

## MODULE - 3

Financial Statements of Profit  
and Not for Profit Organisations



Notes

# 16

## NOT FOR PROFIT ORGANISATIONS – 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 study in this lesson the system of accounting of these organisations i.e. Not for Profit Organisations (NPOs) such as sports club, literacy 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;
- distinguish between Receipts and Payments Account and Cash Book.

### 16.1 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 serve. 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 :

The type of 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

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 prepare the Income and Expenditure Account and balance Sheet with the help of Receipts and Payments Account.



**Notes****INTEXT QUESTIONS 16.1**

Following are the statements about Not-for-Profit organisation. Put  $\checkmark$  mark against the statements which are the salient features of these organisations and  $\times$  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.

### **16.2 RECEIPTS AND PAYMENTS ACCOUNT—MEANING AND NEED**

Like any other organisations 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. Like any other account 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.



**Notes**

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.

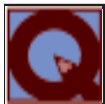
Very small Not-for-Profit Organisations (NPOs) prepare only Receipts and Payments Account.

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

**Format of Receipts and Payments Account**

**Receipts and Payments Account  
For the year ended on .....**

Dr.	Amount Rs	Cr	Amount Rs
Balance b/d :		Purchase of Assets	
Cash		Printing and stationery	
Bank		Repairs and Renewal	
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 16.2**

- 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, 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.

**16.3 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. It appears 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. It is an item of income and 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.



Notes

#### 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 sport material is sold and fetches some money. It is a source of revenue. It is taken to the debit of Receipts and Payments account.

#### 8. Purchase of fixed assets

Assets such as building, machinery, furniture, books etc. are purchased for the organisation. These are items of capital expenditure. These are 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 management 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.

**Notes****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). These are shown on the payment side.

Payments are 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).

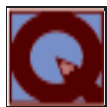
**Preparation of Receipts and Payments Account**

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 written 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 written 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 cld'.

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

**INTEXT QUESTIONS 16.3**

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



**Receipts and Payments A/c  
for the year ended 31st Dec. 2006**

Dr			Cr
Particulars	Amount Rs	Particulars	Amount Rs
Opening	1800	Entrance fees	400
Wages	800	Sale of Newspapers	200
Subscription	3600	Purchase of Books	2400
		Cash in hand	2300
		Telephone charges	600
		Interest on Fixed deposit	300
	6200		6200

**Notes**

**16.4 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. There is a distinction between the two which is given as below :

**Table 16.1** Difference between Receipts and Payments Account and Cash Book

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





**Notes**

**Illustration 1**

From the information given below prepare Receipts and Payments Account for the year ending 31st December, 2006.

Opening Balance :			
Cash in hand	1650	Purchase of Books	10000
Cash at Bank	18250	Purchase of Sports Material	20000
Subscription	15000	Purchase of Bicycle	2000
Entrance Fees	1200	Sale of Investment	25000
Donation	18000	Life Membership Fees	4000
Salaries	16000	Rent paid	12000
Stationery	500	Purchase of Development Bonds	10000
Insurance Premium	800	Closing Balance :	
Sale of old Furniture	1540	Cash in hand	1510
Interest on Securities	3670	Cash at Bank	20000
Lockers Rent	4500		

**Solution :**

**Receipts & Payments A/c  
for the year ending 31st Dec. 2006**

Receipts	Amount (Rs)	Payments	Amount (Rs)
Balance b/d			
Cash in hand	1650	Salaries	16000
Cash at Bank	18250	Stationery	500
Entrance Fees	1200	Insurance Premium	800
Donation	18000	Purchase of Books	10000
Sale of old furnitruce	1540	Purchase of Sports Material	20000
Interest on securities	3670	Purchase of Bicycle	2000
Lockers Rent	4500	Rent paid	12000
Sale of Investment	25000	Purchase of development bonds	10000
Subscription	15000	Balance cld	
Life Membership fees	4000	Cash in hand	1510
		Cash at bank	20000
	92810		92810



**Illustration 2**

From the information given below prepare Receipts and Payments Account of Rising Sun Club for the year ended on March 31, 2006.

Details	Amounts (Rs)
Cash in hand as on 1.04.2005	9800
Cash at bank as on 1.04.2005	17600
Subscription :	
2004-05	7500
2005-06	28600
2006-07	6400
	42500
Entrance Fees	4000
Life membership Fees	8000
Donations	35000
Sale of old Bats and Balls	2200
Printing and stationery	2500
Electricity Charges	3600
Telephone Charges	4200
Wages and Salaries	14000
Interest on Investments	2000
Lockers Rent	2800
Purchase of Sports Material	20000
Purchase of Government Securities	40000
Cash in hand as on 31.03.2006	7200
Cash at bank as on 31.03.2006	32400

**Notes**

**Solution :**

**Receipts and Payments A/c  
for the year ended 31st March 2006**

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
Balance b/d		Printing & Stationery	2500
Cash in hand	9800	Electricity Charges	3600
Cash at bank	17600	Telephone Charges	4200

## MODULE - 3

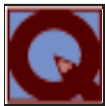
Financial Statements of Profit  
and Not for Profit Organisations



### Notes

## Not for Profit Organisations – An Introduction

Subscription			Wages and Salaries	14000
2004-05	7500		Purchases of Sports Material	20000
2005-06	28600		Purchase of Government	40000
2006-07	6400	42500	Securities	
Entrance Fees		4000	Balance c/d	
Life membership Fees		8000	Cash in hand	7200
Interest on Investments		2000	Cash at bank	32400
Locker Rent		2800		
Donations		35000		
Sales of old Bats and Balls		2200		
		123900		123900



### INTEXT QUESTIONS 16.4

- In the cash Book one type of item may appear number of times, how many times does an item appear in Receipts and Payments Account?
- Subscription of Rs 2000 has been received for 2006 and Rs 150 for 2007. How much amount will be written as subscription received in the Receipts & Payments Account for 2006?
- Is Life Membership Fees an item of Receipt or Payment?



### 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 preceding 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 QUESTIONS**

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) Subscription
  - (d) Specific Donation
3. State the meaning of Receipts and Payments Account. Explain the need for preparing Receipts and Payments Account.
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) of the year ended 31st December, 2006.

Details	Rs.
Cash in hand on 1st Jan, 2006	4000
Entrance fees	1400
Donations	15000
Subscription	15000
Electricity charges	1500
Salaries	6500
Honorarium to Secretary	4500
Petty Cash Payments	1800
Paid into Bank as Fixed Deposits	15000
Insurance Premium	2100
Grant from the Government	40000
Stationery	1200

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, 2006.



**Notes**

## MODULE - 3

Financial Statements of Profit  
and Not for Profit Organisations



### Notes

## Not for Profit Organisations – An Introduction

	Rs
Balance as on 1st April 2005	48500
Subscription	
2004-2005	8000
2005-2006	42000
2006-2007	5000
Donations	120000
Grant in Aid	200000
Legacy	80000
Receipts from the sale of stitched clothes	32000
Receipt from the sale of Bakery items	46000
Wages and Salaries	12000
Electricity Charges	8600
Fuel	16400
General Expenses	9700
Maintenance of Building	6000
Insurance Premium	4000
Laundry Expenses	3200
Construction of Rooms	125000
Government Bonds	250000
Food	120000
Balance in the Bank A/c	100000



## ANSWERS TO INTEXT QUESTIONS

### Intext Questions 16.1

- (i) ✓                      (ii) ✓                      (iii) ×

### Intext Questions 16.2

- I. Receipts : Donation, subscription, Legacy  
    Payments : Charity, Purchase of Books, Honorarium
- II. (i) Need (ii) Characteristics (iii) Characteristics (iv) Need



**Intext Questions 16.3**

**Receipts & Payments A/c**

Receipts	Amount Rs	Payments	Amount Rs
Opening Balance	1800	Wages	800
Subscription	3600	Purchase of Books	2400
Entrance fees	400	Telephone Charges	600
Sale of Newspapers	200	Closing Balance	2500
Interest on Fixed Deposit	300		
	6300		6300

**Notes**

**Intext Questions 16.4**

- (i) Once      (ii) Rs 2150      (iii) Receipt

**Answers to Practical Terminal Questions**

5. Closing cash balance Rs 15200  
6. Closing cash balance Rs 46600



**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 main information about the main source of their revenue.

Name of the organisation	Nature of main activity engaged in	Main source of Revenue