

## CHAPTER – I

### NON-PROFIT ORGANISATION

#### 1. Define the Not for profit organisation?

Not for profit organisation (NPO) can be defined as, "an economic entity that provides services beneficial to the society without making profits". These organisations work for the promotion of charity, religion, education, literature, sports, art and culture, with out aiming at profit.

#### 2. What are the objectives of accounting for NPO? Ans.

- a. To assess financial performance of the organisation.
- b. To appraise the members about the financial affairs of the organisation.
- c. To evaluate the organisation's efficiency in spending money on some social cause.

#### 3. Explain accounting treatment of 'Sale of old newspaper and magazine by NPO?

Amount received from the sale of old newspapers and magazine are treated as revenue receipts because it is a regular feature of NPO. Hence sale of old newspaper etc. are shown on the credit side of income and expenditure account.

#### 4. What is meant by Fund Based Accounting?

In fund based accounting separate accounts are maintained for specific activities of the organisation such as sports fund, price fund etc. All items related the specific fund are recorded fund wise and consolidation of these statements or accounts are presented in the financial results.

#### 5. Mention any two categories of funds?

- a. Fixed Assets fund : These are the funds specially for investment in fixed assets or already invested in fixed assets. Creating a separate fixed assets fund may imply to some extent that fixed assets are same how not related to the day- to day operation of the organisation.
  - ii. Annuity fund : These funds are used to account for resources that are given to Not for profit organisation accept to make periodic payment to the designated recipient. In this situation the original amount will be credited to the equity fund.
7. **What is Endowment fund?**
- Endowment funds contains assets donated by the donors with the donation that only the income covered by these assets can be used to finance the specific activities and not the principle amount.

#### 8. How would you calculate the amount of consumable materials?

Opening stock of Material + purchase during the year - closing stock of material = consumable material.

**9. What are the main sources of NPO's?**

The main sources of income of a not for profit organisation are :

- i. Membership subscription.
- ii. Donations.
- iii. Life membership fees.
- iv. 'Profit from the sale of food in the club, restaurant or cafeteria.
- v. 'Profit from bar sales.
- vi. Profit from social events, such as dinner - dance
- vii. Interest received on investment.

**10. State the differences between Fund Based Accounting and Non-Fund based Accounting**

	Basis	Fund Based Accounting	Non fund based Accounting
i)	Accounting base	It is on cash basis	Non fund based accounting. It is an accrual basis
ii)	Funds	Specific funds are used for specific purposes except for general fund	Funds can be used for any profit earning purpose.
iii)	Economic interest	Owners have no economic interests	Owners have economic interest in the form of profit.
iv)	Accountability	Accountability is towards law, regulations, legislature, parliament contributors and donors of fund.	Accountability is towards all stock holders, viz, owners creditors, government regulations etc.
v)	Usual earnings	Usually expenditure is more than income known as deficit.	The result of matching of revenue and expenses may either be profit or loss.

**11. Give any two points of difference between receipts and payment account and cash book ?**

Basis	Receipts and payment account	Trial balance
Preparation of accounts	It is prepared after summarizing cash receipts and cash payment.	It is prepared after balancing all ledger accounts.
Opening Balance	It starts with opening balance of cash and bank.	It has no opening balance.

**12. What is meant by Legacy?**

It is the amount received as per the will of a deceased person. It appears on the receipts side of the Receipt and payment account and is directly added to capital fund / general fund in the balance sheet.

**13. What is 'Honorarium'?**

A token payment made to a person who has voluntarily undertaken a service which will normally demand of fee. It is thus an expression of gratitude rather than a payment for the work done.

**14. State the features of NPO.**

- i. Such organisation are formed for providing services to a specific group or public.
- ii. The main sources of income of such organisation are :
  - a. Subscription
  - b. Donations
  - c. Legacies
  - d. Grant-in-aid
  - e. Income from investments.
- iii. The funds raised by such organisation through various sources are credited to capital fund or general fund.
- iv. Their affairs are usually managed by a managing executive committee elected by its members.

**15. Write any four features of income and expenditure account ?**

- i. It is prepared for an accounting period on accrual concept following the matching principle.
- ii. Only revenue items are considered, while capital item are excluded.
- iii. All items both cash and non cash (depreciation) are recorded.
- iv. Expenditure are recorded on the debit side and incomes on the credit side.

## SHORT HINTS

**A. Meaning of Non-Profit Organisations:**

Not for profit organisations refer to the organisations that are used for the welfare of the society and are set up as charitable institutions, which function without any profit motive.

**B. Characteristics of Not for Profit Organisation:**

- a. Formed for providing service to a specific group or public at large.
- b. Organized as charitable trust/society.
- c. Managed by Managing Committee elected by members.
- d. Main Source of Income is:  
Subscriptions, donations, government general grants etc
- e. Funds raised through various sources are credited to capital fund
- f. Government Schools, Charitable hospitals, Recreational Clubs, etc are examples of Not for profit organisation.

**C. Basic Accounting Terminology:**

**1. Subscription:** Subscription is the amount paid by member to the non-profit organization in order to maintain their membership. It is the main source of income for N.P.O. and it is shown in the income side of Income and Expenditure A/c.

**2. Life membership fees:** it is the amount paid by member to the non-profit organization for the maintenance of entire life membership. It is shown in the Liabilities side of Balance sheet.

**3. Legacy :** It is the amount received as per the will of a deceased person. It appears on the receipts side of the Receipt and payment account and is directly added to capital fund / general fund in the balance sheet.

**4. Endowment Fund:** it is the funds received for providing permanent means of support. It is a capital receipt because the fund provides permanent source of income.

**5. Grant:** it is the amount received from central, state or local government for routine expenses of these institutions. Grant received from government for routine expenses are income. Grant received for specific purpose is treated as liability.

**D. Accounting Records of Not for Profit Organisations:**

The financial statement of Not for Profit organization includes:

- 1. Receipt and Payment A/c
- 2. Income and Expenditure A/c
- 3. Balance Sheet.

**1. Receipt and Payment A/c:**

- a. It is a Summary of the **Cash Book**.
- b. It shows the total amount of **all receipts and payments** irrespective of the Period to which they pertain.
- c. It includes **all receipts and payments** whether they are of **revenue or capital nature**.
- d. **No non-cash items** are shown in this A/C.
- e. It has both **opening and Closing Cash balance**.

**2. Income and Expenditure Account:**

The main features of Income and Expenditure Account:

- i) It is prepared for an accounting period on **accrual concept** following the matching principle.
- ii) Only **revenue items are considered**, while **capital items are excluded**.
- iii) All items both **cash and non-cash (depreciation)** are recorded
- iv) **Expenditure** are recorded on the **debit side** and **incomes** on the **credit side**
- v) Difference is known as **Surplus (if come in Expenditure side)** or **Deficit (if come in Income side)**.

**3. Balance Sheet:**

Balance sheet is prepared for not-for-profit organization to ascertain the **financial position** of the organization. It is prepared on the **same pattern** as in the case of profit making organization. The only difference is that **“Capital fund” or “General Fund”** is shown in place of Capital and Surplus or deficit as per income and expenditure account will be added or deducted from the capital fund.

***Note: if in a question capital fund in the beginning of current year is not given then we have to prepare Opening Balance sheet to ascertain it.***