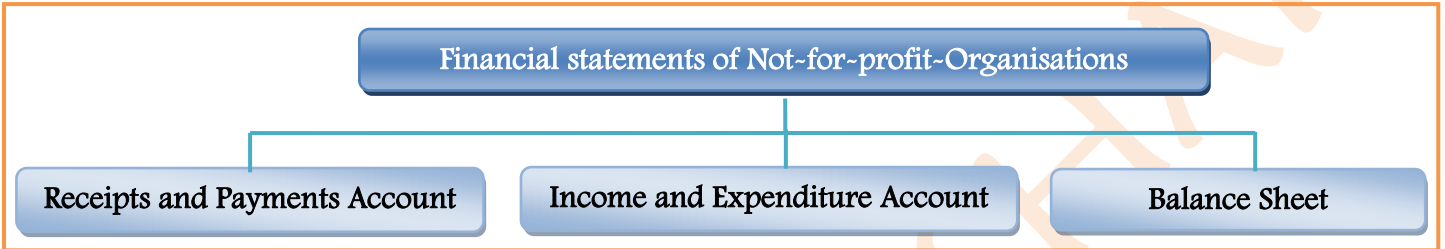




9. FINANCIAL STATEMENTS OF NOT-FOR-PROFIT ORGANISATIONS

CONCEPT 1 : INTRODUCTION

- * A non profit organization is a legal and accounting entity that is operated for the benefit of the society.
- * **Non-profit making organizations such as :**
 - [i] Public Hospitals, [ii] Public Educational Institutions, [iii] Clubs, etc., Conventionally prepare
- * Receipts and Payments Account and Income and Expenditure Account to show periodic performance and Balance Sheet to show financial position at the end of the period.



CONCEPT 2 : NATURE OF RECEIPTS AND PAYMENTS ACCOUNTS

- * It is a summary of the cash book.
- * It consists of a classified summary of cash receipts and payments over a certain period 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.
- * **Features :**
 - [a] It is the summary of the cash and bank transactions.
 - [b] It starts with opening cash and bank balances and also ends with their closing balances.
 - [c] Not a part of the double entry system.
 - [d] It is related to current, past or future periods.
 - [e] Surplus or deficit cannot be ascertained.
- * **Limitations of Receipts and Payments Account :**
 - [a] Increase in the cash and bank balances at the end of the year does not represent the surplus for the year since it does not take into account the 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.
 - [b] Ordinarily one must ascertain current year income is sufficient to meet the current expenses. Since the Receipts and Payments Account includes items relating to all periods, it does not serve the purpose mentioned above.
 - [c] Preparation of Receipts and Payments Account is not favoured except where the activities 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.

CONCEPT 3 : INCOME AND EXPENDITURE ACCOUNT

- * It is equivalent to the Profit and Loss Account.
- * It is prepared by following accrual principle.
- * It requires adjustment in relevant accounts of outstanding items of income and expenditure as also exclusion of amounts paid in advance.

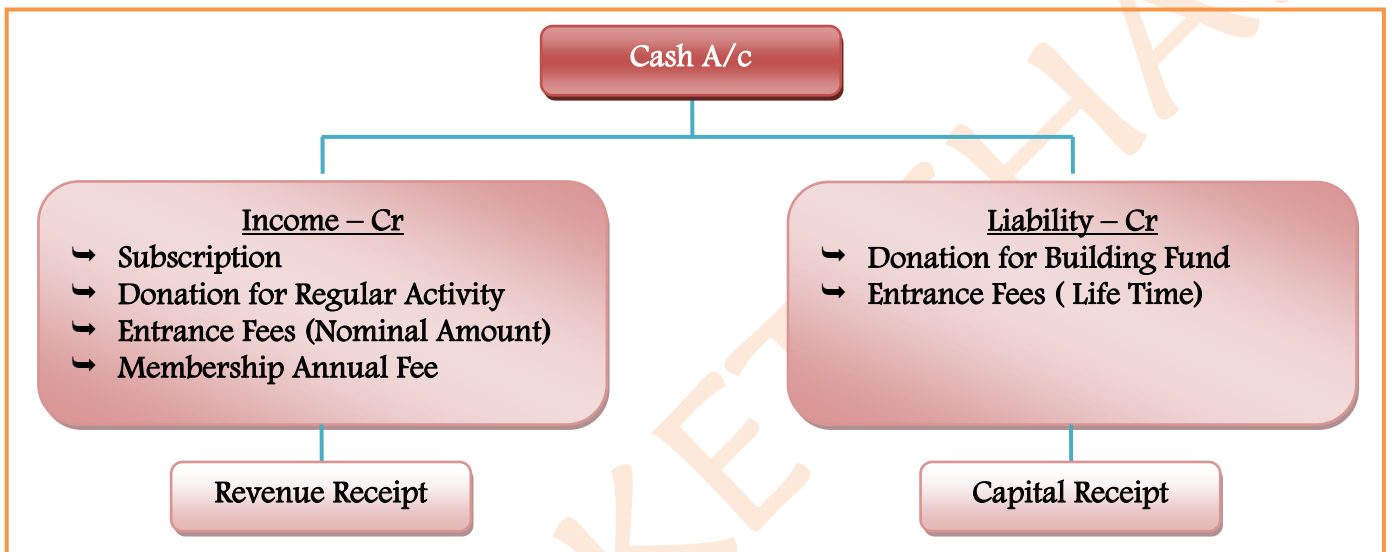


Non-profit organizations registered under section 8 of the Companies Act, 2013 are required to prepare their Income and Expenditure account and Balance Sheet as per the Schedule III to the Companies Act, 2013.

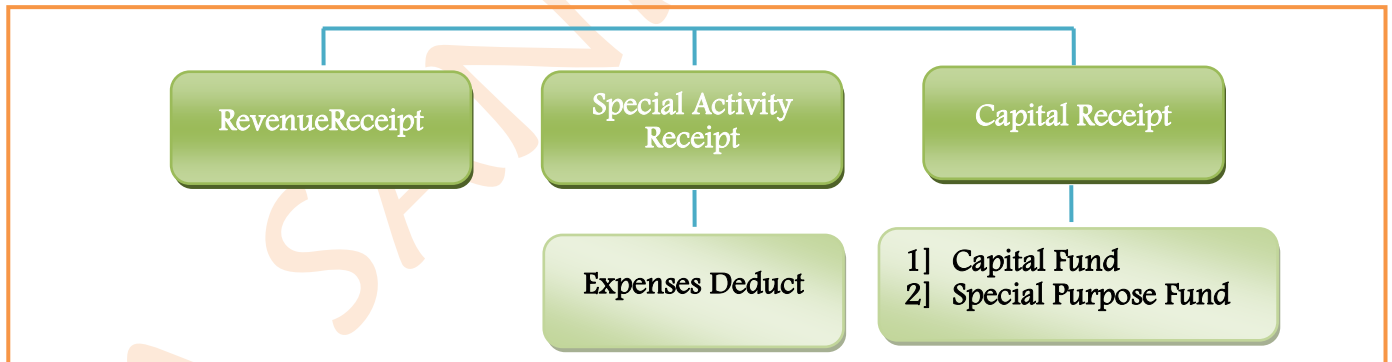
* Features :

- [a] It is prepared at the end for finding out the surplus or deficit of that period.
- [b] It is prepared by matching expenses against the revenue of that period concerned.
- [c] Both cash and non-cash items, such as depreciation, are taken into consideration.
- [d] All capital expenditures and incomes are excluded.
- [e] Only current years' income and expenses are considered.

Main Sources of Income :



Any Receipt of capital nature - Credit to Capital Fund / Special Purpose Fund



☺ Examples

[a]	Hospital	Medicines and cost of tests and investigations.
[b]	Sports Club	Sports materials, tournament expenses, etc.
[c]	Drama Club	Expenses of staging plays, rent of the hall, payment to artists, etc.
[d]	Educational Societies	Award of scholarships, organisation of seminars, etc.
[e]	Library Societies	Newspapers and magazines.



CONCEPT 4 : DISTINCTION BETWEEN RECEIPTS AND PAYMENTS ACCOUNT AND INCOME AND EXPENDITURE ACCOUNT

Sr.No.	Points of Distinction	Receipt & Payment Account	Income & Expenditure Account
[a]	Similar to	Receipt and Payment Account is classified as a summary of cash receipts and payments over a certain period together with cash balances at the beginning and close of the period.	Income and Expenditure Account is drawn up in the same form as the Profit and Loss Account.
[b]	Format	The receipts are entered on the left hand side & payments on the right hand side.	Expenditure is shown on the debit side, income and gains are shown on the credit side.
[c]	Treatment of Capital and Revenue Items	All the receipts and payments whether of revenue or capital nature are included in this account.	Income and Expenditure Account contains all the items of income and expenditure relevant to the period of account, whether received or paid out as well as that which have fallen due for recovery or payment. Capital Receipts, prepayments of income and capital expenditures, prepaid expenses are excluded.
[d]	Feature	The balance of the account represents the difference between the amount of cash received and paid up.	It does not start with any opening balance.
[e]	Closing Balance	It is always in debit since it is made up of cash in hand and at bank.	The closing balance represents Surplus if income exceeds expenditure & Deficit if expenditure exceeds income.

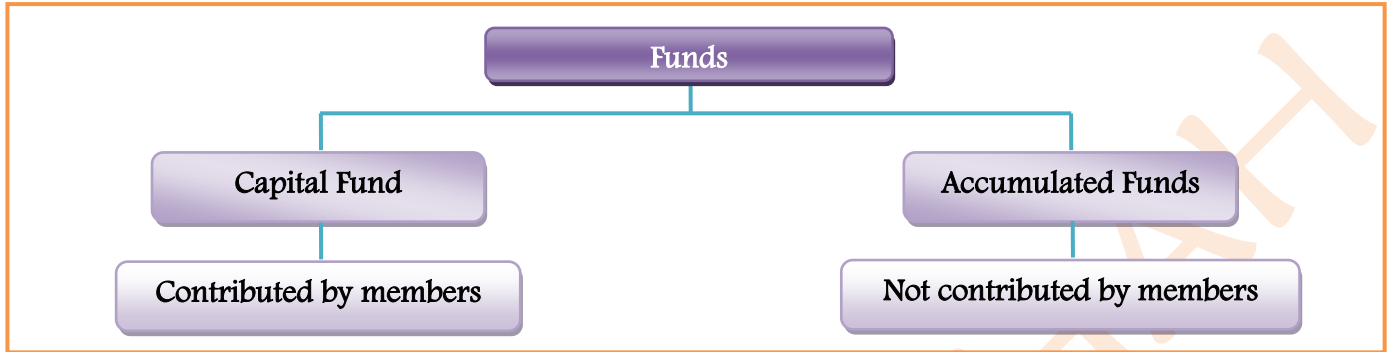
CONCEPT 5 : PREPARATION OF INCOME AND EXPENDITURE ACCOUNT FROM RECEIPTS AND PAYMENTS ACCOUNT

Sr.No.	Steps	Explanation
I	Calculation of Capital Fund	Compute the opening balance of the Accumulated Fund or Capital Fund. It will be excess of the total value of the assets over that of the liabilities.
II	Open Accounts	Open ledger accounts in respect of various items of income and expenditure. Balance should be transferred to the Income and Expenditure Account.
III	Posting of Receipts & Payments	Post from the debit of Receipts & Payments Account to the credit of the Income & 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 & Expenditure A/c.
IV	Transfer of Bal.	Transfer balance of Income & Expenditure A/c to the Accumulated Fund A/c.
V	Capitalise Receipt & Payment	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 Account.



CONCEPT 6 : BALANCE SHEET

- * A Balance Sheet is the statement of assets and liabilities at a given date.
- * It is generally prepared at the end of an accounting period after the Income and Expenditure Account has been prepared.
- * In not for profit organizations, the excess of total assets over total outside liabilities is known as Capital Fund.



- * The surplus or deficit, is shown as an addition to or deduction from the Capital / Accumulated Fund brought forward from the previous period.

Accounting Treatment of Some Special Items :

1] Donations :



- ↪ If any investments are purchased out of a special fund or an asset is acquired there from, these are disclosed separately.
- ↪ Any income received from such investments or any donations collected for a special purpose are credited to special account and correspondingly the expenditure incurred is debited to this account.
- ↪ The term "Fund" is strictly applicable to the amounts collected for a special purpose
E.g. Scholarship Fund, Prize Fund etc.
- ↪ In other cases, when the amounts collected are not invested in securities, the word "Account" is more appropriate.
E.g. Building Account, Tournament Account etc.
- ↪ Instead of paying cash, a donor gives a security or some 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.

2] Entrance and Admission Fees :

- ↪ Such fees which are payable by a member on admission to club or society are normally considered capital receipts creditable 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, then such fees could be treated as income included in the Income and Expenditure Account.



3] **Subscription :**

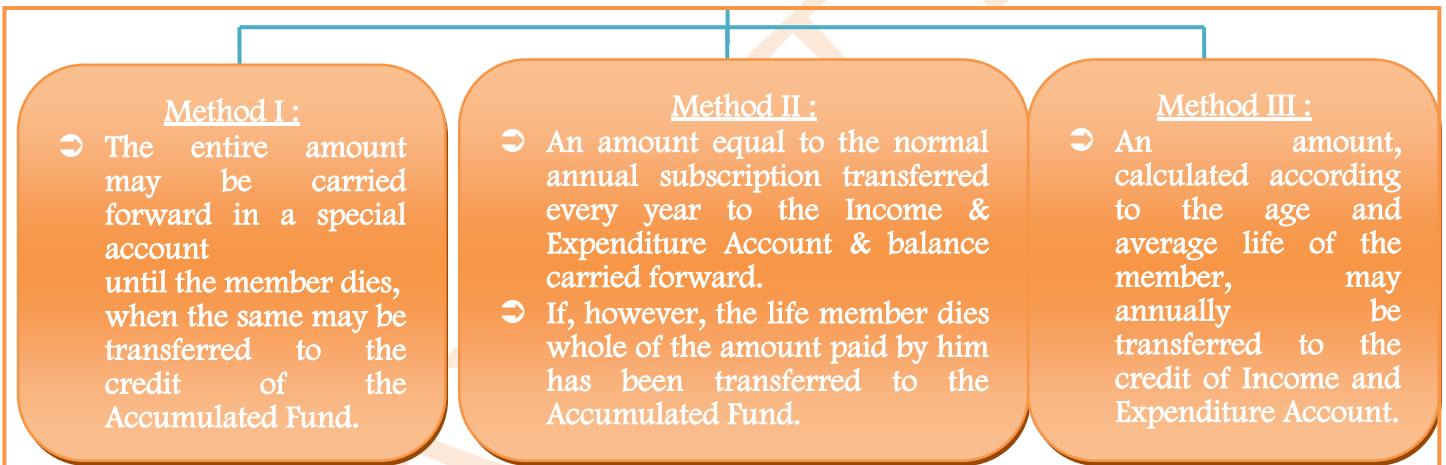
- ↳ Subscriptions being an income, should be allocated over the period of their accrual.
- ↳ In examinations, figures of subscription collected by a society as well as those outstanding at the beginning of the year and at its close are given.
- ↳ If some subscriptions have been received in advance, their amount is also indicated.
- ↳ In such cases, set up a Subscription Account for determining the amount of subscription pertaining for the period.

Subscription Account

Date 20XX	Particulars	Rs.	Date 20XX	Particulars	Rs.
1	To Receivable	xx	1	By Received in Advance	xx
	To I & E	xx		By Cash	xx
31	To Received in Advance	xx	31	By Receivable	xx
	Total Rs.	XX		Total Rs.	XX

4] **Life Members :**

- ↳ 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 one of the following methods can be adopted:



CONCEPT 7 : PREPARATION OF BALANCE SHEET

[a] Preparation of opening balance sheet and calculation of surplus:

- ↳ If capital fund or accumulated surplus in the beginning is not given, it is calculated by deducting liabilities from assets in the beginning of year.
- ↳ 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.

[b] 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.

[c] Fixed assets:

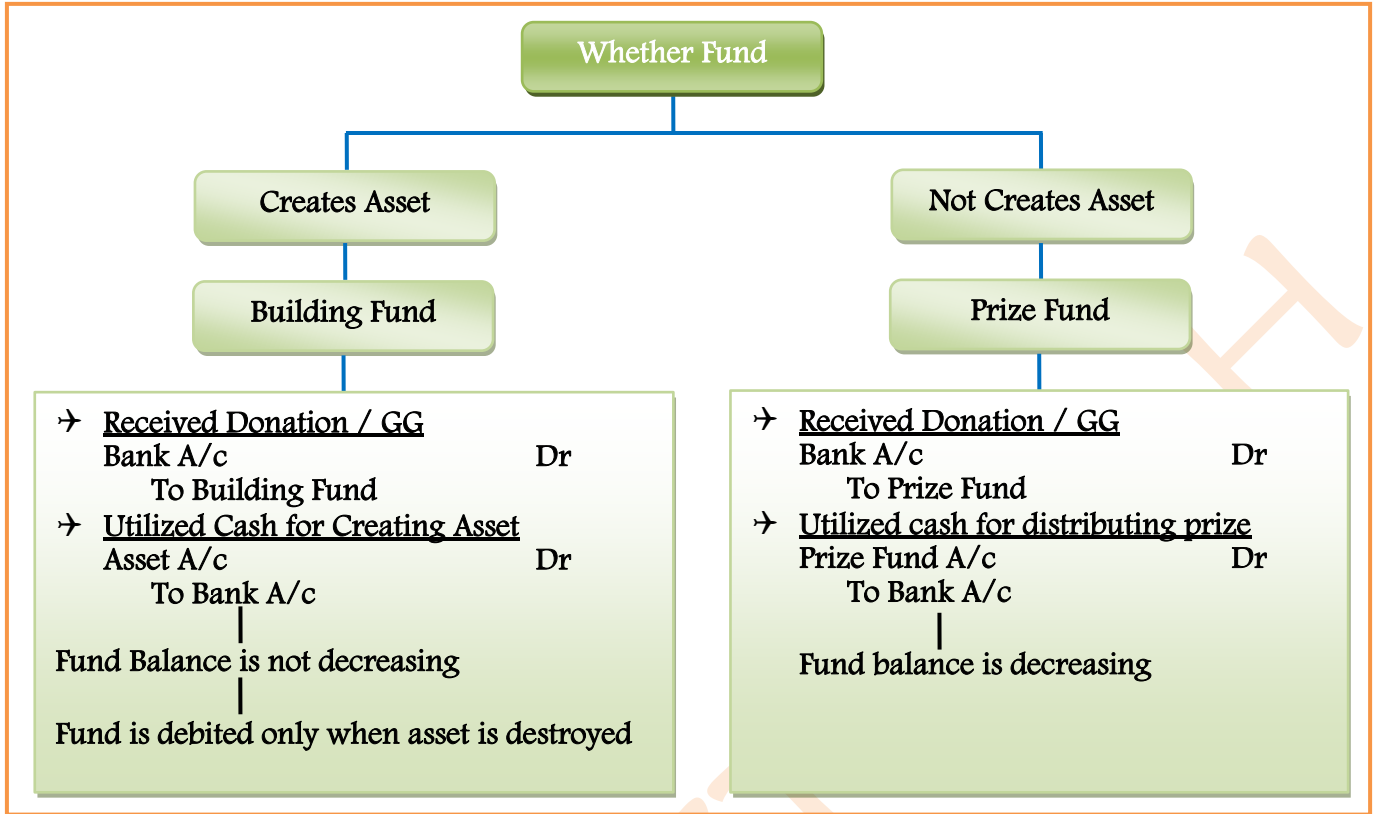
- ↳ Opening balances of Fixed Assets are increased by the amount of purchases and reduced by sales and depreciation on the same.

[d] Liabilities:

- ↳ Opening balances of liabilities should be adjusted for any increase or decrease in the same.



FUND



HOW TO SOLVE PROBLEMS ?

- I & E is Given
- Other Information is given
- Required : R & P A/c is asked

Closing & Opening Balance Sheet

Income & Expenditure (Only Nominal A/cs)

Particulars	Rs.	Particulars	Rs.
To Expenses (having adjustment)		By Income(having adjustment)	
To Expenses(not having adjustment)		By Income(not having adjustment)	
To Expenses (non cash - Depreciation)			
To Surplus		By Deficit	
Total Rs.		Total Rs.	

While Solving

1) Having Adjustment

Nominal A/c (Expenses)		Nominal A/c (Income)	
To Prepaid (Op. BS Asset, 2 Effects)	By Payable (Op. BS Liability, 2 Effects)	To Receivable (Op. BS Asset, 2 Effects)	By Received in Advance (Op. BS Liability, 2 Effects)
To Cash (R & P : 2 Effects)	By I & E (1 Effect)	To I & E (1 Effect)	By Cash (R & P : 2 Effects)
To Payable (Cl. BS Liability , 2 Effects)	By Prepaid (Cl. BS , 2 Effects, Asset)	To Received in Advance (Cl. BS Liability , 2 Effects)	By Receivable (Cl. BS , 2 Effects, Asset)



2] **No Adjustment : Nominal A/c ~ Expenses**
R & P - Credit Side - Payment (1 Effect)

No Adjustment : Nominal A/c - Incomes
R & P - Debit Side - Receipt (1 Effect)

CONCEPT 8 : EDUCATIONAL INSTITUTION**1] Registration :**

- ✦ The educational institutions 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 Trust Act.
- ✦ Accordingly, in the State of Maharashtra, all the Societies have simultaneously been registered under the Bombay Public Trust Act, 1950.

2] Organisational 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 Governing Body is to supervise the smooth functioning of individual school or college.

3] Salient Features :

- ✦ 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.
- ✧ All the educational institutions follow financial year as their accounting year.

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 :

- [a] Donation from Public;
- [b] Fees in the form of annual tuition fees, term fees, admission fees, laboratory fee etc., and
- [c] 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.)

2] Specific items :**[i] 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.

[ii] Capitation fee or admission Fee :

- ↪ Amounts are collected from parents/guardians of the students who seek admission in the educational institution.



[iii] 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.

[iv] Use of Term Fee :

- 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	4] Contribution to athletic and cultural associations
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] Social and Cultural activities
13] School Band.	14] Prizes for Co-curricular activities.
15] Vocational Guidance in general.	16] Maintenance of playground.
17] Any other extra-curricular or co-curricular activities.	18] Drawing and Craft material.
19] Purchase of books for Pupils Library.	20] Curricular visits and excursions.
21] Audio-Visual Education.	22] Equipment for Physical education.

[v] Recurring grants :

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

[vi] 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] Current repairs.
11] Prizes.	12] Expenditure on co-operative stores.
13] Registration fee paid to the Board for recognition.	14] Maintenance of Tiffin Rooms.
15] Bonus to Teachers.	16] Electrical charges.
17] Telephone Charges.	18] Expenditure in connection with Conferences.
19] Subscription to educational Association etc.	20] Medical charges.
21] Audit fees of the auditors in accordance with prescribed scale.	22] Sales-tax and General tax on purchase of the school requirements.
23] Other contingencies : expenditure on printing & Stationary, conveyance expenditure of purchase of books & Furniture equipment	24] Miscellaneous expenses : Example school garden physical education
25] Payments for merit scholarships.	



3] Technique of Maintaining Fund Accounts :

- ↪ Non-business organizations, particularly educational institutions, sometimes, maintain separate accounts/funds for any specific activity of the organization such as sports, prizes, refreshments, etc. and in that case, presentation of information in financial statements is made fund-wise.
- ↪ Fund based accounting essentially involves preparation of financial statements fund-wise.
- ↪ In case of institution like colleges, schools and universities-separate ledgers are maintained for each fund.
- ↪ Fund ledgers are self-balancing in nature.
- ↪ A fund may be created for purchase, acquisition or construction of fixed assets or for any specific activities of the organisations or for both.
- ☺ **For example:** A building fund may be created with a view to purchase, acquire or construct buildings.
- ↪ All receipts in connection with the acquisition or construction of buildings are separated from the main accounts and shown in the building fund.
- ↪ Any expenditure incurred for the purpose of construction or acquisition of buildings made out of this fund.
- ↪ When building is ultimately acquired or constructed, the asset is recognised in the general balance sheet and consequently that portion of the building fund which has been utilised for the acquisition or construction of the building should be transferred to general fund.
- ↪ Depreciation can be charged on such funds only after its completion or acquisition.
- ↪ In the same way, separate funds may be created for equipments, major repairs to fixed assets and for other developmental activities.
