

## LESSON-20 FINANCIAL STATEMENTS: (NOT FOR PROFIT ORGANISATION)

### SUMMARY

Not-for-Profit Organisations They also maintain books of account to record them and also prepare financial statements at the close of the year. These statements are Receipts and Payments Account, Income and Expenditure Account and Balance Sheet. In the previous lesson, you have learnt the meaning and need for preparing Receipts and Payments Account, items to be taken and also its preparation.

### INCOME AND EXPENDITURE ACCOUNT: MEANING, NEED AND ITEMS

#### Meaning

It is the summary of incomes and expenditures of the organisation of a particular year and is prepared at the end of the year. This account is similar to the Profit and Loss Account of the Business Organisations. In this account revenue expenditure and revenue income of the year for which Income and Expenditure A/c is prepared are taken.

#### Need of preparing Income and Expenditure Account

Even the Not for Profit Organisations would like to know the net result of their activities

of a particular period which generally is one year. Though such organisations do not engage in trading activities and their objective is not earning profits, yet they would like to know whether income exceeds expenditure or vice a versa. The amount of the such difference is not termed as Net Profit or Net Loss as it is so termed in case of business organisations. In case of Not for Profit organisations the net result is termed as 'surplus' or 'deficit' as the case may be. Moreover of a preparation of Income and Expenditure Account is a legal requirement. It helps the organisations to control their expenditure.

### PREPARATION OF INCOME AND EXPENDITURE ACCOUNT

While preparing an Income and Expenditure account, the following important points have to be kept in mind:

- Steps for Expenditure side
- Steps for Income side
- Surplus or Deficit

### ADJUSTMENT OF ITEMS IN INCOME AND EXPENDITURE ACCOUNT

Income and Expenditure A/c is prepared on the basis of Receipts and Payments A/c but there may

be certain items which are not included in Receipts and Payments A/c. However these need to be incorporated in Income and Expenditure A/c. Following are some of the most common adjustments to be carried out :

- Subscription Received
- Rent Paid

### PREPARATION OF BALANCE SHEET

Not for Profit Organisations (NPOs) also prepare Balance Sheet at the end of the year. The Balance Sheet prepared by a Not for Profit Organisation (NPOs) is not different from that which is prepared by for Profit Organisation. It has two sides (a) Assets side and (b) Liabilities side. It has only capital items i.e. Assets, liabilities and Capital fund.

**While preparing Balance Sheet of a Not for Profit organisations (NPOs) certain points are to be kept in mind which are as follows**

1. Assets appearing in the preceding years balance sheet need to be adjusted for any sale or purchase of the asset made during the year and the depreciation provided on the particular asset. Only the adjusted amount will appear in the Balance Sheet of the current year.

2. If any new asset has been purchased during the year it will appear on the payment side of Receipts & Payments A/c, therefrom it is taken to the Balance Sheet.

3. If any loan has been raised it will appear on the receipt side of Receipts and Payments A/c and repayment on its payment side. Net amount will be shown on the liability side of the balance sheet. In the same manner if any advance has been made to a person and some repayment has been made by a person, it will be shown on the Asset side of the Balance sheet at the net amount.

4. Any adjustments made regarding expenses and/or regarding incomes such as outstanding or prepaid will be shown in the Balance Sheet.

5. Any item of liability appearing in the previous years Balance Sheet will be shown at its net value i.e. after deducting from it the amount paid against them.

6. Special receipts like donations for Building etc. will not be treated as income. It will be shown as a fund meant for a special purpose on the liability side of the Balance Sheet.

