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NOT FOR PROFIT ORGANISATION - AN INTRODUCTION

You buy goods of daily consumption from the general store of your locality, such as clothes from cloth shop or you see a movie in a cinema hall. These are all business organisations that deal in purchasing and selling goods and services. Their objective is to earn profit. You must have studied in a school, you go to a hospital for treatment. You may be a member of a sports club of your area. These are the organisations that are founded not to earn profits but to provide services to their members and to the public in general. You have learnt the preparation of financial statements of profit organisations. While performing the activities, these organisations also engage in financial transactions. They also want to know the results of their activities for a particular period. For this they also prepare financial statements. You will now study in this lesson the system of accounting of these organisations i.e. Not for Profit Organisations (NPOs) such as sports club literary society, etc.



OBJECTIVES

After studying this lesson, you will be able to :

- state the meaning and characteristics of Not-for-Profit Organisations;
- state the meaning and need for preparing Receipts and Payments account;
- identify the items of Receipts and Payments Account and prepare Receipts and Payments Account as per format; and
- distinguish between Receipts and Payments Account and Cash Book.

19.1 NOT-FOR-PROFIT ORGANISATIONS–MEANING AND CHARACTERISTICS

You must have come across organisations which are not engaged in business activities. Their objective is not to make profits but to provide service. Examples of such organisations are : schools, hospitals, charitable institutions, welfare societies, clubs, public libraries, resident welfare association, sports club etc. These are called Not-for-Profit Organisations (NPOs). These organisations provide services to their members and to the public in general. Their main source of income is membership fees, subscription, donation, grant-in-aid, etc. As the money is involved in the activities of these organisations, they also maintain accounts. These organisations prepare certain statements to ascertain the results in financial terms of their activities for a particular period say, one year.

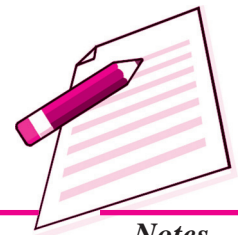
Characteristics of Not-for-profit organisations (NPOs)

Following are the main characteristics or the salient features of Not for Profit organisations (NPOs) :

1. The objective of such organisations is not to make profit but to provide service to its members and to the society in general.
2. The main source of income of these organisations is not the profit earned from purchase and sale of goods and services but is admissions fees, subscriptions, donations, grant-in-aid, etc.
3. These organisations are managed by a group of persons elected by the members from among themselves. This group is called managing committee.
4. They also prepare their accounts following the same accounting principles and systems that are followed by business for profit organisations that are run with an objective to earn profits :

Financial statements that are generally prepared by Not-for-Profit Organisations (NPOs) are :

1. Receipts and Payments Account
2. Income and Expenditure Account
3. Balance Sheet



Notes

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The receipts and payments account is the summary of cash and bank transactions which helps in the preparation of Income and expenditure Account and the Balance Sheet.

Income and Expenditure A/c is similar to Profit and Loss Account. NPOs usually prepares the Income and Expenditure Account and Balance Sheet with the help of Receipts and Payments Account.

**INTEXT QUESTIONS 19.1**

Following are the statements about Not-for-Profit organisation. Put (✓) mark against the statements which are the salient features of these organisations and (X) against the others :

- (i) The main objective of these organisations is to make profits.
- (ii) These organisations provide service to the society.
- (iii) The accounting principles and system followed by such organisations are the same that are followed by business organisations i.e. meant to earn profit.

19.2 RECEIPTS AND PAYMENTS ACCOUNT—MEANING AND NEED

Like any other organisation, Not-for-Profit Organizations (NPOs) also maintain cash book to record cash transactions on day to day basis. But at the end of the year they prepare a summary of cash transactions based on the cash-book. This summary is prepared in the form of an account. It is called Receipts and Payments account. All cash receipts and payments are recorded in this account whether these belong to current year or next year or previous year. All receipts and payments are recorded in this account whether these are of revenue nature or capital nature. As it is an account so it has the debit side and the credit side. All receipts are recorded on its debit side while all payments are shown on the credit side. This account begins with opening cash or/and bank balance. Closing balance of this account is cash in hand and or cash at bank/overdraft. Items in this account are recorded under suitable heads.

Following are the main features of Receipts and Payments Account :

1. It is prepared at the end of the year taking items from the cash book.
2. It is the summary of all cash transactions of a year put under various heads.

3. It records all cash transactions which occurred during the year concerned irrespective of the period they relate to i.e. previous/current/next year.
4. It records cash transactions both of revenue nature and capital nature.
5. It begins with opening balance and ends with closing balance.

Need for preparing Receipts and Payments Account

As most of the transactions of Not-for-Profit Organisations are for cash, the Receipts and Payments Account shows most of the items at one place.

As it is in a summary form, it gives an idea of large number of transactions at a glance. It contains accounting information under various heads. So it gives information itemwise for the accounting year.

It shows the closing cash or/and bank balance, this cash/Bank balance is taken to the Balance Sheet.

The Receipts and Payments Account serves the purpose of trial balance and becomes the basis of preparing financial statements i.e. Income and Expenditure Account and Balance Sheet for the organisation.

Very small Not-for-Profit Organisations (NPOs) prepare only Receipts and Payments Account.

As the name itself suggests, Receipts and Payments Account is an account which has two sides, the debit side and the credit side. All cash receipts are shown on the debit side and all cash payments on the credit side. It has a definite format which is given below :

FORMAT OF RECEIPTS AND PAYMENTS ACCOUNT

Receipts and Payments Account of

For the year ended on

Dr.

Cr

<i>Receipts</i>	<i>Amount</i> ₹	<i>Payments</i> ₹	<i>Amount</i>
Balance b/d :		Purchase of Assets	
Cash		Printing and stationery	
Bank		Repairs and Renewal	



Notes

MODULE - 3

Financial Statement



Notes

Not for Profit Organisation : An Introduction

Donations	Newspapers/Magazines
Legacies	Rent and taxes
Membership fees	Postage
Entrance fees	Investments
Subscriptions	Conveyance
Donations	Honorarium
Lockers Rent	Charity
Sale of fixed assets	Insurance Premium
Interest on investments	Upkeep of Ground
Miscellaneous Receipts	Telephone Charges
Sale of old periodicals	Balance c/d :
	Cash
	Bank



INTEXT QUESTIONS 19.2

- I. Following are the items of Not for Profit organisations. Classify them into Receipts and Payments.
- (i) Donations (ii) Charity (iii) Subscription
(iv) Purchase of Books (v) Legacies (vi) Honorarium
- II. Identify the following statements as characteristics or need of Receipts and Payments account
- (i) Closing cash or/and Bank Balance is used to prepare Balance Sheet.
(ii) It is prepared from the items taken from cash book.
(iii) It records cash transactions both of revenue nature and capital nature.
(iv) It is used to prepare financial statements of the Not for Profit organisations.

19.3 SPECIFIC ITEMS OF RECEIPTS AND PAYMENTS ACCOUNT

1. **Subscription :** It is a regular payment made by the members to the organisation. It is generally contributed annually. It is one of the main sources of income. Subscriptions received during the year are shown on the debit side i.e. Receipts side of the Receipts and Payments Account. Apart from amount for current year, it may include amount pertaining to previous year or advance payment for next years.
2. **Entrance fees or Admission fees :** Whenever a person is admitted as a member of the organisation, certain amount is charged from him/her to give him/her admission. This is called entrance fee or admission fee. Total amount of entrance fee received during a year is shown on the debit side of the Receipts and Payments Account.
3. **Life membership fees :** Membership, if granted to a person for the whole life, special fee is charged from him/her, this is called life membership fees. It is charged once in the life time of a member. It is a capital receipt for the organisation.
4. **Endowment fund :** It is a fund which provides permanent means of support for the organisation. Any contribution towards this fund is an item of capital receipt.
5. **Donation :** Donation is the amount received from some person, firm, company or any other body by way of gift. It is also an important item of receipt. It can be of two types :
 - (a) **Specific donation :** It is a donation received for a specific purpose. Examples of such donations are : donation for library, donation for building, etc.
 - (b) **General donation :** It is a donation which is received not for some specific purpose. It can be of two types :
 - (i) General donation of big amount
 - (ii) General donation of small amount
6. **Legacy :** It is the amount which is received by organisations as per the will of a deceased person. It is treated as a capital receipt.
7. **Sale of old newspapers/periodicals and sports material :** Old newspapers, used/condemned sports material are sold and may fetch some money. It is a source of revenue. Money realised from the sale of such items is shown on the debit (Receipts) side of Receipt and Payment Account.



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8. **Purchase of fixed assets :** Assets such as building, machinery, furniture, books etc. are purchased for the organisation. These are items of capital expenditure. Payment made for the purchase of such assets is shown on the credit side i.e. the payment side of Receipts and Payments Account.
9. **Payment of honorarium :** This is another item of payment. This is an amount paid to persons who are not the employees of the organisation but take part in the activities of the organisation. Remuneration paid to them is called honorarium. For example, payment made to the secretary of the club as honorarium. This is a payment of revenue nature.
10. **Purchase of consumable items :** Items such as stationery, sports material, drugs and medicines etc. are called consumable items. Payments are regularly made by Not-for-Profit Organisation (NPO for the use of such items). These are shown on the payment side of Receipt & Payment Account.

Such payments may also be made for rent, salary, insurance, office expenses etc. which are payments made as revenue expenditure by both businesses for profit and not for Profit Organisations (NPOs).

Preparation of Receipts and Payments Account

Following are the steps followed to prepare Receipts and Payments A/c :

- At first, the cash and bank balance carried forward from the last year is shown on its debit side. In case there is bank overdraft at the beginning of the year, enter the same on the credit side of this account.
- The amounts are shown under relevant heads such as subscription, donations etc. on the receipts side and salary, rent, purchase of sports equipment, books etc. on the Payment side.
- The amounts comprise of only cash and all cash received or paid during the period for which Receipts and Payments Account is prepared. No distinction is made between the items of revenue nature or capital nature and whether these belong to current year, previous year or the coming year.

Finally, this account is balanced by deducting the total of the credit side i.e. the total payments from the total of the debit side i.e. total receipts and is put on the credit side as ‘balance c/d’.

It shows the closing cash and Bank balance which is shown on the asset side of the Balance sheet of the concerned organisation.



INTEXT QUESTIONS 19.3

A student has prepared the following Receipts and Payments A/c. Some of the items have been entered on wrong side. Correct the Account.

Receipts and Payments A/c
for the year ended 31st Dec. 2013

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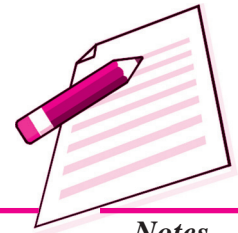
<i>Particulars</i>	<i>Amount</i> ₹	<i>Particulars</i>	<i>Amount</i> ₹
Opening balance	1,800	Entrance fees	400
Wages	800	Sale of Newspapers	200
Subscription	3,600	Purchase of Books	2,400
		Cash in hand	2,300
		Telephone charges	600
		Interest on Fixed deposit	300
	6,200		6,200

19.4 RECEIPTS AND PAYMENTS ACCOUNT AND CASH BOOK

You have learnt about Cash Book and Receipts and Payments Account. You have also learnt that Receipts and Payments Account is prepared with the items taken from the cash Book, still there are some differences between the two which are given as below:

Difference between Receipts and Payments Account and Cash Book

<i>Receipts and Payment Account</i>	<i>Cash Book</i>
1. It is prepared at the end of the accounting year.	It is prepared on day-to-day basis.
2. An item appears only once.	Items appear number of times on different dates depending upon their occurrence.



Notes



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3. It serves the purpose of Trial Balance to prepare the financial statements.	It is a means of maintaining record of cash transactions.
4. It reflects the activities of the organisation.	It is only a systematic record of day to day cash transactions.
5. It is prepared only by Not-for-Profit Organisations (NPOs).	It is also prepared by business organisations meant to earn profit.

Illustration 1

From the information given below prepare Receipts and Payments Account for the year ending 31st December, 2013.

	₹		₹
Opening Balance :			
Cash in hand	1,650	Purchase of Books	10,000
Cash at Bank	18,250	Purchase of Sports Material	20,000
Subscription	15,000	Purchase of Bicycle	2,000
Entrance Fees	1,200	Sale of Investment	25,000
Donation	18,000	Life Membership Fees	4,000
Salaries	16,000	Rent paid	12,000
Stationery	500	Purchase of Government Bonds	10,000
Insurance Premium	800	Closing Balance :	
Sale of old Furniture	1,540	Cash in hand	1,510
Interest on Securities	3,670	Cash at Bank	20,000
Lockers Rent	4,500		

Solution :

Receipts & Payments A/c
for the year ending 31st Dec. 2013

<i>Receipts</i>	<i>Amount</i> (₹)	<i>Payments</i>	<i>Amount</i> (₹)
Balance b/d			
Cash in hand	1,650	Salaries	16,000
Cash at Bank	18,250	Stationery	500

Entrance Fees	1,200	Insurance Premium	800
Donation	18,000	Purchase of Books	10,000
Sale of old furnitruue	1,540	Purchase of Sports Material	20,000
Interest on securities	3,670	Purchase of Bicycle	2,000
Lockers Rent	4,500	Rent paid	12,000
Sale of Investment	25,000	Purchase of Government bonds	10,000
Subscription	15,000	Balance c/d	
Life Membership fees	4,000	Cash in hand	1,510
		Cash at bank	20,000
	92,810		92,810



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Illustration 2

From the information given below prepare Receipts and Payments Account of Rising Sun Club for the year ended on March 31, 2014.

<i>Details</i>	<i>Amounts (₹)</i>
Cash in hand as on 1.04.2013	9,800
Cash at bank as on 1.04.2013	17,600
Subscription :	
2012-13	7,500
2013-14	28,600
2014-15	6,400
42,500	42,500
Entrance Fees	4,000
Life membership Fees	8,000
Donations	35,000
Sale of old Bats and Balls	2,200
Printing and stationery	2,500
Electricity Charges	3,600
Telephone Charges	4,200
Wages and Salaries	14,000
Interest on Investments	2,000

MODULE - 3

Financial Statement



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Not for Profit Organisation : An Introduction

Lockers Rent	2,800
Purchase of Sports Material	20,000
Purchase of Government Securities	40,000
Cash in hand as on 31.03.2014	7,200
Cash at bank as on 31.03.2014	32,400

Solution :

Receipts and Payments A/c for the year ended 31st March 2014

Dr.

Cr.

<i>Particulars</i>	<i>Amount</i>	<i>Particulars</i>	<i>Amount</i>
	(₹)	(₹)	
Balance b/d		Printing & Stationery	2,500
Cash in hand	9,800	Electricity Charges	3,600
Cash at bank	17,600	Telephone Charges	4,200
Subscription		Wages and Salaries	14,000
2012-13 7,500		Purchases of Sports Material	20,000
2013-14 28,600		Purchase of Government	
2014-15 6,400	42,500	Securities	40,000
Entrance Fees	4,000	Balance c/d	
Life membership Fees	8,000	Cash in hand	7,200
Interest on Investments	2,000	Cash at bank	32,400
Locker Rent	2,800		
Donations	35,000		
Sales of old Bats and Balls	2,200		
	1,23,900		1,23,900



INTEXT QUESTIONS 19.4

- (i) In the cash Book, one type of item may appear for a number of times, how many times does an item appear in Receipts and Payments Account?

- (ii) Subscription of ₹ 2,000 has been received for 2013 and ₹ 150 for 2014. How much amount will be shown as subscription received in the Receipts & Payments Account for 2013?
- (iii) Is Life Membership Fees an item of Receipt or Payment Account?



WHAT YOU HAVE LEARNT

- Not-for-Profit Organisations are sports clubs, charitable institutions, schools, welfare societies, health clubs, blood banks, etc.
- Their objective is to serve its members and public in general.
- Summary of Cash Book entries for the year when presented in the form of an Account is called Receipts and Payments A/c.
- All cash transactions are recorded in Receipts and Payments Account irrespective of the transaction being of capital nature or revenue and whether belong to current year or preceeding or succeeding year.
- Receipts and Payments Account is the Cash Book in summary form and becomes the basis of preparing Income and Expenditure A/c and balance Sheet of a Not for Profit organisation.
- Specific items of receipts are subscription, entrance fees, Life membership fees, Endowment fund, Donations, Legacy, sale of old newspapers, government grant, etc. Specific items of payments are purchase of fixed assets, consumable stores, honorarium, etc.



TERMINAL EXERCISE

1. State the meaning of Not-for-Profit organisations and explain in brief the various characteristics of Not-for-Profit Organisations (NPOs).
2. Explain in brief the terms :
(a) Legacy (b) Honorarium
(c) Subscriptions (d) Specific Donation
3. State the meaning of Receipts and Payments Account. Explain the need for preparing Receipts and Payments Account.



Notes



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4. Distinguish between Receipts and Payments Account and Cash Book.
5. From the information given below prepare Receipts and Payments A/c of 'Friends in Need' a Non-Government organisation (NGO) for the year ended 31st December, 2013.

Details

₹

Cash in hand on 1st Jan, 2013	4,000
Entrance fees	1,400
Donations	15,000
Subscription	15,000
Electricity charges	1,500
Salaries 6,500	
Honorarium to Secretary	4,500
Petty Cash Payments	1,800
Paid into Bank as Fixed Deposits	15,000
Insurance Premium	2,100
Grant from the Government	40,000
Stationery	1,200

6. Following are the extracts taken from the Cash Book of HOPE of Kolkata, an organisation looking after the welfare of widows and AIDs patients. Prepare Receipts and Payments Account for the year ended 31st March, 2014.

₹

Balance as on 1st April 2013	48,500
Subscription :	
2012-13 8,000	
2013-14 42,000	
2014-15 5,000	55,000
Donations	1,20,000
Grant in Aid	2,00,000
Legacy	80,000

Receipts from the sale of stitched clothes	32,000
Receipt from the sale of Bakery items	46,000
Wages and Salaries	12,000
Electricity Charges	8,600
Fuel	16,400
General Expenses	9,700
Maintenance of Building	6,000
Insurance Premium	4,000
Laundry Expenses	3,200
Construction of Rooms	1,25,000
Government Bonds	2,50,000
Food	1,20,000
Balance in the Bank A/c	1,00,000



Notes



ANSWERS TO INTEXT QUESTIONS

19.1 (i) X (ii) ✓ (iii) ✓

19.2 I. Receipts : Donation, subscription, Legancy
Payments : Charity, Purchase of Books, Honorarium

II. (i) Need (ii) Characteristics
(iii) Characteristics (iv) Need

19.3 Receipts & Payments A/c

<i>Receipts</i>	<i>Amount</i> ₹	<i>Payments</i>	<i>Amount</i> ₹
Opening Balance	1,800	Wages	800
Subscription	3,600	Purchase of Books	2,400
Entrance fees	400	Telephone Charges	600
Sale of Newspapers	200	Closing Balance	2,500
Interest on Fixed Deposit	300		
	6,300		6300

19.4 (i) Once (ii) ₹ 2,150 (iii) Yes, Receipt



ANSWERS TO TERMINAL EXERCISE

5. Closing cash balance ₹ 15,200

6. Closing cash balance ₹ 46,600



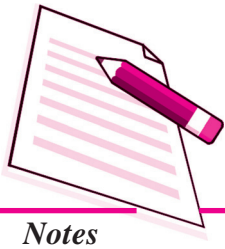
ACTIVITY

Visit at least five Not for Profit Organisations of your city/town/area engaged in the following activities

- (a) Conservation of forest and wild animals.
- (b) AIDS awareness
- (c) Girl child education
- (d) Sports club

and collect the following information :

<i>Name of the organisation</i>	<i>Nature of main activity engaged in</i>	<i>Main source of Revenue</i>



Notes