



Date: 01 July 2020

**VIRTUAL COACHING CLASSES
ORGANISED BY BOS, ICAI**

**FOUNDATION LEVEL
PAPER 1: PRINCIPLES AND PRATICE OF
ACCOUNTING**

Faculty: CA VS Hiranmai



CHAPTER 9-Accounting for Not for profit organizations

- This chapter deals with the financial statements of Not for profit organizations.
- **The motive of these organizations is not earn profit but they are set up to meet the welfare of the society in large, and in particular to a group of individuals who have set up the club/trust.**
- They are registered under the Section 8 of the Companies Act 2013, and Schedule III applies to them. But for the foundation level we are going to deal with clubs/ trusts not registered under 8 so, the normal presentation is fine.
- Since there is no profit motive- then will these organizations not receive any income. Income is vital even for an NPO as they have to manage the affairs and carry out the welfare activities.
- The sources of income for an NPO can be classified as follows-
 - Donations- The members and outsiders can donate any amounts towards the NPO to maintain their activities. Now if the donation is given for a specific purpose, then take it t he balance sheet and show it with capital fund. If it is a general donation, treat it as an income.



CHAPTER 9-Accounting for Not for profit organizations

- The sources of income for an NPO can be classified as follows-
 - **Entrance fees-** This is one time fees for the purpose of getting admitted into the NPO. Since it is one time, it is usually shown in the Balance sheet- added with the capital fund. But sometimes in question they can ask to capitalize only some part and the remaining part to be taken to Income and expenditure account as income.
 - **Subscriptions-** They are the regular income for any NPO where the members pay some amount to maintain the regular activities. This I always treated as income for the NPO. Where the member pay under different frequency, there can be outstanding and prepaid subscriptions, which should be taken in to the balance sheet.
 - **Lifetime membership fees-** It is one time and has to be added with the capital fund in the balance sheet.
 - **Legacy-** Where an NPO receives the property as a part of a will of dead person, then it will treated as capital receipt added with capital fund.



CHAPTER 9-Accounting for Not for profit organizations

- The accounts to be prepared as a part of Final accounts for an NPO-
 - **Receipts and payments account-** It is similar to the cash account for a profitable organization. The receipts are entered on the debit (left side) and the payments on the credit (right side). The opening balance on the debit side and the closing balance on credit side will be taken to the opening and closing balance sheet respectively.
 - **Income and Expenditure account-** This account is similar to the profit and loss ac where in the result of this account will be termed either as Surplus (excess of income over expenditure) or Deficit (excess of expenditure over income). The same is carried forward to balance sheet and added with the opening capital fund if there is surplus and deducted in case of deficit from the opening capital fund to arrive at the closing balance.
 - **Balance sheet-** The last part of the final accounts is preparation of the balance sheet of NPO. We shall prepare the balance sheet as at the opening date to arrive at the opening capital balance which is termed as capital fund and shall be used to arrive at the closing capital fund.



CHAPTER 9-Accounting for Not for profit organizations

- The following types of problems can be asked from this chapter-
 - **Preparation of Income (subscription) or expenses (salary)-** These are simple problems where in the account shall be prepared and the transactions will be given directly in the question to be filled in the format of the account. The balancing figure can be either taken to Receipts and payment Ac or to the Income and expenditure ac.
 - **Preparation of Income and expenditure and balance sheet-** This is usually asked in exam as a 15 marks question- where we need to prepare Income and expenditure ac as well as the balance sheet- wherein the amount column can be split into two columns- for opening balances and closing balances. In this way time can be saved from preparing the opening balance sheet under the given format.
 - **Preparation of Receipts and payments ac and balance sheet-** This also can be another variant which can be tested- this reverse of the above question and the balance sheet shall be prepared in the same way as mentioned above.



CHAPTER 9-Accounting for Not for profit organizations

- Peculiar adjustment of this chapter- which should be clearly understood and only this is considered as complicated.
- The accrual concept as studied in the earlier chapter 7 applies to this chapter as well- but there is an extension from the concept.
- We have learnt about the outstanding for the current year and the advance paid in the current year for the next year. ***In this chapter we go a step backward- we also have information with regard to the outstanding of the previous year and the advance received during the previous year for the current year***
- There is an important formula for such adjustments which shall be applied to arrive at the cash paid/received or income received or expenditure incurred. We will be studying the same for both the expenses and the income.
- The same formula can be shown in a account format.



CHAPTER 9-Accounting for Not for profit organizations

Particulars	Source and logic	Amt (Rs)
Subscription (Receipts and payments A/c- receipts side)	Cash received in current year with regard to the subscriptions	XXX
Add: Outstanding for the current year (o/s at end)	It pertains to the current year but not yet received hence added as per accrual concept	XXX
Less: Income received in advance for next year (advance at the end)	The income received pertains to the next year	(XXX)
Less: Outstanding for previous year (o/s at the beginning)	Even received in the current year it shall be deducted as it does not pertain to this year	(XXX)
Add: Income received in Advance last year pertaining to the current year (advance at beginning)	Even if received in the last year- since it pertains to the current year- we shall add	XXX
Income from subscriptions to be taken to credit of Income and Expenditure A/c		XXX



CHAPTER 9-Accounting for Not for profit organizations

Subscription A/c

Particulars	Amt (Rs)	Particulars	Amt (Rs)
To Outstanding at the beginning (Outstanding of previous year received in this year- so not included for CY)	XXX	By Advance at the beginning (advance received in the last year pertaining to this current year)	XXX
To Income and expenditure A/c- Income based on the accrual concept	XXX	By Receipts and Payments A/c- actual cash received	XXX
To Advance at the end (income pertaining to the next year)	XXX	By Outstanding at end (receivable for CY but not received)	XXX



CHAPTER 9-Accounting for Not for profit organizations

Particulars	Source and logic	Amt (Rs)
Salaries (Receipts and payments A/c- payments side)	Cash paid in current year as salaries	XXX
Add: Outstanding for the current year (o/s at the end)	It pertains to the current year but not yet paid hence added as per accrual concept	XXX
Less: Prepaid salary for next year (advance at the end)	The expense paid pertains to the next year	(XXX)
Less: Outstanding for previous year (o/s at beginning)	This is salary o/s in the previous year - deducted as it does not pertain to this year	(XXX)
Add: Prepaid salary in previous year (advance at beginning)	Prepaid salary of the previous year pertains to the current year- hence added	XXX
Salary expenses subscriptions to be taken to debit of Income and Expenditure A/c		XXX



CHAPTER 9-Accounting for Not for profit organizations

Dr.		Salary A/c		Cr.	
Particulars	Amt (Rs)	Particulars	Amt (Rs)		
To Advance at the beginning (Prepaid salary in the last year pertaining to this current year)	XXX	By Outstanding at the beginning (Outstanding of previous year paid in this year- so not included for this year)	XXX		
To Receipts and Payments A/c- actual cash paid as salary	XXX	By Income and expenditure A/c- expense based on the accrual concept	XXX		
To Outstanding at end (payable for CY but not paid)	XXX	By Advance at the end (Expense prepaid pertaining to the next year)	XXX		



CHAPTER 9-Accounting for Not for profit organizations

- **Type 2- preparation of Income and expenditure account from R & P ac and the adjustments-**
 - The adjustments are generally given in the tabular form for both the opening and closing balances. We shall apply the formula as given in slide no 7 and 9 to calculate the amount to be taken to I&E ac. Also we should record them simultaneously in both the balance sheets.
 - The O/s Income- Asset side of the BS
 - Advance income- Liability side of BS
 - The O/s expense- Liability side of BS
 - Prepaid or advance expense- Asset side of BS.
 - With regard to the assets- we should prepare the accounts to ascertain the depreciation for the year- in these cases, if the depreciation rates are not given- we have to ascertain it from the account. If the opening and closing asset value is given- this should be taken to the BS, but we need to find the depreciation to be taken to Income and expenditure account.
 - Stock of medicine and amount due for medicine supply will be given. In that case- stock of medicine is considered as asset and the amount due is considered as creditors balance.



CHAPTER 9-Accounting for Not for profit organizations

- Type 2- preparation of Income and expenditure account from R & P ac and the adjustments-
 - First prepare the Amount due to medicine suppliers and find out the credit purchases. This shall be posted in the stock of medicines account to arrive at the medicines consumed which is taken to the debit side of the income and expenditure account.
 - After posting all the transactions from the Receipts and payments account after making necessary adjustments for the additional information- we need to first balance the income and expenditure ac. The surplus or deficit to be carried to the balance sheet (closing balance).
 - Then we need to balance the opening column of the balance sheet. The balancing figure always is the **opening capital fund**. This will be taken to the closing balance sheet as follows-
 - $\text{Opening capital fund} + \text{Surplus or} - \text{Deficit} = \text{closing capital fund}$. After posting the closing capital fund, the closing balance sheet shall be balanced.



CHAPTER 9-Accounting for Not for profit organizations

- **Type 3- preparation of from Receipts & Payment ac from Income and expenditure account and the adjustments-**
 - The adjustments are generally given in the tabular form for both the opening and closing balances. We shall apply the formula as given in slide no 7 and 9 *in the reverse way* to calculate the amount to be taken to R&P ac. Also we should record them simultaneously in both the balance sheets.
 - The O/s Income- Asset side of the BS
 - Advance income- Liability side of BS
 - The O/s expense- Liability side of BS
 - Prepaid or advance expense- Asset side of BS.
 - The remaining adjustments is the same as mentioned above. After posting the receipts and payments as computed using the above formula. Generally the opening cash balance is given which shall be taken to the debit side. The balancing figure mostly be the closing balance.



CHAPTER 9-Accounting for Not for profit organizations

- **Type 3- preparation of from Receipts & Payment ac from Income and expenditure account and the adjustments-**
 - The closing balance as arrived in the R&P ac shall be taken to the closing balance sheet asset side.
 - Then balance the opening BS to find the opening capital fund and then arrive at the closing capital fund to be filled in the closing BS liabilities side.
- The entire crux is only in the slide no 7,8,9,10 which should be understood clearly , then the posting of all the transactions shall be done with care and not to forget any transactions and adjustments. They shall have 2 effects as discussed in the earlier chapter.
- The time taken for such questions shall be practiced over and over again to keep it at the minimum.
- There are 8 illustrations+ 3 practical questions- we will try to solve everything with 2 HW for you.



THANK YOU