



Accountancy Notes

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Chapter-1

Accounting for Not for Profit Organisation

What is a Not-for-Profit Organisation (NPO)?

Not-for-Profit Organisation are those established to provide service to the society and its members for promotion of Art, Culture, Sports, Education and Religion development. It is not established for earning profit. i.e, School, College, Club, Hospital, Doctors, Lawyers, Engineer etc.

Objectives of Not-for-Profit Organisation (NPO)

- To provide service to the Society.
- To promote Art, Culture, Religion, Sports, and Educational Development.

Characteristics of Not-for-Profit Organisation (NPO)

- They do not earn profit.
- Its main source of income are:
 - Donation
 - Subscription
 - Government Grant
 - Fee from Members.
- They prepare:
 - Receipt and Payment Account
 - Income and Expenditure Account
 - Balance - Sheet.
- Surplus of these Organisations are not distributed among its Members.

Difference between Profitable Organisation and Not for Profit Organisation

Profitable Organisation

- Its main objective is to earn Profit
- The difference of assets and liabilities are called Capital.
- It makes a Profit & Loss Account to know profit or loss.
- It prepares Trading Account, Profit & Loss Account and Balance sheet.

Not for Profit Organisation (NPO)

- Its main objective is to provide service to the Society.
- The difference of assets and liabilities are called Capital Fund.
- It makes an Income & Expenditure Account to know surplus or deficit.
- It prepares Receipt & Payment Account, Income & Expenditure Account and Balance sheet.

What is a Receipt & Payment Account?

Receipt & Payment Account is the summary of Cash-book. It is prepared by Not for Profit Organisation to know Closing cash or Bank balance.

Following are its Characteristics;

- It is a real Account.
- It is prepared on a cash basis.
- It starts with Opening Cash or Bank Balance.
- All Capital and Revenue Receipts either current year, previous year and following year are recorded in the left side or Receipt side.
- All Capital and Revenue Expenditure either current year, previous year and following year are recorded in the right side or Expenditure side.
- Non-cash expenses or loss and Non-cash income or gain are not recorded anywhere.
- Its main objective is to know the Closing cash or Bank balance.

Difference between Receipt & Payment Account and Cash-book

Receipt & Payment Account;

- i. It is prepared by the Not for Profit Organisation.
- ii. It is a summary of Cash-books.
- iii. There is no column for ledger folio.
- iv. Left side is known as the Receipt side and the Right side is known as the Payment Account.
- v. Entries are made in classified form.

Cash-Book;

- i. It is prepared by Not for Profit Organisation and Profitable Organisation both.
- ii. It is Prepared on a Daily basis.
- iii. There are separate columns for Ledger Folio.
- iv. Left side is known as Debit side and Right side is known as Credit side
- v. Entries are made in Chronological Order.

What is an Income & Expenditure Account? Characteristics?

Income & Expenditure Account is a Nominal Account. It is prepared by the Not for Profit Organisation to know Surplus or Deficit.

Following are its Characteristics;

- It is a Nominal Account.
- It is prepared on Accrual basis.
- In the debit side of Income & Expenditure Account, We record all Revenue Expenditure of only the current year.
- In the credit side of Income & Expenditure Account, We record all Revenue Income of only the current year.

- If the income is more than Expense, the difference is called Surplus.
- If the income is less than Expense, the difference is called Deficit.
- Its main objective is to find out surplus or deficit.
- It is prepared just like a Profit and Loss Account.

Difference between income and expenditure account and profit and loss account.

Income and expenditure account;

- i. It is prepared by non profitable organisation
- ii. Its main objective is to know surplus or deficit.
- iii. The left side is known as the expenditure side and the right side is known as the income side.
- iv. Surpluses are not withdrawn by its members.

Profit and loss account;

- i. It is prepared by a profitable organisation.
- ii. Its main objective is to know net profit or net loss.
- iii. Left side is known as Debit side and the right side is known as the credit side.
- iv. Profits are withdrawn by partners or shareholders.

What is fund based accounting? Example? objectives?

Fund based accounting is a technique of book-keeping under which separate self-balancing, set of assets, liabilities, income and expenditure are maintained for each fund for a specific purpose. i.e, Match fund, sports fund, price fund , etc.**Following are its objectives;**

- i. To compare the actual result with the budget.
- ii. access the financial performance during the year. To ensure the rules and regulations are adopted.
- iii. To access the efficiency of the organisation. If the funds are more than expenses, it will be shown in the liability side of the balance sheet. If the funds are less than expenses, it will be shown in the expense side of the income and expenditure account.**What is legacy?**

It is a kind of donation, which will be shown on the liability side of the balance sheet. It is a capital receipt.**What is an endowment fund?**

It is a fund which provides permanent means of support for any person or institution. It is a capital receipt, which will be shown on the liability side of the balance sheet. It is either deposited in a bank or invested in security.

What is a life member fee?

It is paid only once in a lifetime by the member. It is a capital receipt, shown in the liability side of the balance sheet.

What is honorarium?

It is the amount paid to those people who are not employees of the organisation. It is a revenue expenditure.it will be shown in the expenditure side of the income and expenditure account.

Steps to take for conversion receipt and payment account into income and expenditure account;

- Opening cash and bank balance are not recorded anywhere.
- Closing cash and bank balance are not recorded anywhere.

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- Capital receipt and capital expenditure are not recorded anywhere. Such as life member free, legacy, specific donation, endowment fund, purchase of fixed assets, sale of fixed assets, purchase of investment, and sale of investment.
 - Only current year revenue receipt and expenditure are recorded.
 - Non cash expense and non cash income are also recorded.

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