

FINANCIAL STATEMENTS OF NOT-FOR-PROFIT ORGANIZATIONS

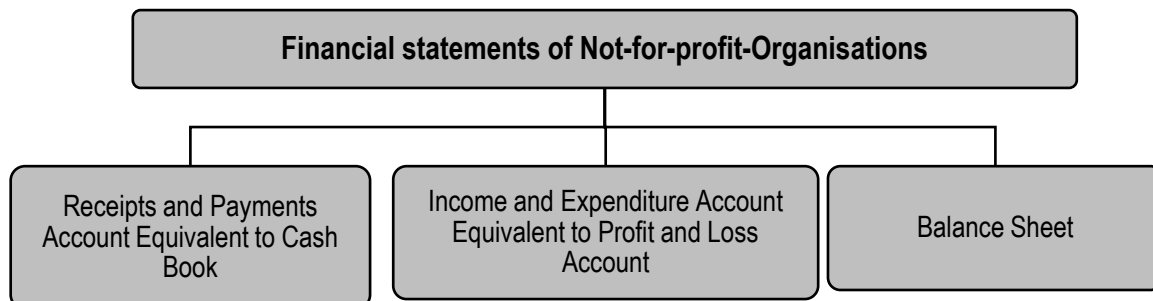


LEARNING OUTCOMES

After studying this unit, you would be able to:

- ◆ Understand the meaning of Not-for-profit-Organisations and distinction between a profit-making organisation and a Not-for-profit-Organisation.
- ◆ Accounting for Not-for-profit-Organisations.
- ◆ Understand the meaning and technique of preparation of Receipts and Payments Account and Income and Expenditure Account and understand the distinction between the two Accounts.
- ◆ Learn the technique of preparing Balance Sheet of Not-for-profit-Organisations.
- ◆ Understand the different adjustments and their accounting treatment in the books of Not for profit organisations.

UNIT OVERVIEW



Donations, Entrance and Admission Fees, Subscription, Life Membership Fee are some of the Sources of incomes for the non-profit organizations which have different treatments based on the nature of the receipts.

1. INTRODUCTION

A non-profit organization is a legal accounting entity that is operated for the benefit of the society as a whole, rather than for the benefit of a sole proprietor or a group of partners or shareholders. The main motive behind the non-profitable organization is to render service to the society or the members of the organisation.

There is difference in the final accounts prepared between the profit making and the non-profitable organisations. The sources of receipts and payments also vary with the nature of the activity that is being carried on by the organisation. Non-profit making organisations such as public hospitals, public educational institutions, clubs, Temples, churches etc., as a part of their final accounts prepare Receipts and Payments Account and Income and Expenditure Account to show periodic performance (either surplus or deficit) and Balance Sheet to show financial position at the end of the period. In this Chapter, we shall discuss the technique of preparing Receipts and Payments Account, Income and Expenditure Accounts and Balance Sheet of not-for-profit organisations.

The Income and Expenditure Account (non- profitable organisation) is just similar to Profit and Loss Account prepared for the profit making organisations but there has been different terminology employed for the word Profit as SURPLUS – excess of income over expenditure or loss as DEFICIT – excess of expenditure over income. In non-profit making organisations, total cash receipts and total cash payments are highlighted through Receipts and Payments Account.

2. NATURE OF RECEIPTS AND PAYMENTS ACCOUNT

A Receipts and Payments Account is a summary of the cash book without date column. It is an elementary form of account commonly adopted by not for profit making concerns such as hospitals, clubs, societies, temples, churches etc., for presenting the receipts and payments periodically together with the cash balances at the beginning and close of the period. The receipts are entered on the left hand side, and payments on the right hand side i.e., the same way as they appear in Cash Book. "The main point to be noted here is that- receipts and payments account is not based on the accrual system of book keeping as it records all the receipts and payments whether capital or revenue, pertaining to the current, previous or future periods."

Features:

- ◆ It is the summary of the cash and bank transactions like cash book, all the receipts (**capital or revenue**) are debited, similarly, all the expenditures (**capital or revenue**) are credited.
- ◆ It starts with opening cash and bank balances and also ends with their closing balances. This account is usually not a part of the double entry system as it includes all cash and bank receipts and payments, whether they are related to present, past or future periods.
- ◆ Surplus or deficit for an accounting period cannot be ascertained from this account, since, it shows only the Cash/Bank position and excludes all non cash items.

ILLUSTRATION 1

The receipts and payments for the Swaraj Club for the year ended March 31, 2020 were: Entrance fees ₹ 300; Membership Fees ₹ 3,000; Donation for Club Pavilion ₹ 10,000, Foodstuff sales ₹ 1,200; Salaries and Wages ₹ 1,200 Purchase of Foodstuff ₹ 800; Construction of Club Pavilion ₹ 11,000; General Expenses ₹ 600; Rent and Taxes ₹ 400; Bank Charges ₹ 160.

Cash in hand–April. 1st ₹ 200, March. 31st ₹ 350

Cash in Bank–April. 1st ₹ 400; March. 31st ₹ 590

You are required to prepare Receipts and Payment Account.

SOLUTION

Swaraj Club
Receipts and Payments Accounts
for the year ended 31st March, 2020

Receipts	₹	Payments	₹
To Balance b/d (opening bal.) Cash in hand	200	By Salaries and Wages	1,200
To Cash with bank	400	By Purchase of Foodstuff	800
To Entrance Fees	300	By Club Pavilion (Expenditure on its construction)	11,000
To Membership Fees	3,000	By General Expenses	600
To Donation of Account of Club Pavilion	10,000	By Rent and Taxes	400
To Sales of foodstuff	1,200	By Bank Charges	160
		By Balance c/d (closing bal) Cash in hand	350
		Cash in bank	590
	15,100		15,100

2.1 Limitations of Receipts and Payments Account

From the study of the above account, it is apparent that the increase in the cash and bank balances at the end of the year, as compared to those in beginning, does not truly represent the surplus for the year since it does not take into account the other important transactions, such as cost of construction of the pavilion, which is in excess of the donation received, the outstanding subscription or those which were collected in advance, etc.

Another important drawback is that the Receipts and Payments Account includes items relating to all periods and of all types whether capital or revenue. In order to ascertain whether the organisation has made surplus or deficit, there is a need to construct an account which considers all the relevant revenue transactions for the current period. Since the Receipts and payments account does not consider the above, its preparation is not favoured except where the activities of the organization, the results of which are to be exhibited, are simple and modest, involve no carry over from one period to the next and it has no assets, apart from cash balance and no liabilities.

3. INCOME AND EXPENDITURE ACCOUNT

The income and expenditure account is **equivalent** to the Profit and Loss Account of a Profit making business enterprise. It is an account which is widely adopted by most of the Non-profit making concerns and is prepared by following **accrual principle**. Only items of revenue nature pertaining to the current period of account are included. The preparation of the account, therefore, requires adjustments in relevant accounts in respect of both outstanding and advance items of income and expenditure. The only difference is in the terms used to represent

the profit and loss. Profit is termed as Surplus- Excess of income over expenditure and loss is termed as Deficit- Excess of expenditure over income.

Non-profit organizations registered under section 8 of the Companies Act, 2013 are required to prepare their Income and Expenditure account and Balance Sheet as per the Schedule III to the Companies Act, 2013.

Features:

- ◆ It is a **revenue account** prepared at the end of the accounting period for finding out the surplus or deficit of that period.
- ◆ It is prepared by matching expenses against the revenue of that period concerned.
- ◆ Both cash and non-cash items, such as depreciation, are taken into consideration.
- ◆ All capital expenditures and incomes are excluded.
- ◆ Only current years' income and expenses are considered. This Surplus/deficit is taken to the balance sheet and is added / deducted respectively with the capital fund (opening balance).

3.1 Main Sources of Income

For a non profit organisation, the sources of income, largely depend on the nature of the activity carried on by them. The income for a charitable hospital is different from that of a income received by a sports club. Broadly for the purposes of solving the illustrations, we can classify the sources of income as subscriptions, ordinary donations, membership fees or entrances fees (if the amount is normal or provided according to bye-laws of the society), recurring grants from local authorities and income from investments, etc.

Any amount raised for a special activity, e.g. on sale of match tickets, is deducted from the expenditure of that activity and net amount is shown in the income and expenditure account. Any receipt of capital nature shall not be shown as income but will be credited to the Capital Fund or special purpose fund e.g. "Building Fund" or if the receipts is on account of sale of a fixed asset, it shall be credited to the asset account. This system of showing the donation towards specific purposes separately is termed as fund accounting.

Examples:

Hospital - medicines and cost of tests and investigations.

Sports Club - sports materials, tournament expenses, etc.

Drama Club - expenses of staging plays, rent of the hall, payment to artists, etc.

Educational Societies - award of scholarships, organisation of seminars, etc.

Library Societies - newspapers and magazines.

Any expenditure for acquisition of a fixed asset will be capitalised, though the amount of annual depreciation shall be debited to revenue expenditure.

It may be noted that after various accounts have been adjusted as is considered necessary by transferring all the revenue accounts to the income and Expenditure account and all the capital items to the balance sheet. If a regular Trial Balance is available, the preparation of the Income and Expenditure Account and the Balance Sheet is on the lines of final accounts.

3.2 Distinction between Receipts and Payments Account and Income and Expenditure Account

Not for profit organizations such as public hospitals, public educational institutions, clubs, Temples, churches etc., conventionally prepare Receipt and Payment Account and Income and Expenditure Account to show periodic performance for a particular accounting period. The distinguishing features of both the accounts can be summarized as:

Receipt and Payment Account is an elementary form of account consisting of a classified summary of cash receipts and payments over a certain period together with cash balances at the beginning and close of the period. The receipts are entered on the left hand side and payments on the right hand side i.e. same sides as those on which they appear in cash book. All the receipts and payments whether of revenue or capital nature are included in this account. The receipts and payments pertaining to the current, previous or future periods are also considered here. The balance of the account at the end of a period represents the difference between the amount of cash received and paid up. It is always in debit since it is made up of cash in hand and at bank.

Income and expenditure account resembles and is drawn in the same form of a Profit and loss account in case of profit-making organisations. Expenditure of revenue nature is shown on the debit side, income and gains of revenue nature are shown on the credit side. Income and Expenditure Account contains all the items of income and expenditure relevant to the current accounting period only, whether received or paid as well as that which have fallen due for recovery or payment. Capital Receipts, prepayments of income and capital expenditures, prepaid expenses are excluded. It does not start with any opening balance. The balancing figure represents the amount by which the income exceeds the expenditure or vice versa.

3.3 Preparation of Income and Expenditure Account from Receipts and Payments Account

Situations may require compilation of Income and Expenditure Account and the Balance Sheet from the Receipts and Payments Account after making adjustments in respect of Income accrued but not collected and expenses outstanding. The preparation of Balance Sheet in such a case is also necessary since an Income and Expenditure Account must always be accompanied by a Balance Sheet. The procedure which should be followed in this regard is briefly outlined below.

- (i) Compute the opening balance of the Accumulated Fund, or Capital Fund of the Institution with the help of making opening balance sheet. It will be excess of the total value of the assets over that of the liabilities at the commencement of the period.
- (ii) Open ledger accounts in respect of various items of income and expenditure (e.g. subscription, rents, printing, purchase of sports materials etc.) in which accruals or outstanding at the beginning or at the end of period have to be adjusted. Enter therein any accrual or outstanding at the end of the period as well as amounts which relate to an earlier period or the following period. The balance of the ledger accounts therefore will represent the amounts or income or expenditure pertaining to the period. These should be transferred to the Income and Expenditure Account.
- (iii) Post from the debit of the Receipts & Payments Account to the credit of the Income and Expenditure Account other items of income wherein accruals and outstanding amount have to be adjusted. Likewise, post item of expenses in which no adjustment is to be made directly to debit of income and Expenditure Account.

- (iv) Transfer the balance of Income and Expenditure Account to the Accumulated Fund/Capital Fund Account.
- (v) Post the receipts and payments of capital nature from the Receipts and Payments Account to the appropriate asset or liability account for incorporating in the Balance Sheet. If a part or whole of an asset has been sold, the capital profit/loss, if any, is credited / debited in the Income and Expenditure Account. The balance of Income and Expenditure Account should be transferred to the Accumulated Fund/Capital Fund Account.
- (vi) Prepare a Balance Sheet by including therein all the balances left over after transfers to the Income and Expenditure Account have been made.

ILLUSTRATION 2

During 2020, subscription received in cash is ₹ 42,000. It includes ₹ 1,600 for 2019 and ₹ 600 for 2021. Also ₹ 3,000 has still to be received for 2020.

Required

Calculate the amount to be credited to Income and Expenditure Account in respect of subscription.

SOLUTION

			₹
Amount received			42,000
Add : Outstanding on 31st Dec., 2020			3,000
			45,000
Less : Received on account of 2020		1,600	
2021		600	(2,200)
			42,800

The various accounts will appear as under:

Subscription Outstanding Account

2020		₹	2020		₹
Jan. 1	To Balance b/d (transfer)	1,600	Dec. 31	By Subscription A/c	1,600
Dec. 31	To Subscription A/c	3,000	Dec. 31	By Balance c/d	3,000
		4,600			4,600
2021					
Jan. 1	To Balance b/d	3,000			

Subscription Account

2020		₹	2020		₹
Dec. 31	To Subscription Outstanding A/c (transfer)	1,600	Dec. 31	By Cash A/c	42,000
Dec. 31	To Subscription received in advance A/c	600	Dec. 31	By Subscription Outstanding A/c	3,000
Dec. 31	To Income and Expenditure A/c	42,800			
		45,000			45,000

Subscription received in Advance Account

2020		₹	2020		₹
Dec. 31	To Balance c/d	600	Dec. 31	By Subscription A/c	600
			2017		
			Jan. 1	By Balance b/d	600

Subscription outstanding ₹ 3,000 and Subscription received in advance ₹ 600 will be shown in the balance sheet on the assets and liabilities side respectively.

 **ILLUSTRATION 3**

Suppose salaries paid during 2020 were ₹ 23,000. The following further information is available:

	₹
Salaries unpaid on 31st March, 2019	1,400
“ pre-paid on “ “ 2019	400
“ un-paid on “ “ 2020	1,800
“ pre-paid “ “ 2020	600

Required

Calculate the amount to be debited to Income and expenditure account in respect of salaries and also show necessary ledger accounts.

 **SOLUTION**
Salaries Account

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
April, 1, 2019	To Prepaid Salaries A/c	400	April, 1, 2019	By Salaries Outstanding A/c	1,400
March, 31, 2020	To Cash	23,000	March, 31, 2020	By Salaries Prepaid A/c	600

	To Salaries Outstanding A/c	1,800		By Transfer to Income & Expenditure A/c	23,200
		25,200			25,200

Salaries Outstanding Account

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
April, 1, 2019	To Salaries A/c	1,400	April, 1, 2019	By Balance b/d	1,400
March, 31, 2020	To Balance c/d	1,800	March, 31, 2020	By Salaries A/c	1,800
		3,200			3,200
			April, 1, 2020	By Balance b/d	1,800

Salaries Prepaid Account

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
April, 2019	To Balance b/d	400	April, 1, 2019	By Salaries A/c (transfer)	400
March, 31, 2020	To Salaries A/c	600	March, 31, 2020	By Balance c/d	600
		1,000			1,000
April, 1, 2020	To Balance b/d	600			



4. BALANCE SHEET

A Balance Sheet is the **statement** of assets and liabilities of an accounting unit at a given date. It is generally prepared at the end of an accounting period after the Income and Expenditure Account has been prepared. It is classified summary of the ledger balances left over, after accounts of all the revenue items have been closed by transfer to the Income and Expenditure Account. In not for profit organizations, the excess of total assets over total outside liabilities is known as **Capital Fund**. The Capital fund represents the amount contributed by members, through legacies, special donations, entrance fees and accumulated surplus over the years. If however, members have not contributed any amount, it shall be termed as "Accumulated fund" instead of "Capital fund". The surplus or deficit, if any, on the year's working as disclosed by the Income and Expenditure Account is shown either as an addition to or deduction from the Capital / Accumulated Fund brought forward from the previous period respectively.

4.1 Accounting Treatment of Some Special Items

4.1.1 Donations: These may have been raised either for meeting some revenue or capital expenditure; those intended for the first mentioned purpose are credited directly to the Income and Expenditure Account but others, if the donors have declared their specific intention, then they are credited to special fund account and in the absence thereof, to the Capital Fund Account. If any investments are purchased out of a special fund or an asset is acquired therefrom, these are disclosed separately. Any income received from such investments or any donations collected for a special purpose are credited to an account indicating the purpose and correspondingly the expenditure incurred in carrying out the purpose of the fund is debited to this account. On no account any

such expense is charged to the Income and Expenditure Account. **The term "Fund" is strictly applicable to the amounts collected for a special purpose when these are invested, e.g. Scholarship Fund, Prize Fund etc.** In other cases, when the amounts collected are not invested in securities or assets distinguishable from those belonging to the institution, the word "Account" is more appropriate e.g. Building Account, Tournament Account etc.

Instead of paying cash, a donor may sometimes give away or transfer a security or some other readily realisable asset. In such a case, the value of asset on valuation, must be credited to the fund for which the amount has been donated.

4.1.2 Entrance and Admission Fees: Such fees which are payable by a member on admission to club or society are normally considered capital receipts and credited to Capital Fund. This is because these do not give rise to any special obligation towards the member who is entitled to the same privileges as others who have paid only their annual subscription. Nevertheless, where the amount is small, meant to cover expenses concerning admission, or the rules of the society provided that such fees could be treated as income of the society, these amounts may be included in the Income and Expenditure Account. The treatment depends upon the requirement of question. If the question is silent then always take it to be capital receipt.

4.1.3 Subscription: Subscriptions being an income should be allocated over the period of their accrual. For testing the knowledge of candidates of this important accounting principle, questions are often set in examinations wherein figures of subscription collected by a society during the year as well as those outstanding at the beginning of the year and at its close are given. If some subscriptions have been received in advance, their amount is also indicated. In such cases, it is always desirable to set up a Subscription Account for determining the amount of subscription pertaining for the period for which accounts are being prepared. For example, if it is stated that subscriptions collected by a society during the year 2020 amounted to ₹ 1,850 out of which ₹ 200 represented subscription for the year 2019; ₹100 were subscriptions collected in advance for the year 2021, and subscriptions amounting to ₹ 500 were outstanding for recovery at the end of 2020, the adjusting journal entries and the Subscription Account should be set up as follows:

		₹	₹
Subscription Outstanding Account	Dr.	500	
To Subscriptions Account			500
(The amount outstanding for this year credited to Subscription Account)			
Subscription A/c	Dr.	300	
To Outstanding Subscription A/c			200
To Subscriptions Received in Advance A/c			100
(Subscription received ₹200 for the previous year and ₹100 for the next year, adjusted)			

Subscription Account

Dr. 2020		₹	2020	Cr. ₹	
Jan 1	To Balance b/d (Outstanding Subscriptions)	200	Dec.	By Cash A/c	1,850

Dec. 31	To Subscriptions received in advance	100		By Balance c/d	
	To Income and Expenditure Account, transfer	2,050		(Subscriptions Outstanding)	500
		2,350			2,350

The amount of outstanding subscription is adjusted in the Subscription Account by debit to Outstanding Subscription Account and that balance is shown as an asset in Balance Sheet. The Subscription Account is closed off by transferring its balance at the end of the year to the Income and Expenditure Account.

4.1.4 Life Membership Fee: Fees received for life membership is a **capital receipt** as it is of non-recurring nature. It is **directly added to capital fund** or general fund.

For adjusting lump sum subscription collected from the life members, one of the following methods can be adopted:

- (1) The entire amount may be carried forward in a special account until the member dies, after which the same may be transferred to the credit of the Accumulated Fund.
- (2) An amount equal to the normal annual subscription may be transferred every year to the Income and Expenditure Account and balance carried forward till it is exhausted. If, however, the life member dies before the whole of the amount paid by him has been transferred in this way, the balance should be transferred to the Accumulated Fund on the date of his death.
- (3) An amount, calculated according to the age and average life of the member, may annually be transferred to the credit of Income and Expenditure Account.

Other concepts

Treatment of Important Items in Not For Profit Organization

1. **Donation:** it is **gift in cash or kind** from some person. It may be of two types:
 - (a) **Specific Donation:** It is received for certain specific purpose like Building Donation, Library Books donation etc. It should be capitalized and shown on the liabilities side of the balance sheet.
 - (b) **General Donation:** It is not received for any specific purpose and shown on the credit side of Income and Expenditure Account.
2. **Entrance Fees:** It may also be known as admission fees. **Entrance Fees should be capitalized** and added to the capital fund for all organization. If the question gives any specific treatment of Entrance fees, then it should be followed accordingly.
3. **Legacy:** It is an amount received by an organization as per the will of the person after the death of the person. It should be capitalized and shown on the liabilities side of the balance sheet by adding to the Capital Fund.
4. **Life Membership Fees:** It should **be capitalized** and shown on the liabilities side of the balance sheet. If the question gives any specific treatment of Life membership Fees, then it should be followed accordingly.

5. **Endowment Fund Donation:** It is a donation received and **only income from that donation is to be used for certain specific purpose**. In such cases income relating to special funds should be added to these funds on the liabilities side of the Balance Sheet. All the expenses should be deducted from that fund on the liabilities side of the Balance Sheet.
6. **Treatment of Sale of Old Newspaper and Periodicals:** The amount received on such sale is shown as Income on the credit side of income and expenditure account.
7. **Sale of old Fixed Assets:** The Sale proceeds of old Fixed Assets are treated as **capital receipts**. The profit or loss on sale of fixed asset is shown in the Income and Expenditure A/c
8. **Honorarium:** It is paid to someone for receiving any services from person who are **not the employees** of the Not for Profit Organisation.

4.2 Preparation of Balance Sheet

- ◆ **Preparation of opening balance sheet and calculation of surplus:** If capital fund or accumulated surplus in the beginning of the year is not given, it is calculated by deducting liabilities from assets in the beginning of year. While calculating opening capital fund, care should be taken to include prepaid expenses and accrued incomes as assets and outstanding expenses and advance incomes as liabilities. Any surplus earned during the year is added to the opening capital fund and deficit suffered during the year is deducted from the opening capital fund.
- ◆ **Cash and bank balance:** Closing cash and bank balance as disclosed in Receipt and Payment Account is shown in the assets side of Balance Sheet. If there is a bank overdraft, it is to be shown on the liabilities side of the balance sheet.
- ◆ **Fixed assets:** Opening balances of Fixed Assets (Furniture, building, equipment, etc.) are increased by the amount of purchases and reduced by sales of the same and depreciation on the same.
- ◆ **Liabilities:** Opening balances of liabilities should be adjusted for any increase or decrease in the same.

Note: The illustrations explained in this chapter comprise of clubs not registered under the Companies Act, 2013. Therefore, Income & Expenditure Account and Balance Sheet are not prepared as per Schedule III of the Companies Act, 2013.

ILLUSTRATION 4

Following is the Receipts and Payments Account of New bird Forty Club for the year ended 31st March, 2020:

Dr	Receipts and payments A/c for the year ended on 31st March 2020		Cr
Receipts	Amount (₹)	Payments	Amount (₹)
To balance b/d	2,50,000	By Salaries and wages	1,65,000
To Subscription- 2018-2019	65,000	By Office expenses	35,000
2019-2020	3,55,000	By Sports equipment	3,42,000
To Donations	55,000	By Telephone Charges	28,000
To Entrance fees	85,000	By Electricity charges	32,000
		By Travelling and conveyance	65,000

		By balance c/d	1,43,000
	8,10,000		8,10,000

Additional information :

- (a) Outstanding subscriptions for the year ended 31st March, 2020 – ₹ 55,000.
 (b) Outstanding salaries and wages – ₹ 40,000 for the year ended on 31st March 2020.
 (c) Depreciate sports equipment by 25% for the year ended on 31st March 2020.
 (d) Capitalize 50% of the entrance fees.

Prepare Income and Expenditure Account of the club from the above particulars for the year ended on 31st March 2020.

 **SOLUTION**
In the books of New bird forty Club

Dr		Income and expenditure Account for the year ended on 31 st March 2020		Cr	
Expenditure	Amount (₹)	Income		Amount (₹)	
Salaries and wages	1,65,000	By Subscriptions	4,20,000		
Add: Outstanding Salaries for 2020	<u>40,000</u>	Add: Outstanding Subscriptions for 2020	55,000		
	2,05,000	Less: Outstanding Subscriptions for 2019	<u>65,000</u>	4,10,000	
To Office expenses	35,000	By Donations		55,000	
To Depreciation (25% × 3,42,000)	85,500	By Entrance fees (50% × 85,000)		42,500	
To Telephone Charges	28,000				
To Electricity charges	32,000				
To Travelling and conveyance	65,000				
Excess of income over expenditure	57,000				
	<u>5,07,500</u>			<u>5,07,500</u>	

 **ILLUSTRATION 5**

From the following information of a club show the amounts of match expenses and match fund in the appropriate Financial Statements of the club for the year ended on 31st March, 2020:

Details	Amount (₹)
Match expenses paid during the year ended 31 st March 2020	1,10,000
Match fund as on 01.04.2019	30,000
Donations for Match fund (received during the year)	55,000
Proceeds from the sale of the match tickets (during the year)	20,000

 SOLUTION
Balance sheet as at March 31st 2020 (extract)

Liabilities	Amt. (₹)	Assets	Amt (₹)
Match fund	30,000		
Add: Donation for match fund	55,000		
Add: Proceeds from sale of tickets	20,000		
Less: Match expenses (Note)	(1,05,000)		
	NIL		

Note: Since the expenses incurred are more than the Match fund available ₹ 1,05,000 we are limiting the expenses to ₹ 1,05,000. The remaining expenses of ₹ 5000 (1,10,000-1,05,000) will be debited to the Income and expenditure account.

 ILLUSTRATION 6

During the year ended 31st March, 2020, the subscriptions received by the Jaipur Literary Society were ₹ 4,50,000. These subscriptions include ₹ 20,000 received for the year ended 31st March, 2019. On 31st March, 2020, subscriptions due but not received were ₹ 15,000. Advance subscription received for the year ending 31st March 2020 but pertaining to year 2021 amounted to ₹ 26,000. The Subscriptions received in advance for the year ending 31st March, 2019 includes ₹ 18,000 pertaining to year 2019-20. What amount should be credited to Income and Expenditure Account for the year ended 31st March, 2020 as income from subscriptions. Show the subscription account in book of the society?

 SOLUTION

In the books of Jaipur literary society

Dr		Cr	
Subscription A/c (for the year ended on 31 st March 2020)			
Particulars	Amount (₹)	Particulars	Amount (₹)
To outstanding subscriptions (2019)	20,000	By Advance subscriptions (2019)	18,000
To Income from Subscriptions A/c	4,37,000	By Bank A/c	4,50,000
To Advance subscriptions (2021)	26,000	By Outstanding subscriptions (2020)	15,000
	4,83,000		4,83,000

 ILLUSTRATION 7

From the following information, calculate amount of subscriptions outstanding for the year ended 31st March, 2020.

A club has 350 members each paying an annual subscription of ₹ 1,050. The Receipts and Payments Account for the year showed a sum of ₹ 4,10,000 received as subscriptions. The following additional information is provided:

Subscriptions Outstanding on 31st March, 2019 – ₹ 45,000

Subscriptions Received in Advance on 31st March, 2020 – ₹ 62,000

Subscriptions Received in Advance on 31st March, 2019 – ₹ 30,000

 **SOLUTION**

Subscription Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Outstanding subscriptions (2019)	45,000	By Advance subscriptions (2019)	30,000
To Income from subscriptions A/c (350*1050)	3,67,500	By Bank A/c	4,10,000
To Advance subscriptions (2021)	62,000	By Outstanding subscriptions (2019)	34,500
	4,74,500		4,74,500

 **ILLUSTRATION 8**

The following was the Receipts and Payments Account of Exe Club for the year ended March. 31, 2020

All the figures in thousands

Receipts	₹	Payments	₹
Cash in hand	100	Groundsman's Fee	750
Balance at Bank as per Pass Book:		Moving Machine	1,500
Deposit Account	2,230	Rent of Ground	250
Current Account	600	Cost of Teas	250
Bank Interest	30	Fares	400
Donations and Subscriptions	2,600	Printing & Office Expenses	280
Receipts from teas	300	Repairs to Equipment	500
Contribution to fares	100	Honorarium to Secretary and Treasurer of 2019	400
Sale of Equipment	80	Balance at Bank as per Pass Book:	
Net proceeds of Variety Entertainment	780	Deposit Account	3,090
Donation for forth coming		Current Account	150
Tournament	1,000	Cash in hand	250
	7,820		7,820

You are given the following additional information:

	April, 1, 2019	March, 31, 2020
	₹	₹
Subscription due	150	100
Amount due for printing etc.	100	80
Cheques unrepresented being payment for repairs	300	260

Estimated value of machinery and equipment	800	1,750
Interest not yet entered in the Pass book		20
Bonus to Groundsman outstanding		300

For the year ended March. 31, 2020, the honorarium to the Secretary and Treasurer are to be increased by a total of ₹ 200. Prepare the Income and Expenditure Account and Balance Sheet for period ending 31st March, -2020. .

**SOLUTION**

**Income and Expenditure Account of Exe Club
for the year ending 31st March, 2020**

(all figures in thousand)

Expenditure		₹	Income	₹
To Groundsman's fee		750	By Donations and Subscription	2,550
To Rent of Ground		250	By Receipts from teas	50
To Fares' Expenses	400		(Fares) less expenses (₹ 300 - ₹ 250)	
Less : Contribution	(100)	300		
To Printing & Office Expenses		260	By Proceeds of Variety Entertainment	780
To Repairs		460	By Interest (₹ 30 + ₹ 20)	50
To Depreciation on Machinery				
Opening balance and Purchases	2,300			
Less: Closing Balance	(1,750)			
	550			
Less: Sale	(80)	470		
To Honorarium to Sect. & Treasurer		600		
To Bonus to Groundsman		300		
To Excess of Income over Expenditure		40		
		3,430		3,430

Balance Sheet of Exe Club as on 31st March, 2020

Liabilities		₹	Assets	₹
Outstanding Expenses:				
Groundsman Bonus		300	Cash in hand	250
Printing		80	Cash in Deposit A/c	3,090
Honorarium		600	Subscription Due	100
Bank Overdraft (₹260 – ₹150)		110	Interest Due	20
Capital Fund: Opening	3,080		Machinery & Equipments	1,750
Add: Surplus for the year	40	3,120		
Tournament Fund (Donation)		1,000		
		5,210		5,210

Balance Sheet as on 1st April, 2019

Liabilities	₹	Assets	₹
Outstanding Expenses and Honorarium (₹100 + ₹400)	500	Cash in hand	100
Capital Fund (Balancing Figure)	3,080	Cash in Deposit A/c	2,230
		Cash in Current A/c	300
		Subscription Due	150
		Machinery	800
	3,580		3,580

 ILLUSTRATION 9

The Sportwriters Club gives the following Receipts and Payments Account for the year ended March 31, 2020:

Receipts and Payments Account

Receipts	₹	Payments	₹
To Balance b/d	4,820	By Salaries	12,000
To Subscriptions	28,600	By Rent and electricity	7,220
To Miscellaneous income	700	By Library books	1,000
To Interest on Fixed deposit	2,000	By Magazines and newspapers	2,172
		By Sundry expenses	10,278
		By Sports equipments	1,000
		By Balance c/d	2,450
	36,120		36,120

Figures of other assets and liabilities are furnished as follows:

	As at March 31	
	₹	₹
	2019	2020
Salaries outstanding	710	170
Outstanding rent & electricity	864	973
Outstanding for magazines and newspapers	226	340
Fixed Deposit (10%) with bank	20,000	20,000
Interest accrued thereon	500	500
Subscription receivable	1,263	1,575
Prepaid expenses	417	620
Furniture	9,600	
Sports equipments	7,200	
Library books	5,000	

The closing values of furniture and sports equipments are to be determined after charging depreciation at 10% and 20% p.a. respectively inclusive of the additions, if any, during the year. The Club's library books are revalued at the end of every year and the value at the end of March 31, 2020 was ₹ 5,250.

Required

From the above information you are required to prepare:

- The Club's Balance Sheet as at March 31, 2019;
- The Club's Income and Expenditure Account for the year ended March 31, 2020.
- The Club's Closing Balance Sheet as at March 31, 2020.

**SOLUTION****(a) Sportswriters Club****Balance Sheet as on 31st March, 2019**

Liabilities	₹	₹	Assets	₹
Outstanding expenses:			Furniture	9,600
Salaries	710		Library Books	5,000
Rent & Electricity	864		Sports Equipment	7,200
Magazines & Newspapers	226	1,800	Fixed Deposit	20,000
Capital Fund (Balancing figure)		47,000	Cash in hand & at Bank	4,820
			Prepaid Expenses	417
			Subscription receivable	1,263
			Interest accrued	500
		48,800		48,800

(b) Income and Expenditure Account for the year ending 31st March, 2020

Expenditure		₹	Income	₹
To Salaries		11,460	By Subscription	28,912
To Rent & Electricity		7,329	By Interest on Fixed Deposit	2,000
To Magazines & Newspapers		2,286	By Misc. Income	700
To Sundry Expenses		10,075	By Excess of expenditure over income	2,888
To Depreciation :				
Furniture	960			
Sports Equipment	1,640			
Library Books	750	3,350		
		34,500		34,500

(c) **Balance Sheet of Sports Writers Club**
as on 31st March, 2020

Liabilities	₹	₹	Assets	₹	₹
Outstanding Expenses:			Furniture		
Salaries	170		Cost	9,600	
Rent & Electricity	973		Less : Depreciation	(960)	8,640
Newspapers	340	1,483	Magazines & Sport		
Capital Fund:			Equipment:		
Opening balance	47,000		Opening balance	7,200	
Less : Excess of			Addition	1,000	
exp. over income	(2,888)	44,112		8,200	
			Less : Depreciation	(1,640)	6,560
			Library Books :		
			Opening Balance	5,000	
			Addition	1,000	
				6,000	
			Less : Depreciation	(750)	5,250
			Fixed Deposit		20,000
			Cash in hand & at bank		2,450
			Prepaid Expenses		620
			Subscription Receivable		1,575
			Interest accrued		500
		45,595			45,595

Working Notes:

(i)	Expenses	Salaries	Rent & Electricity	Magazines & News-Papers	Sundry Expenses
		₹	₹	₹	₹
	Paid during the year	12,000	7,220	2,172	10,278
	Add : Outstanding on 31.3.2020	170	973	340	–
	Add : Prepaid on 31.3.2019	–	–	–	417
		12,170	8,193	2,512	10,695
	Less : Outstanding on 31.3.2019	(710)	(864)	(226)	–
	Less : Prepaid on 31.3.2020	–	–	–	(620)
	Expenditure for the year	11,460	7,329	2,286	10,075

(ii)	Depreciation				₹
	(a) Furniture @10% on ₹ 9,600				960
	(b) Sports Equipment @ 20% on ₹ 8,200				1,640
	(c) Library books - book value			6,000	
	Revalued at			(5,250)	750
(iii)	Subscription				
	Received in cash				28,600
	Add : Receivable on 31.3.2020				1,575
					30,175
	Less: Receivable on 31.3.2019				(1,263)
					28,912

ILLUSTRATION 10

The Income and Expenditure Account of the Youth Club for the Year 2020 is as follows:

Expenditure		₹	Income		₹
To	Salaries	4,750	By	Subscription	7,500
To	General Expenses	500	By	Entrance Fees	250
To	Audit Fee	250	By	Contribution for	
To	Secretary's Honorarium	1,000		annual dinner	1,000
To	Stationery & Printing	450	By	Annual Sport meet	
To	Annual Dinner Expenses	1,500		receipts	750
To	Interest & Bank Charges	150			
To	Depreciation	300			
To	Surplus	600			
		9,500			9,500

This account had been prepared after the following adjustments:

	₹
Subscription outstanding at the end of 2019	600
Subscription received in Advance on 31st December, 2019	450
Subscription received in advance on 31st December, 2020	270
Subscription outstanding on 31st December, 2020	750

Salaries Outstanding at the beginning and the end of 2020 were respectively ₹ 400 and ₹ 450. General Expenses include insurance prepaid to the extent of ₹ 60. Audit fee for 2020 is as yet unpaid. During 2020 audit fee for 2019 was paid amounting to ₹ 200.

The Club owned a freehold lease of ground valued at ₹10,000. The club had sports equipment on 1st January,

2020 valued at ₹ 2,600. At the end of the year, after depreciation, this equipment amounted to ₹ 2,700. In 2019, the Club has raised a bank loan of ₹ 2,000. This was outstanding throughout 2020. On 31st December, 2020 cash in hand amounted to ₹ 1,600.

Required

Prepare the Receipts and Payments Account for 2020 and Balance Sheet as at the end of the year.

**SOLUTION****The Youth Club****Receipts and Payments Account for the year ended 31st December, 2020**

Receipts		₹	₹	Payments		₹	₹
To	Balance b/d (balancing figure)		1,390	By	Salaries	4,750	
To	Subscriptions as per Income & Expenditure Account	7500			Add: Paid for 2019	400	
	Add: 2019's Received	600			Less: Unpaid for 2020	(450)	4,700
	2021's Received	270		By	General Expenses	500	
		8,370			Add : Paid for 2021	60	560
	Less: 2020's Received in 2019	(450)		By	Audit fee (2020)		200
		7,920		By	Secy. Honorarium		1,000
	Less: 2020's Outstanding	(750)	7,170	By	Stationery & Printing		450
To	Entrance Fees		250	By	Annual Dinner Expenses		1,500
To	Contribution for annual dinner		1,000	By	Interest & Bank Charges		150
To	Annual sport meet receipt		750	By	Sports Equipments [2700 - (2600 - 300)]		400
				By	Balance c/d		1,600
			10,560				10,560
To	Balance b/d		1,600				

Balance Sheet of Youth Club as on December 31, 2020

Liabilities	₹	₹	Assets	₹	₹
Subscription received in advance		270	Freehold Ground		10,000
Audit Fee Outstanding		250	Sport Equipment: As per last		
Salaries Outstanding		450	Balance Sheet	2,600	

Bank Loan		2,000	Additions	400	
Capital Fund :				3,000	
Balance as per previous			Less : Depreciation	(300)	2,700
Balance Sheet	11,540				
Add : Surplus for 2020	600	12,140	Subscription Outstanding		750
			Insurance Prepaid		60
			Cash in hand		1,600
		15,110			15,110

Balance Sheet of Youth Club as on 31st December, 2019

Liabilities	₹	Assets	₹
Subscriptions received in advance	450	Freehold Ground	10,000
Salaries outstanding	400	Sports Equipment	2,600
Audit fees unpaid	200	Subscriptions Outstanding	600
Bank Loan	2,000	Cash in hand	1,390
Capital Fund (balancing figure)	11,540		
	14,590		14,590

ILLUSTRATION 11

From the following Income and Expenditure Account and the Balance Sheet of a club, prepare its Receipts and Payments Account and Subscription Account for the year ended 31st March, 2020:

Income & Expenditure Account for the year 2019-20

	₹		₹
To Upkeep of Ground	10,000	By Subscriptions	17,320
To Printing	1,000	By Sale of Newspapers (Old)	260
To Salaries	11,000	By Lectures	1,500
To Depreciation on Furniture	1,000	By Entrance Fee	1,300
To Rent	600	By Miscellaneous Income	400
		By Deficit	2,820
	23,600		23,600

Balance Sheet as at 31st March, 2020

Liabilities	₹	Assets	₹
Subscription in Advance (2020-21)	100	Furniture	9,000
Prize Fund :		Ground and Building	47,000
Opening Balance	25,000	Prize Fund Investment	20,000
		Cash in Hand	2,300

Add : Interest	1,000		Subscription (outstanding) (2019-20)	700
	26,000			
Less : Prizes	(2,000)	24,000		
General Fund :				
Opening Balance	56,420			
Less : Deficit	(2,820)			
	53,600			
Add : Entrance Fee	1,300	54,900		
		79,000		79,000

The following adjustments have been made in the above accounts:

- (1) Upkeep of ground ₹ 600 and Printing ₹ 240 relating to 2018-2019 were paid in 2019-20.
- (2) One-half of entrance fee has been capitalised by transfer to General Fund.
- (3) Subscription outstanding in 2018-19 was ₹ 800 and for 2019-20 ₹ 700.
- (4) Subscription received in advance in 2018-19 was ₹ 200 and in 2019-20 for 2020-21 ₹ 100.



SOLUTION

Receipts and Payments Account for the year ending 31st March, 2020

Receipts	₹	Payments	₹
To Balance b/d (Balancing figure)	4,660	By Upkeep of Ground (10,000 + 600)	10,600
To Subscription	17,320	By Printing (1,000 + 240)	1,240
To Interest on Prize Fund Investments	1,000	By Salaries	11,000
To Lecture (fee)	1,500	By Rent	600
To Entrance Fee	2,600	By Prizes	2,000
To Sale of Newspapers (old)	260	By Balance c/d	2,300
To Misc. Income	400		
	27,740		27,740

Note: In order to arrive at the payments under Upkeep of ground and printing, even the payment for 2018-19 has been considered, as receipts and payments A/c shows all the period payments

Subscription Account

2019		₹	2019		₹
April	To Subscription Outstanding (2018-19)	800	April 1	By Cash (Balancing figure)	17,320
				By Subscription Outstanding (2019-20)	700

2020 March	To	Subscription In Advance (2020-21)	100	By	Subscription in Advance (2018-19)	200
	To	Income & Expenditure A/c	17,320			
			18,220			18,220

5. EDUCATIONAL INSTITUTIONS

Registration

The educational institutions which are functioning in India are mostly registered as Societies under the Indian Societies Registration Act of 1860, in some of the States, where Public Trust Acts have been passed all the Societies registered under the Indian Societies Registration Act, 1860 are required to be simultaneously registered under the Trust Act. Accordingly, in the State of Maharashtra, all the Societies have simultaneously been registered under the Bombay Public Trust Act, 1950.

Organizational Pattern

The Trust Societies are autonomous bodies with office bearers consisting of President, Secretary, Treasurer and Executive Committee Members. The General Body consists of all the Members of the Society. In case of Societies/Trusts which run a number of colleges and schools etc., for managing the affairs of each individual school or college, there is a governing body, wherein the head of the Unit, such as Principal of the college or Head Master of the school as, the case may be, are also members of the Governing Body.

The function of the Governing Body is to supervise the smooth functioning of the individual school or college.

Salient Features

The basic tenets pre-suppose, that part of the expenses of the educational institutions are met from the funds raised by the educational institutions themselves, either from donations, or from charities, collected from benevolent citizens in the country.

The State Governments through grant-in-aid-code have evolved different patterns of giving assistance to the educational institutions. There is, as such, no uniformity in the giving of assistance to the educational institutions in the form of grants.

All the educational institutions follow financial year as their accounting year.

5.1 Sources of Finance for Running the Educational Institution

There are three main sources through which amounts are collected by the educational institutions. These are:

- (1) Donation from Public;
- (2) Fees in the form of annual tuition fees, term fees, admission fees, laboratory fee etc., and
- (3) Grants received from the Government.

The Government grants are of four kinds namely Maintenance Grant, Equipment grant, Building Grant and such other grants as may be sanctioned by the Government from time to time.

5.2 Specific items

5.2.1 Donation from Public

These are received either for recurring or non-recurring purposes. Donations are received either in cash or in kind. The 'in kind' donations are in the form of land and building, shares and securities, utensils, furniture and fixtures and the like, generally with a desire to perpetuate the memory of a distinguished member of the family of the donor.

5.2.2 Capitation fees or admission fees

Amounts are collected from parents/guardians of the students who seek admission in the educational institution. These are either in the form of capitation fees or admission fees and are generally collected by the Parent Body which runs the institution. In recent times, such collections have been a matter of severe attack and ban.

5.2.3 Laboratory and Library deposit

These are generally collected by schools and colleges and they remain with the institution till the student finally leaves it.

The School Code prescribes the rates of tuition and other fees, to be charged from the students.

5.2.4 Use of Term Fees

A separate account of receipts and expenditures shall be maintained and surplus carried over to the next year. The following are main items on which term fee can be used:

- (1) Medical Inspection.
- (2) School Magazine-manuscript and/or printing.
- (3) Examination expenses i.e. printing, of question papers and supply of answer books if there is sufficient balance.
- (4) Contribution to athletic and cultural associations, connected with school activities.
- (5) School functions and festivals.
- (6) Inter-class and Inter-school tournaments.
- (7) Sports and Games-major and minor.
- (8) Newspapers and magazines.
- (9) Extra-curricular excursion and visits.
- (10) School competition such as elocution competition etc.
- (11) Scouting and Guiding.
- (12) School Band.
- (13) Social and Cultural activities and equipment required for the same.
- (14) Vocational Guidance in general.
- (15) Prizes for Co-curricular activities.

- (16) Any other extra-curricular or co-curricular activities.
- (17) Maintenance of playground.
- (18) Purchase of books for Pupils Library.
- (19) Drawing and Craft material.
- (20) Audio-Visual Education.
- (21) Curricular visits and excursions.
- (22) Equipment for Physical education.

5.2.5 Recurring grants

Recurring grants in the form of Maintenance Grants are received in instalments spread out throughout the year.

5.2.6 Use of grant-in-aid

The School Code provides a detailed list of items of expenditure which are admissible for grant-in-aid:

- (1) Staff salaries and allowances
- (2) Leave Allowance.
- (3) Bad Climate Allowance.
- (4) Water Allowance.
- (5) Leave Salary.
- (6) Expenditure on training of teachers.
- (7) Pension and Gratuity as may be applicable.
- (8) Expenditure on the appointment of Librarian.
- (9) Rent, Taxes and Insurance.
- (10) Other Contingencies: expenditure of printing and stationery, conveyance expenditure, expenditure on purchase of books and furniture equipment.
- (11) Current repairs.
- (12) Miscellaneous Expenses: e.g. School Garden, Physical Education.
- (13) Prizes.
- (14) Expenditure on co-operative stores.
- (15) Registration fee paid to the Board for recognition.
- (16) Maintenance of Tiffin Rooms.
- (17) Bonus to Teachers.
- (18) Electrical charges.
- (19) Telephone Charges.

- (20) Expenditure in connection with Conferences.
- (21) Subscription to educational Association etc.
- (22) Medical charges.
- (23) Audit fees of the auditors in accordance with prescribed scale.
- (24) Sales-tax and General tax on purchase of the school requirements.
- (25) Payments for merit scholarships.

 **ILLUSTRATION 12**

From the following balances and particulars of Republic College, prepare Income & Expenditure Account for the year ended March, 2020 and a Balance Sheet as on the date :

	₹	₹
Seminars & Conference Receipts		4,80,000
Consultancy Receipts		1,28,000
Security Deposit - Students		1,50,000
Capital Fund		16,06,000
Research Fund		8,00,000
Building Fund		25,00,000
Provident Fund		5,10,000
Tuition Fee Received		8,00,000
Government Grants		5,00,000
Donations		50,000
Interest & Dividends on Investments		1,85,000
Hostel Room Rent		1,75,000
Mess Receipts (Net)		2,00,000
College Stores-Sales		7,50,000
Outstanding expenses		2,25,000
Stock of-stores and Supplies (opening)	3,00,000	
Purchases - Stores & Supplies	8,00,000	
Salaries - Teaching	8,50,000	
Research	1,20,000	
Scholarships	80,000	
Students Welfare expenses	38,000	
Repairs & Maintenance	1,12,000	
Games & Sports Expenses	50,000	
Misc. Expenses	65,000	

Research Fund Investments	8,00,000	
Other Investments	18,50,000	
Provident Fund Investment	5,10,000	
Seminar & Conference Expenses	4,50,000	
Consultancy Expenses	28,000	
Land	1,00,000	
Building	16,00,000	
Plant and Machinery	8,50,000	
Furniture and Fittings	6,00,000	
Motor Vehicle	1,80,000	
Provision for Depreciation:		
Building		4,80,000
Plant & Equipment		5,10,000
Furniture & Fittings		3,36,000
Cash at Bank	6,42,000	
Library	3,60,000	
	1,03,85,000	1,03,85,000

Adjustments:

	₹
(1) Materials & Supplies consumed: (From college stores)	
Teaching	50,000
Research	1,50,000
Students Welfare	75,000
Games or Sports	25,000
(2) Tuition fee receivable from Government for backward class Scholars	80,000
(3) Stores selling prices are fixed to give a net profit of 10% on selling price	
(4) Depreciation is provided on straight line basis at the following rates:	
(1) Building	5%
(2) Plant & Equipment	10%
(3) Furniture & Fixtures	10%
(4) Motor Vehicle	20%

 SOLUTION

Republic College
Income and Expenditure Account for the year ending 31st March, 2020

Expenditure	₹	₹	Income	₹	₹
To Salaries:			By Tuitions & other fee		8,80,000
Teaching		8,50,000	By Govt. Grants		5,00,000
Research		1,20,000			
To Material & Supplies Consumed:			By Income from Investments		1,85,000
Teaching		50,000	By Hostel room Rent		1,75,000
Research		1,50,000	By Mess Receipts		2,00,000
To Repairs & Maintenance		1,12,000	By Profit-Stores Sales		75,000
To Sports & Games Expenses:			By Seminar and Conferences:		
Cash	50,000		Income	4,80,000	
Materials	25,000	75,000	By Less : Expenses	(4,50,000)	30,000
To Students Welfare Expenses:			By Consultancy charges :		
Cash	38,000		Income	1,28,000	
Materials	75,000	1,13,000	Less : Expenses	(28,000)	1,00,000
To Misc. Expenses		65,000	By Donations		50,000
To Scholarships		80,000			
To Depreciation:					
Building		80,000			
Plant & Equipment		85,000			
Furniture		60,000			
Motor Vehicle		36,000			
To Excess of Income over Expenditure		3,19,000			
		21,95,000			21,95,000

Republic College
Balance Sheet as on 31st March, 2020

Liabilities	₹	₹	Assets	₹	₹
Capital Fund			Fixed Assets:		
Opening balance	16,06,000		Land		1,00,000
Add: Excess of Income over Expenditure	3,19,000	19,25,000	Building Cost	16,00,000	
			Less: Depreciation	(5,60,000)	10,40,000
			Equipment Cost	8,50,000	

Other Funds			Less: Depreciation	(5,95,000)	2,55,000
Research Fund	8,00,000		Furniture & Fittings:		
Building Fund	25,00,000		Cost	6,00,000	
			Less: Depreciation	(3,96,000)	2,04,000
Current Liabilities :			Motor Vehicles		
Outstanding Expenses	2,25,000		Cost :	1,80,000	
Provident Fund	5,10,000		Less: Depreciation	(36,000)	1,44,000
Security Deposit	1,50,000		Library		3,60,000
			Investments:		
			Capital Fund Investments		18,50,000
			Research Fund Investment		8,00,000
			P.F. Investment		5,10,000
			Stock (stores)		
			Material & Supplies		1,25,000
			Tuition fees receivable		80,000
			Cash in hand & at Bank		6,42,000
		61,10,000			61,10,000

Working Notes :

			₹	₹
(1)	Material & Supplies - Closing Stock			
	Opening Stock			3,00,000
	Purchases			8,00,000
				11,00,000
	Less : Cost of Material & Supplies (7,50,000*90% (100-10))		6,75,000	
	Consumed		3,00,000	(9,75,000)
	Balance			1,25,000
(2)	Provisions for Depreciation			
		Building	Plant & Equipment	Furniture & Fitting
		₹	₹	₹
	Opening Balance	4,80,000	5,10,000	3,36,000
	Addition	80,000	85,000	60,000
	Closing Balance	5,60,000	5,95,000	3,96,000
	<i>Note:</i> Expense related to income earned like consultancy charges, conference expenses are shown as net of income.			

SUMMARY

- ◆ A non profit organization is a legal accounting entity that is operated for the benefit of the society as a whole, rather than for the benefit of a sole proprietor or a group of partners or shareholders. Financial Statements of such organizations consists of:
 1. Receipts and Payments Account
 2. Income and Expenditure Account
 3. Balance Sheet
- ◆ A Receipts and Payments Account is a summary of the cash book.
- ◆ The income and expenditure account is equivalent to the Profit and Loss Account of a profit making enterprise and is based on the accrual principle of accounting. Only items of revenue nature pertaining to the current accounting period are recorded.
- ◆ Non-profit organizations registered under section 8 of the Companies Act, 2013 are required to prepare their Income and Expenditure account and Balance Sheet as per the Schedule III to the Companies Act, 2013.
- ◆ It may be noted that after various accounts have been adjusted as is considered necessary - all the revenue accounts shall be closed by transfer to the Income and Expenditure Account, and the remaining balances of capital accounts will be closed by transferring the balances to the balance sheet. To ascertain the opening capital fund- the opening balance sheet will also be prepared. A balance sheet is thus a complement to such an account.
- ◆ Donations, Entrance and Admission Fees, Subscription, Life Membership Fee are some of the sources of incomes for the non-profit organizations. These sources of income are either taken to the Income and Expenditure account or the balance sheet, based on the nature, of the receipt.
- ◆ Educational institutions are quite different from other not-for-profit organisations in terms of sources of finance and items of expenditure.

TEST YOUR KNOWLEDGE

True and False

1. The Receipts and payment account for a non-profit organization follows the accrual concept of accounting.
2. Both the revenue and capital nature transactions are recorded in the Income and expenditure account.
3. Sale of grass by a sports club is to be treated as sale of an asset.
4. Subscriptions outstanding for the current year are disclosed under the Fixed assets side of the Balance sheet.
5. Receipts and payments account gives the details about the expenses outstanding for the year.
6. Adjustments in the form of additional information shall be adjusted in the final accounts of a Non- profit organisation only in one place.

7. Tournament expenses incurred are more than the Tournament fund, then the excess to be shown as an asset in the closing Balance sheet.
8. For Non-profit organisation, Excess of income over expenditure in the Income and Expenditure account is termed as profit.
9. Surplus of non-profit organizations is distributed among its members.
10. Tournament fund, building fund, library fund is based on the fund based accounting.
11. Subscription fees refers to the one-time fees paid by the members to get admission for the benefits of the club.
12. Token payment made to a person, who voluntarily undertakes a service which would normally be paid in case of profitable organization is termed as Honorarium.
13. An Insurance company is an example of non-profit organization.
14. Part amount of entrance fees which is to be capitalized shall be disclosed in the income and expenditure account.
15. Both the income and expenditure of the current and the previous year are recorded in the Income and Expenditure account.
16. Amount received as donation by an Non-profit organisation under the will of a deceased person is termed as legacy.
17. Where a Non-profit organisation has a separate trading activity, the profit/loss from the trading account shall be transferred to Income and Expenditure Account at the time of consolidation.
18. Not for profit concerns concentrate their efforts to maximize the profit earning avenues.
19. All the receipts are of revenue nature in case of Non-profit organisation.
20. There is opening balance of Income and expenditure account.

Multiple Choice Questions

1. Scholarship granted to students out of specific funds provided by Government will be debited to
 - (a) Income and Expenditure Account.
 - (b) Receipts and payments Account.
 - (c) Funds granted for Scholarship account.
 - (d) None of the three.
2. In case of NPO, excess of total assets over liabilities is known as
 - (a) Profits.
 - (b) Surplus.
 - (c) Capital Fund.
 - (d) Accumulated Fund.
3. General donations and legacies are credited to
 - (a) Receipts and Payments Account.
 - (b) Income and Expenditure Account.

- (c) Capital Fund. (d) Fund Account.
4. Interest on prize funds is
- (a) Credited to Income and Expenditure Account. (b) Credited to Receipts and Payments Account.
- (c) Capital Fund. (d) Added to prize fund.
5. Special aids are
- (a) Treated as capital receipts. (b) Treated as revenue receipts.
- (c) Added to Capital Fund. (d) Both (a) and (c).

Theory Questions

1. Distinguish Between Receipt and Payment and Income and Expenditure Account.

Practical Questions

1. The following is the Receipts and Payments Account of Lion Club for the year ended 31st March, 2020.

Receipts	₹	Payments	₹
Opening balance:		Salaries	1,20,000
Cash	10,000	Creditors	15,20,000
Bank	3,850	Printing and stationary	70,000
Subscription received	2,02,750	Postage	40,000
Entrance donation	1,00,000	Telephones and telex	52,000
Interest received	58,000	Repairs and maintenance	48,000
Sale of assets	8,000	Glass and table linen	12,000
Miscellaneous income	9,000	Crockery and cutlery	14,000
Receipts at		Garden upkeep	8,000
Coffee room	10,70,000	Membership fees	4,000
Soft drinks	5,10,000	Insurance	5,000
Swimming pool	80,000	Electricity	28,000
Tennis court	1,02,000	Closing balance:	
		Cash	8,000
		Bank	2,24,600
	21,53,600		21,53,600

The assets and liabilities as on 1.4.2019 were as follows:

	₹
Fixed assets (net)	5,00,000
Stock	3,80,000
Investment in 12% Government securities	5,00,000

Outstanding subscription	12,000
Prepaid insurance	1,000
Sundry creditors	1,12,000
Subscription received in advance	15,000
Entrance donation received pending membership	1,00,000
Gratuity fund	1,50,000

The following adjustments are to be made while drawing up the accounts:

- (i) Subscription received in advance as on 31st March, 2020 was ₹ 18,000.
- (ii) Outstanding subscription as on 31st March, 2020 was ₹ 7,000.
- (iii) Outstanding expenses are salaries ₹ 8,000 and electricity ₹ 15,000.
- (iv) 50% of the entrance donation was to be capitalized. There was no pending membership as on 31st March, 2020.
- (v) The cost of assets sold net as on 1.4.2019 was ₹ 10,000.
- (vi) Depreciation is to be provided at the rate of 10% on assets.
- (vii) A sum of ₹ 20,000 received in October 2019 as entrance donation from an applicant was to be refunded as he has not fulfilled the requisite membership qualifications. The refund was made on 3.6.2020.
- (viii) Purchases made during the year amounted ₹ 15,00,000.
- (ix) The value of closing stock was ₹ 2,10,000.
- (x) The club as a matter of policy, charges off to income and expenditure account all purchases made on account of crockery, cutlery, glass and linen in the year of purchase.

You are required to prepare an Income and Expenditure Account for the year ended 31st March, 2020 and the Balance Sheet as on 31st March, 2020 along with necessary workings.

2. During the year ended 31st March, 2020, Sachin Cricket Club received subscriptions as follows:

	₹
For year ending 31st March, 2019	12,000
For year ending 31st March, 2020	6,15,000
For year ending 31st March, 2021	18,000
Total	<u>6,45,000</u>

There are 500 members and annual subscription is ₹ 1,500 per member.

On 31st March, 2020, a sum of ₹ 15,000 was still in arrears for subscriptions for the year ended 31st March, 2019.

Ascertain the amount of subscriptions that will appear on the credit side of Income and Expenditure Account for the year ended 31st March, 2020. Also show how the items would appear in the Balance Sheet as on 31st March, 2019 and the Balance Sheet as on 31st March, 2021.

3. Summary of receipts and payments of Bombay Medical Aid society for the year ended 31.12.2020 are as follows:

Opening cash balance in hand ₹ 8,000, subscription ₹ 50,000, donation ₹ 15,000 (raised for meeting revenue expenditure), interest on investments @ 9% p.a. ₹ 9000, payments for medicine supply ₹ 30,000 Honorarium to doctor ₹ 10,000, salaries ₹ 28,000, sundry expenses ₹ 1,000, equipment purchase ₹ 15,000, charity show expenses ₹ 1,500, charity show collections ₹ 12,500.

Additional information:

	1.1.2020	31.12.2020
Subscription due	1,500	2,200
Subscription received in advance	1,200	700
Stock of medicine	10,000	15,000
Amount due for medicine supply	9,000	13,000
Value of equipment	21,000	30,000
Value of building	50,000	48,000

You are required to prepare receipts and payments account and income and expenditure account for the year ended 31.12.2020 and balance sheet as on 31.12.2020.

ANSWER / HINTS

True and False

1. False: It depicts the cash system of accounting rather than the accrual system, as the cash receipts and payments pertaining to any year are entered in the Receipts and payments account. The principle of accrual is not followed with regard to the receipts and payments account of a non-profit organization.
2. False: The income and expenditure account records only the revenue income and expenditure. The capital transactions are being recorded in the Balance sheet.
3. False: The grass for a sports club is not a capital item, hence the sale of such grass shall be treated as a revenue receipt.
4. False: They are disclosed under the current assets of the Balance sheet as they will be paid within the next year and not to be treated as non-current assets.
5. False: Receipts and payments account gives information about the expenses paid in cash for the current year, previous or the next year. It is only from the additional information we identify the outstanding expenses.
6. False: Additional information means that information which has been identified just before the preparation of the final accounts. As NPO follows the double entry system of book keeping, there shall be 2 effects for each of the additional information.
7. False: The excess of expenditure over the tournament fund shall be debited to the income and expenditure account and not taken to the closing balance sheet.
8. False: The excess of the income over the expenditure is called as Surplus and not profit for an Non-profit organisation.

9. False: The Non-profit organisation credits the surplus earned in a year to the general fund maintained by it.
10. True: It is Fund based accounting that records the fund balances in the balance sheet.
11. False: Subscription is a regular fees paid by the members to keep the membership alive.
12. True: Honorarium refers to the nominal amount paid for the services with a non-commercial intent.
13. False: Insurance Company has a profit motive, hence it is not a non-profit organization.
14. False: It shall be shown in the Balance sheet- where it is to be capitalized.
15. False: It is only the current year income and expenditure which is recorded in the Income and Expenditure account as per the accrual concept.
16. True: While on the death bed, if there is any will written that the assets of a person shall be donated to any NPO- then such a donation to the NPO, is termed as Legacy.
17. True: Where in case of the trading activities, the profit /loss from such activity to be transferred to the Income and expenditure account in case of consolidated accounts.
18. False: The Non-profit organisation has its very existence to serve the members and the society. Profit earning shall never be its motive.
19. False: Receipts can be both of revenue as well as capital nature. Receipts of both the nature are recorded in the receipts and payments account.
20. False: It represents a nominal account and is prepared in accordance with the accrual concept, hence there can be no opening balances.

Multiple Choice Questions

1. (c) 2. (c) 3. (b) 4. (d) 5. (d)

Theoretical Questions

- 1 Non-profit making organizations such as public hospitals, public educational institutions, clubs etc., conventionally prepare Receipt and Payment Account and Income and Expenditure Account to show periodic performance for a particular accounting period. For distinguishing features of both the accounts, Refer para 3.1.

Practical Questions

Answer 1

Income and Expenditure Account of Lion Club
for the year ended 31st March, 2020

Expenditure	₹	Income	₹
To Salaries	1,28,000	By Subscription	1,94,750
To Printing and stationary	70,000	By Entrance donation	90,000
To Postage	40,000	By Interest	60,000

To Telephone and telex	52,000	By Miscellaneous income	9,000
To Repairs and maintenance	48,000	By Profit from operations	92,000
To Glass and table linen	12,000	By Excess of expenditure over income	
To Crockery and cutlery	14,000	(deficit) transferred to capital fund	30,250
To Garden upkeep	8,000		
To Membership fees	4,000		
To Insurance	6,000		
To Electricity charges	43,000		
To Loss on sale of assets	2,000		
To Depreciation	49,000		
	4,76,000		4,76,000

Balance Sheet of Lion Club as on 31st March, 2020

Liabilities	₹	Assets	₹
Capital fund	10,89,600	Fixed assets	4,41,000
Gratuity fund	1,50,000	Stock	2,10,000
Sundry creditors	92,000	Investments	5,00,000
Subscription received in advance	18,000	Subscription outstanding	7,000
Entrance donation refundable	20,000	Interest accrued	2,000
Outstanding expenses	23,000	Bank	2,24,600
		Cash	8,000
	13,92,600		13,92,600

Working Notes:

1.

Opening Balance Sheet

Balance Sheet of Lion Club as on 1st April, 2019

Liabilities	₹	Assets	₹
Sundry creditors	1,12,000	Fixed assets	5,00,000
Subscription received in advance	15,000	Stock	3,80,000
Entrance donation received in advance	1,00,000	Investments	5,00,000
Gratuity fund	1,50,000	Subscription outstanding	12,000
Capital fund (balance figure)	10,29,850	Prepaid expenses	1,000
		Cash	10,000
		Bank	3,850
	14,06,850		14,06,850

2.

Subscription

	₹
Subscription received during the year	2,02,750

Add: Outstanding subscription on 31.3.2020	7,000
	2,09,750
Add: Received in advance as on 1.4.2019	15,000
	2,24,750
Less: Outstanding subscription as on 1.4.2019	(12,000)
	2,12,750
Less: Received in advance as on 31.3.2020	(18,000)
	1,94,750

3. Entrance donation

	₹
Entrance donation received during the year	1,00,000
Add: Received in advance as on 1.4.2019	1,00,000
	2,00,000
Less: Entrance donation in respect of ineligible member	(20,000)
	1,80,000
Less: 50% capitalized	(90,000)
Taken to income and expenditure account	90,000

4. Loss on sale of asset

	₹
Cost of asset sold	10,000
Less: Sale proceeds	(8,000)
Loss on sale of asset	2,000

5. Depreciation

	₹
Fixed asset as per trial balance	5,00,000
Less: Cost of asset sold	(10,000)
	4,90,000
Depreciation on ₹ 4,90,000 @ 10%	49,000

6. Salaries

	₹
Salary paid during the year	1,20,000
Add: Outstanding as on 31.3.2020	8,000
	1,28,000

7. Electricity charges

	₹
Electricity charges paid during the year	28,000
<i>Add:</i> Outstanding as on 31.3.2020	15,000
	43,000

8. Interest

	₹
Interest on 12% Government securities investment (₹ 5,00,000 @ 12% p.a.)	60,000
<i>Less:</i> Interest received during the year	(58,000)
Interest accrued	2,000
Interest credited to Income and Expenditure Account	60,000

9. Profit from operations

	₹
Cost of goods sold:	
Opening stock	3,80,000
<i>Add:</i> Purchases	15,00,000
	18,80,000
<i>Less:</i> Closing stock	(2,10,000)
Cost of goods sold (A)	16,70,000
Receipts from operations:	
Receipts from coffee room	10,70,000
Receipts from soft drinks	5,10,000
Receipts from swimming pool	80,000
Receipts from tennis court	1,02,000
Total receipts (B)	17,62,000
Profits from operations (B-A)	92,000

10. Insurance

	₹
Insurance paid during the year	5,000
<i>Add:</i> Prepaid insurance as on 1.4.2019	1,000
	6,000

11. Sundry creditors

	₹
Opening balance as on 1.4.2019	1,12,000
<i>Add:</i> Purchases made during the year	15,00,000
	16,12,000

Less: Payments made during the year	(15,20,000)
Closing balance as on 31.3.2020	92,000

12. Outstanding expenses

	₹
Outstanding salaries	8,000
Outstanding electricity charges	15,000
Outstanding expenses	23,000

13. Fixed assets

	₹
Fixed assets as on 1.4.2019	5,00,000
Less: Cost of assets sold	(10,000)
	4,90,000
Less: Depreciation	(49,000)
Fixed assets as on 31.3.2020	4,41,000

14. Capital fund

	₹
Capital fund as on 1.4.2019	10,29,850
Add: Entrance donation capitalised	90,000
	11,19,850
Less: Excess of expenditure over income	(30,250)
Balance as on 31.3.2020	10,89,600

Answer 2**Income & Expenditure Account (An extract) of Sachin Cricket Club**

For the year ended 31st March, 2020

	₹		₹
		By Subscription (500 members × ₹ 1,500 per member)	7,50,000

Balance Sheet of Sachin Cricket Club as on 31st March, 2019 (An extract)

Liabilities	₹	Assets	₹
		Subscription Receivable (₹15,000 + ₹12,000)	27,000

Balance Sheet of Sachin Cricket Club as on 31st March, 2020 (An extract)

Liabilities	₹	Assets	₹	₹
Unearned Subscription	18,000	Outstanding Subscription		

		of 2018-19	15,000	
		of 2019-20		
		₹ (7,50,000 – 6,15,000)	1,35,000	1,50,000

Answer 3

Receipts and Payments Account of Bombay Medical Aid Society
for the year ended 31st December, 2020

Receipts	₹	Payments	₹
To Cash in hand (opening)	8,000	By Medicine supply	30,000
To Subscription	50,000	By Honorarium to doctors	10,000
To Donation	15,000	By Salaries	28,000
To Interest on investment	9,000	By Sundry expenses	1,000
To Charity show collections	12,500	By Purchase of equipment	15,000
		By Charity show expenses	1,500
		By Cash in hand (closing)	9,000
	94,500		94,500

Income and Expenditure Account of Bombay Medical Aid Society
for the year ended 31st December, 2020

Expenditure		₹	Income		₹
To Medicine consumed		29,000	By Subscription		51,200
To Honorarium to doctors		10,000	By Donation		15,000
To Salaries		28,000	By Interest on investments		9,000
To Sundry expenses		1,000	By Profit on charity show:		
To Depreciation on			Show collections	12,500	
Equipment	6,000		Less: Show expenses	(1,500)	11,000
Building	2,000	8,000			
To Surplus-excess of income over expenditure		10,200			
		86,200			86,200

Balance Sheet of Bombay Medical Aid Society
as on 31st December, 2020

Liabilities	₹	₹	Assets	₹	₹
Capital fund:			Building	50,000	
Opening balance	1,80,300		Less: Depreciation	(2,000)	48,000
Add: Surplus	10,200	1,90,500	Equipment	21,000	

Subscription received in advance	700	Add: Purchase	15,000	
Amount due for medicine supply	13,000		36,000	
		Less: Depreciation	(6,000)	30,000
		Stock of medicine		15,000
		Investments		1,00,000
		Subscription receivable		2,200
		Cash in hand		9,000
	2,04,200			2,04,200

Working Notes:

Subscription for the year ended 31st December, 2020:		₹
Subscription received during the year		50,000
Less: Subscription receivable on 1.1.2020	1,500	
Less: Subscription received in advance on 31.12.2020	700	(2,200)
		47,800
Add: Subscription receivable on 31.12.2020	2,200	
Add: Subscription received in advance on 1.1.2020	1,200	3,400
		51,200
Purchase of medicine:		
Payment for medicine supply		30,000
Less: Amounts due for medicine supply on 1.1.2020		(9,000)
		21,000
Add: Amounts due for medicine supply on 31.12.2020		13,000
		34,000
Medicine consumed:		
Stock of medicine on 1.1.2020		10,000
Add: Purchase of medicine during the year		34,000
		44,000
Less: Stock of medicine on 31.12.2020		(15,000)
		29,000
Depreciation on equipment:		
Value of equipment on 1.1.2020		21,000
Add: Purchase of equipment during the year		15,000
		36,000
Less: Value of equipment on 31.12.2020		(30,000)
Depreciation on equipment for the year		6,000

Balance Sheet of Medical Aid Society
as on 1st January, 2020

Liabilities	₹	Assets	₹
Capital fund (balancing figure)	1,80,300	Building	50,000
Subscription received in advance	1,200	Equipment	21,000
Amount due for medicine supply	9,000	Stock of medicine	10,000
		Investments (₹ 9,000 x 100/9)	1,00,000
		Subscription receivable	1,500
		Cash in hand	8,000
	1,90,500		1,90,500