substitute of Trial Balance as this account fails to reveal the closing balances of all accounts.

Difference between Receipts and Payments Account and Cash Book:

Following are the points of differences between Receipts and Payments Account and Cash

Sr. No.	Basis	Receipts and Payments Account	Cash Book
1	Statement vs. Account	It can be regarded as statement rather than an account. Unlike ordinary accounts, it does not show Date and Ledger Folio columns.	It can be regarded as an account as it works both as Journal as well as ledger and its balances are directly shown in the Balance Sheet.
2	Period	It is prepared at the end of the accounting period.	It is written on daily basis.
3	Date	It does not require the transactions to be written date-wise. Even date column is not present in the R&P A/c	It requires the date-wise recording of the transactions.
4	Institutions	It is prepared by the Not-for-Profit Organisation.	It is prepared by all types of organisation be it a commercial or Not-for-Profit organisation.
5	Side	It has receipts and payments side instead of debit and credit.	It is divided into debit and credit sides.
6	Ledger Folio	It does not have column for ledger folio.	It has a separate column for Ledger Folio.

Understanding Income and Expenditure Account

Meaning, Features, Format and Important Terms of Income and Expenditure Account:

❖ Meaning:

- i. It is like Profit and Loss Account of an enterprise or business firm.
- ii. It shows all revenue income earned and revenue expenses incurred during an accounting period.
- iii. It is prepared at the end of the accounting period on accrual basis of accounting.
- iv. It determines the result of the organisation's operations, whether it has surplus or deficit.
- v. It has 2 sides namely, debit and side. All the incomes and gains are recorded on the credit side and all the expenses and losses are recorded on the debit side.
- vi. Excess of credit side over the debit side is termed as surplus, whereas, excess of debit side over the credit side is termed as deficit.
- vii. Such surplus or deficit, as the case maybe, is either added to or deducted from the Capital Fund in the Balance Sheet.

❖ Features:

- i. **Nature:** It is a Nominal Account and therefore, all revenue expenses and losses incurred are recorded on the debit side and all revenue incomes and gains earned are recorded on the credit side of this account.
- ii. **Basis of Recording:** It follows the accrual basis of accounting to ascertain Surplus or Deficit arising after meeting all revenue expenses against all revenue incomes at the end of an accounting period
- iii. **Period:** It records only those expenses and incomes which relate to the current accounting period.
- iv. **Opening and Closing Balances:** It has no opening balance, however, balance at the end is either surplus or deficit which is then transferred to Capital Fund in the Balance Sheet.
- v. **Adjustments:** Since, it follows accrual basis of accounting, all the adjustments are to be given effect which are necessary to record the incomes, gains, expenses and losses relating to the current accounting period.

❖ **Format:**

Dr.		Income and Expenditure Account for the year ended		Cr.	
Expenditure		₹	Income	₹	
To Salaries	xxx	By Subscription	xxx		
To Charities	xxx	By Donation received	xxx		
To Rent	xxx	By Admission fee received	xxx		
To Donation paid	xxx	By Grant received	xxx		
To Stationery	xxx	By Rent received	xxx		
To Loss on sale of asset	xxx	By Interest received	xxx		
To Depreciation	xxx	By Profit on sale of asset	xxx		
To Surplus*	xxx	By Deficit*	xxx		
(Excess of income over expenditure)		(Excess of expenditure over income)			
	xxx			xxx	

*Either of the two will appear

Expenditure side to record: All **revenue expenses** for current period (after making adjustment for outstanding and prepaid expenses)

Income side to record: All revenue income for current period (after making adjustments for outstanding and advance income)

Some important terms:

Capital Expenditure:

- i. It is an expenditure, which benefits the organisations for more than one accounting period.
- ii. It results in the acquisition of assets which are used for the furtherance of activities carried on by the NPO.
- iii. Examples include cost of land, building, furniture and any addition thereto.

Revenue Expenditure:

- i. It is an expenditure, the benefits of which expire within the accounting period.
- ii. In case of an NPO, such expenditure means expenditure incurred for social or charitable activities carried on by the NPO.
- iii. Examples include Materials used, rent, insurance, salaries, honorariums paid, etc.

Revenue Receipts:

- i. Any income received from the activities carried out by organisation is termed as revenue receipts.
- ii. Examples include Subscription from members, General Donations, Rent Received, etc.

Capital Receipts:

- i. Receipts other than revenue receipts are termed as Capital Receipts.
- ii. Receipts from donor for the specified purpose are also termed as Capital Receipts.
- iii. Examples include Life Membership Fee, Corpus Donations, Furniture Fund, etc

Difference between Income and Expenditure Account and Profit and Loss Account:

Sr. no.	Basis	Income and Expenditure Account	Profit and Loss Account
1	Object	Its main object is to determine surplus, i.e., excess of income over expenditure or deficit i.e., excess of expenditure over income.	Its main object is to determine net profit or net loss.
2	Prepared by	It is prepared by Not-for-Profit Organisations.	It is prepared by business enterprises.
3	Method	If an organisation maintains a complete set of books, this account is prepared from Trial Balance. If complete set of books is not maintained, it is prepared from Receipt and Payment Account and the additional information available.	It is prepared from Trial Balance and other information.
4	Balance	Balance in this account is termed as either a surplus or a deficit.	Balance in this account is termed as either net profit or net loss.

Difference between Receipts and Payments Account and Income and Expenditure Account:

Basis	Receipts and Payments Account	Income and Expenditure Account
1. Purpose	It is prepared to know the cash receipts and cash payments.	It is prepared to know whether there is an excess of income over expenditure (surplus) or an excess of expenditure over income (deficit) during the current period.
2. Nature of account	It is a real account. It is a summary of cash account. Cash receipts are recorded on the debit side and cash payments are recorded on the credit side.	It is a nominal account. It is similar to profit and loss account. Expenses are recorded on the debit side and incomes are recorded on the credit side.
3. Basis of accounting	It is based on cash system of accounting. Non-cash items are not recorded.	It is based on accrual system of accounting. Non-cash items like outstanding expenses, depreciation, etc. are also recorded.
4. Opening and closing balance	It commences with an opening balance of cash and bank and ends with closing balance of cash and bank.	There is no opening balance. It ends with surplus or deficit.
5. Nature of items	It contains actual receipts and payments irrespective of revenue or capital items in nature.	It contains only revenue items, that is, only revenue expenses and revenue incomes.
6. Period	All cash receipts and payments made during the year pertaining to the past period, current period and subsequent period are recorded.	It contains only the items relating to the current period.

Understanding Balance Sheet

Meaning, Format and Important Points to prepare Balance Sheet:

Meaning:

- i. It is a statement that reveals the financial position of an organisation at a particular date.
- ii. It shows assets, liabilities and Capital Fund.
- iii. It is prepared in the same manner as that for a business firm.
- iv. It is prepared after the Income and Expenditure Account.
- v. Any surplus or deficit in the Income and Expenditure Account is transferred to Capital Fund, where, $\text{Capital Fund} = \text{Total Assets} - \text{Total Liabilities}$.

Opening Balance Sheet- It shows the balances of all the assets, liabilities, funds and reserves in the beginning of an accounting period. It is usually prepared to ascertain the capital fund in the

beginning or any other missing item.

Need for Preparing Opening Balance Sheet

In case, the Capital Fund is not mentioned in the question, then in order to ascertain the Capital Fund we need to prepare the Opening Balance Sheet. All the opening balances of assets such as, building, furniture, outstanding subscription (at the beginning), etc. and all the opening balances of liabilities such as, creditors, advance subscription (at the beginning), outstanding expenses etc. are recorded in this balance sheet. The excess of the total of the Assets over the total of the Liabilities is regarded as Capital Fund.

Closing Balance Sheet- It is prepared to assess the true and fair financial position of an organisation at the end of an accounting period.

Following points should be kept in mind while preparing the Balance Sheet: In order to prepare Balance Sheet, following are the points that are required to be kept in mind:

- i. **Expenses and Incomes:** Expenses that are outstanding or prepaid and Incomes that are receivable or received in advance will appear in the Balance Sheet as Assets or Liabilities based on the nature of the respective items.
- ii. **Special Receipts:** Special items like specific donations for building, sports, etc. will not appear in the Income and Expenditure Account. Instead they are shown as liabilities in the Balance Sheet.
- iii. **Surplus and deficit:** Balancing of Income and Expenditure Account will either give a surplus or a deficit. This surplus/deficit is then added to or reduced from the Capital Fund Balance and only the net amount is shown in Balance Sheet.
- iv. **Assets:** Amounts of assets that are shown in the opening Balance Sheet are to be adjusted for all current year transactions related to the respective assets which includes purchase of asset, sale of asset and depreciation. Such adjusted amount will then appear in the closing Balance Sheet.
- v. **Liabilities:** Amounts of liabilities that are shown in the opening Balance Sheet are to be adjusted for all current year transactions related to the respective liability which shall include payments made against them or additional liability being created. Such adjusted amount will then appear in the closing Balance Sheet.
- vi. **Loans and Advances:** Opening amount of loan taken should be adjusted for all repayments made during the year against it and only the net amount should be shown as a liability. In case of advances, opening balance should be adjusted for all the amounts recovered during the year and only the net amount should be shown as an asset.

Format of Opening Balance Sheet of a Not-for-Profit Organisation.

Opening Balance Sheet as at ...

Liabilities	Amount	Assets	Amount
Bank Overdraft, if any	...	Cash in Hand	...
Outstanding Expenses	...	Cash at Bank	...
Advance Subscription	...	Fixed Assets, if any	...
Capital Fund*(balancing figure)	...	Investments, if any	...
		Outstanding Subscriptions	...
		Prepaid Expenses	...

Format of Balance Sheet of a Not-for-Profit Organisation.

Name of the Organisation

Balance Sheet as at ...

Liabilities	Amount	Assets	Amount
Capital Fund or General Fund or Corpus Fund:		Fixed Assets:	
Opening Balance	...	Building:	
Add: Surplus (or Less: Deficit)	...	Opening Balance	...
Building Fund:		Add: Additions	...
Opening Balance	...	Less: Depreciation	...
Add: Donation for Building	...	Furniture:	
Income from Building Fund Investment	...	Opening Balance	...
Sports Fund:		Add: Additions	...
Opening Balance	...	Less: Depreciation	...
Add: Donation for Sports Fund	...	Sale	...
Income on Sports Fund Investment	...	Current Assets:	
Less: Sports Prize Awarded	...	Cash in Hand	...
Current Liabilities:		Cash at Bank	...
Outstanding Expenses:		Subscriptions in Arrear	...
Rent	...	Accrued Interest	...
Salaries	...	Investments:	
Electricity/Water Charges	...	Building Fund Investments	...
Subscriptions Received in Advance	...	Sport Fund Investments	...
		Prepaid Expenses:	
		Insurance	...
		Rent	...

Fund Based Accounting

Meaning and Categories in Fund Based Accounting:

- **Meaning of Fund Based Accounting:**

- It is an accounting method or practice that is followed for preparation of accounts in which amount (funds) available for specific purpose is shown under Specific Fund Account.

- ii. It means the accounting whereby receipts of donations and incomes relating to a particular fund are credited to that particular fund and payments and expenses are debited to it.
- iii. A Not-for-Profit Organisation maintains a separate Bank Account for each fund. Donations and income received towards that funds are credited to the Fund Account while the expenses are debited to such Fund Account.
- iv. Credit balance in the Fund Account is shown on the liabilities side of the Balance Sheet.
- v. Debit balance in the Fund Account is debited to the Income and Expenditure Account.

● **Categories/Types of Funds in case of an NPO:**

i. **Unrestricted Fund or General Fund:**

- These funds are used to carry out general operations of a business.
- These funds do not carry any restriction with respect to its use.
- In simple words, management can use the amounts as it deems appropriate, but to carry out purpose for which the organisation exists.
- It is also known as General Fund or Capital Fund to which surplus or deficit is added or deducted respectively.

ii. **Restricted Funds:**

- These are the funds, the use of which is restricted either by the management or by the donor for specific purpose.
- Examples of such funds include, Endowment fund, Annuity fund, Loan Fund, Prize Fund, Sports Fund, etc.
- Restricted Funds are further categorized into:

- (i) **Specific Revenue Funds:** These funds are created and maintained to show the incomes and expenses related to the specific operation separately from the general revenue incomes and expenses. Amount available in these funds (after meeting the expenses attributing to the fund) are shown on the Liabilities side of the Balance Sheet.

The treatment of receipts and expenditures related to the specific fund can be better understood with the help of the following example.

Example: Treatment of Tournament Fund

Liabilities		Amount Rs	Assets	Amount Rs
Tournament Fund	50,000			
Sale of Ticket for Tournament	20,000			
Donation for Tournament	4,000			
<i>Less: Tournament Expenses</i>	<i>(10,000)</i>	64,000		

- (ii) **Capital Project Funds:** These funds are also shown on the Liabilities side of the Balance Sheet. Donation and other receipts to acquire or construct specific fixed assets (such as, donation for construction of pavilion) or to carry out a specific project of capital nature are shown in the separate fund account.

Treatment of receipts and expenditure relating to the fund can be understood with help of following example.

Example: Donation for Building Fund

Liabilities		Amount Rs	Assets	Amount Rs
Capital Fund	8,00,000		Construction of Building in progress	2,00,000
<i>Add: Construction of Building in progress</i>	<i>2,00,000</i>	10,00,000		
Building Fund	7,00,000			
Donation	1,00,000			
<i>Less: Construction of Building in progress</i>	<i>(2,00,000)</i>	6,00,000		

- (iii) **Government Grant:** It is a grant which is received from Government for specific purpose. Such specific grant is to be used only for the purpose for which it is granted. Examples of such grant includes grant for 'Polio Eradication Programme' which is restricted to Polio Eradication purposes.

- (iv) **Endowment Fund:** These funds arise from the gift or bequest. It is created with the condition that income arising from the investment of such funds will be used for a specific purpose.
- (v) **Annuity Fund:** It is established when a Not-for-Profit Organisation receives assets from a donor with a condition to pay a specified amount periodically to a designated beneficiary or beneficiaries. Annuity is a fixed annual payment and usually continues only during the lifetime of the named beneficiary or for the period specified by the donor. After the death of the beneficiary or termination of the agreement, the funds become the property of the organisation.
- (vi) **Loan Fund:** These funds are maintained to grant loans for specific purposes. These loans are subject to repayment, interest and fines. Its purpose is not to earn profits but to assist the person who is in need. For example, Education Loan to the students for higher studies, etc.

Accounting Treatment of Special Items in Income and Expenditure Account

- **Entrance or Admission Fee:** It is an amount that is paid by a person to become a member of a Not-for-Profit organisation. Since it is received by the NPO from its potential members, it is treated as a revenue receipt which is shown on the credit side of the Income and Expenditure Account.
- **Life Membership Fee:** It is not accounted as an income because a life member makes a one-time payment and avails life-time services. Therefore, it is accounted as a Capital Receipt and added to Capital Fund on the liabilities side of the Balance Sheet.

Special Receipts in case of an NPO:

It means receipts of amount for special occasions.

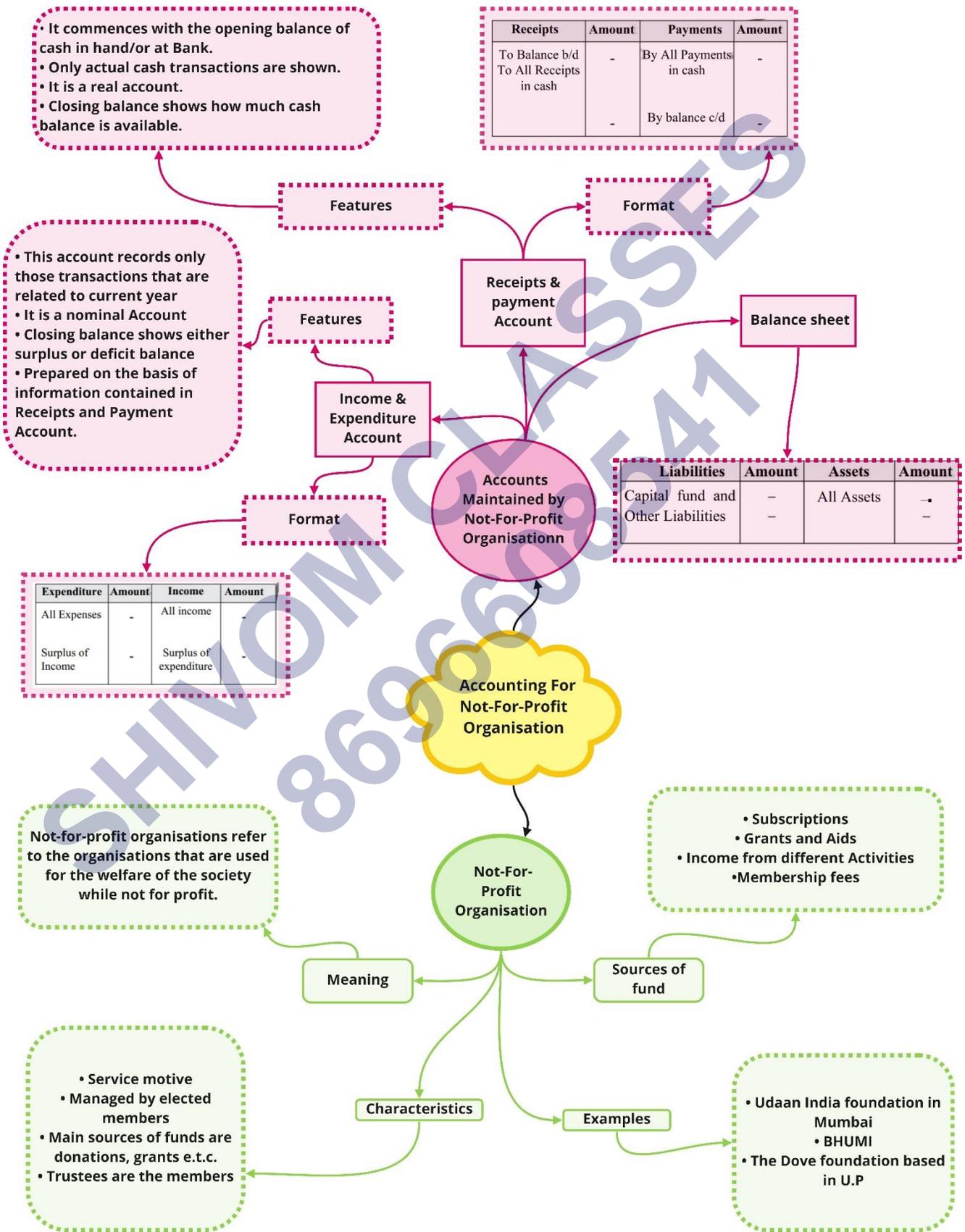
The amount received for special receipt is credited to a separate account.

All the expenses against these receipts are debited to the same account.

The balance of such separate account is transferred to the Income and Expenditure Account.

Examples include, amount received for annual dinner, annual function, annual conference, meetings, etc.

Class : 12th Accounts
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Important Questions

Multiple Choice questions-

Question 1. Receipts and Payments A/c is the summary of a:

- (a) Cash Book
- (b) Sales Book
- (c) Purchases Book
- (d) Journal

Question 2. Subscriptions received in advance during the accounting year is:

- (a) An Income
- (b) An Expense
- (c) An Asset
- (d) A Liability

Question 3. Income and Expenditure A/c is of the nature of:

- (a) Trial Balance
- (b) Deficit A/c
- (c) P & L A/c
- (d) Balance Sheet

Question 4. Cash received by converting an asset into cash is reflected in:

- (a) Conversion A/c
- (b) Receipts and Payments A/c
- (c) Contract A/c
- (d) Suspense A/c

Question 5. If the credit side of Receipts and Payments A/c exceeds the debit side, the balance represents:

- (a) Bank charges
- (b) Commission
- (c) Bank overdraft
- (d) Interest

Question 6. No cash transaction will be excluded from:

- (a) Balance Sheet

- (b) Profit & Loss A/c
- (c) Receipts and Payments
- (d) Income and Expenditure A/c

Question 7. In Receipts and Payments A/c, cash in hand or at the bank is put on:

- (a) Credit side
- (b) Left-hand side
- (c) Right-hand side
- (d) None of these

Question 8. The task of preparing Income and Expenditure A/c and the Balance Sheet commences after the preparation of the:

- (a) Trial Balance
- (b) Profit and loss A/c
- (c) Trading A/c
- (d) Cash A/c

Question 9. In Income and Expenditure A/c all revenue expenses are entered on:

- (a) Assets side
- (b) Left-hand side
- (c) Liabilities side
- (d) Right-hand side

Question 10. In the Income and Expenditure Account all revenue receipts are entered on:

- (a) Assets side
- (b) Left-hand side
- (c) Right-hand side
- (d) Liabilities side

Very Short-

1. How are specific donations treated while preparing final accounts of a 'Not-For-Profit Organisation'?
2. State the basis of accounting of preparing 'Income and Expenditure Account' of a 'Not-For-Profit Organisation'.
3. Differentiate between 'Receipts and Payments Account' and 'Income and Expenditure Account' on the basis of 'Period'.

4. What is meant by 'Life membership fees'?
5. How are the following items presented in the financial statements of a Not-for-Profit organisation:
 - a. Tournament Fund – 80,000
 - b. Tournament expenses – 14,000
6. How are general donations treated while preparing financial statements of a not-for-profit organisation?
7. State the basis of accounting on which 'Receipt and Payment Account' is prepared in case of Not-for Profit Organisation.
8. Where will you show the 'Subscription received in advance' during the current year in the Balance Sheet of a Not-For-Profit Organisation?
9. A not-for-profit organisation sold its old furniture. State whether it will be treated as revenue receipt or capital receipt.
10. Mention a fund who are specific in nature.

Short Questions-

1. State the meaning of 'Not-for-Profit' Organisations.
2. State the meaning of Receipt and Payment Account.
3. State the meaning of Income and Expenditure Account.
4. What are the features of Receipt and Payment Account?
5. What is subscription? How is it calculated?
6. What steps are taken to prepare Income and Expenditure Account from a Receipt and Payment Account?

Long Questions-

1. Explain the statement: "Receipt and Payment Account is a summarised version of Cash Book".
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.
3. Distinguish between Receipts and Payments Account and Income and Expenditure Account.

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

Assertion Reason Questions-

1. For two statements are given-one labelled Assertion and the other labelled Reason. Select the correct answer to these questions from the codes (a), (b), (c) and (d) as given below.
 - a. Assertion and Reason both are correct and Reason is the correct explanation of assertion
 - b. Assertion and Reason both are correct but Reason is not correct explanation of assertion
 - c. Assertion is correct but Reason is not correct.
 - d. Reason is correct but Assertion is not correct.

Assertion: Endowment Fund is recorded only in the Balance Sheet.

Reason (R): Endowment is treated as capital receipt hence shown on the liabilities side of Balance Sheet.

2. For two statements are given-one labelled Assertion and the other labelled Reason. Select the correct answer to these questions from the codes (a), (b), (c) and (d) as given below.
 - a. Assertion and Reason both are correct and Reason is the correct explanation of assertion
 - b. Assertion and Reason both are correct but Reason is not correct explanation of assertion
 - c. Assertion is correct but Reason is not correct.
 - d. Reason is correct but Assertion is not correct.

Assertion: The Income and Expenditure Account is like the cash book.

Reason (R): Income and Expenditure Account shows the surplus or deficit that is earned during the financial year by the non-profit organization.

MCQ Answers-

1. Answer: (a) Cash Book
2. Answer: (d) A Liability
3. Answer: (c) P & L A/c
4. Answer: (b) Receipts and Payments A/c
5. Answer: (c) Bank overdraft
6. Answer: (c) Receipts and Payments
7. Answer: (b) Left-hand side

8. Answer: (d) Cash A/c
9. Answer: (b) Left-hand side
10. Answer: (c) Right-hand side.

Very Short Answers-

1. Ans. Specific donation is treated as capital receipt & it is shown on the liabilities side of the Balance Sheet.
2. Ans. Accrual basis.
3. Ans.

Basic	Receipts & Payments A/c	Income & Expenditure A/c
Period	May relate to preceding and succeeding periods	Relate to the current period

4. Ans. Membership fee paid in lump sum to become a life member of a not-for-profit organisation.
5. Ans.

Balance Sheet of _____ NPO. as on _____ Date			
Liabilities	Amount (₹)	Assets	Amount (₹)
Tournament Fund	80,000		
Less: Tournament expenses	<u>14,000</u>		
	66,000		

6. Ans. General donations are treated as revenue receipts.
7. Ans. Cash basis of accounting.
8. Ans. Liability side of current year's balance sheet.
9. Ans. Revenue.
10. Ans. Sports fund.

Short Answers-

1. Ans. Organisations that are established with the aim of providing services to society and not profit earning are called as Not-for-profit Organisations (NPO). Some organisations that come under NPO are hospitals, religious organisations and trade unions. An NPO earns income from life membership fees, subscriptions, grants, donations etc.
2. A receipts and payments account (R & P Account) is a summary of actual cash receipts and payments that is extracted from the cash book over a certain time period. All the cash received is recorded on the Receipts and all the cash payments gets recorded in Payments

side of the R & P Account. All the cash and bank transactions are recorded in Cash Book and this book is created on the basis of all these transaction. All cash and bank transactions that are of revenue and capital nature gets recorded. It records all transactions i.e. bank receipts and cash receipts.

This account helps in determining the closing balance of bank and cash receipts and thereby assess cash position of a Not-for-profit organisation or NPO.

3. Income and Expenditure (I & E) account is the equivalent of P & L account (Profit and Loss Account). In an income and expenditure account, surplus and deficit is determined during the accounting period while in a P& L account the net profit or loss is determined at the running of accounting period. It is nominal account and records transactions that are of revenue nature. The closing balance is called deficit or surplus based.
4. The receipts and payments account has the following features:
 - i. It is known as cash book summary for NPO (Not-for-profit organisations) as it records all the cash and cash equivalents of the organisation.
 - ii. This account shows cash transactions that are of revenue and capital nature.
 - iii. It does not follow the double entry bookkeeping system as it is a summary of transactions.
 - iv. It does not include transactions that do not have cash or bank items.
 - v. It helps in revealing the cash position of the organisation.
5. For a not-for-profit organisation subscription acts as one of the main sources of income. It refers to money that the members pay periodically for maintaining their membership in active state. Subscription charges can be paid in flexible options like monthly, quarterly, half-yearly or yearly. It appears on the receipt side of R & P account.

For calculating subscription for current period, add subscription received in advance meant for current period during the previous year and outstanding subscription for current year to the subscription received for the current year and deducting subscription received in advance for next year and outstanding subscription from previous year from subscription received in the current year.

Calculation of Subscription

Subscription received during the year	-	-
(+) Subscription received (in advance) during previous year	-	-
for current year	-	-
(+) Subscription outstanding at the end of the year	-	-
(-) Subscription received in advance for the next year	-	-
(-) Subscription outstanding for the previous year	-	-
Subscription shown in Income and Expenditure Account	-	-

6. Following steps should be followed:

- i. Exclude opening cash and bank balances and also do the same for closing cash and balances.
- ii. Exclude income of the previous period and any such income that is received in advance.
- iii. Exclude all items involving capital receipts and payments.
- iv. Exclude expenditures that are of the previous or coming period.
- v. Include all incomes of the current period which are yet to be received.
- vi. Include expenditures of current period which are yet to be paid.
- vii. Provision for bad debts and fixed assets depreciation should be taken into account and charged to the account (income and expenditure account).

Long Answers-

1. A receipts and payments account (R & P Account) is a summary of actual cash receipts and payments that is extracted from the cash book over a certain time period. All the cash received is recorded on the Receipts and all cash payments are recorded in Payments side of the R & P Account. All the cash and bank transactions are recorded in Cash Book and this book is created on the basis of all these transaction. All cash and bank transactions that are of revenue and capital nature gets recorded. It records all transactions i.e. bank receipts and cash receipts.

This account helps in determining the closing balance of bank and cash receipts and thereby

assess cash position of a Not-for-profit organisation or NPO.

Here are some similarities between Cash Book and Receipts and Payments Account:

- i. Both are real accounts.
- ii. Only transactions of cash and bank are recorded
- iii. There is no distinction between Revenue and Capital Items
- iv. Helps in assessing the cash position of an organisation
- v. Starts with an opening balance consisting of cash and bank and concludes with closing balance of cash and bank.

Therefore, it can be said that Receipt and Payments Account is a summarised version of cash book.

2. The account containing all expenses and losses for current accounting period prepared by a Not-for-profit organisation is called as Income and Expenditure (I & E) account, while a similar account prepared by profit earning organisation is called as Profit and Loss Account (P & L).

Here are some of the similarities between I & E and P & L accounts:

- i. Accrual basis is followed for the preparation of both accounts.
- ii. Expenses and losses are recorded on Expenditure (debit) side and gains and income are recorded on Income (credit) side.
- iii. Records only revenue items related to current accounting period.
- iv. Both exhibit nature similar to nominal accounts.

Therefore, it can be said that from the above statements that Income and Expenditure account of a Not-for-Profit Organisation is akin to Profit and Loss Account of a business concern.

3.

Basis of Comparison	Receipts and Payments Account	Income and Expenditure Account
Nature	Contains bank and cash transaction summary.	Contains summary of income and expenses of current year

Revenue and Capital	Both revenue and capital transactions are recorded	Only revenue transactions are recorded
Debit Side	Records cash and bank receipts are recorded	Records expenses and losses incurred for the current accounting year
Credit side	Records payments received in form of cash and cheques	Records incomes and gains during the current accounting year
Account Type	Real Account	Nominal Account
Accounting Period	Records receipts and payments made during the year which may be related to current, previous or next accounting year	Records only the expenditure and income made during the current accounting year
Object	Shows the cash position of NPO	Shows the net results in terms of deficits or surplus
Depreciation	Non-cash items like depreciation is not included	Includes non-cash items like depreciation, bad-debts for determining net profit or loss.
Adjustment	Before preparing financial statements the Payments and Receipts received during the year can be adjusted.	Cash and non-cash transactions can be adjusted
System	Cash basis	Accrual Basis

4. Income and Expenditure account is similar to the P & L account (Profit and Loss Account). In an income and expenditure account surplus and deficit is determined during the accounting period while in a P& L account the net profit or loss is determined during an accounting period. It is a nominal account and records transactions that are of revenue nature. The closing balance is called deficit or surplus based.

Basic Features of I & E Account are:

- i. It is a nominal account.
- ii. Prepared on the basis of R & P (Receipt and Payment Account). All revenue items irrespective of income or expenditure get transferred.

- iii. Transactions that are of capital nature are not included in the account.
- iv. It is similar to P & L account.
- v. Records only current accounting year items and excludes any other transactions.
- vi. Items like prepaid expenses, depreciation, income received in advance can be adjusted.
- vii. Balancing figure is expressed as surplus or deficit based on the status of expenses and income.

A receipts and payments account is a summary of actual cash receipts and payments that is extracted from the cash book over a certain time period. All the cash received is recorded on the Receipts and all cash payments are recorded in Payments side of the Receipts and Payments Account. This account is prepared on the basis of all the cash and bank transactions that are recorded in Cash Book. It records all cash and bank transactions that are of revenue and capital nature. It records all transactions i.e. bank receipts and cash receipts.

This account helps in determining the closing balance of bank and cash receipts and thereby assess cash position of an NPO.

Basic Features of R & P Account are:

- i. It is a real account also known as summarised version of Cash Book.
- ii. It records only bank and cash transactions.
- iii. Non-cash transactions like depreciation is not recorded.
- iv. It begins with an opening balance of cash and bank and ends with closing balance of cash and bank.
- v. Helps in assessing the cash position of an organisation.
- vi. It does not distinguish between capital and revenue items.

Assertion Reason Questions-

1. (a) Assertion and Reason both are correct and Reason is the correct explanation of assertion.
2. (d) Reason is correct but Assertion is not correct.