ADVANCED ACCOUNTING

3rd SEMESTER

TOPIC:

NON-PROFIT ORGANISATION S

Accounting process-Preparation of summaries

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INTRODUCTION:

Receipts and Payments Account is a summary of the Cash Book. This account is prepared by those organizations which maintain their books on cash basis. All cash receipts are recorded on the Payments side (i.e. Debit side) and all cash payments are recorded on the payments side (i.e. Credit side) of receipts and payment Account. It is prepared on the basis of cash and bank transactions recorded in the Cash Book.

It begins with the opening balance of cash and bank and ends with the closing balances of cash and bank (balancing figure) at the end of the according period. It records all the cash and bank transactions both of capital and revenue nature.

It only records the cash and bank transactions relating to the current accounting period, but also cash and bank receipts (or payments) received during the current accounting period that may be related to the previous or next accounting period. This account only helps us to ascertain the closing balance of the cash bank and helps in assessing the cash position of an NPO. It also forms the basis for the preparation of Income and Expenditure Account.

Similarities between Receipt and Payments Account and Cash Book

The following are the features of receipt and payment Account that are common to those of Cash Book

(i) **Nature** It is a summarized version of the Cash Book. Similar to the Cash Book, the Receipt and Payment and Account is also a Real Account.

(ii) **Nature of Transactions** It records only cash and bank transactions similar to a Two-Column Cash Book. Transactions other than cash and bank like depreciation, loss/profit on sale of assets, etc are not recorded in this account.

(iii) **No Distinction between Capital and Revenue Items** It records all the cash and bank receipts and payments of both capital and revenue nature. Likewise, the transactions recorded in the Cash Book are also of both capital and revenue nature.

(iv) **Opening and Closing Balance** It begins with opening balance of cash and bank and ends with the closing balance of the cash and bank (balancing figure) at the end of the accounting period.

(v) **Purpose** It reveals the cash position of an organization. It helps to ascertain the total amount paid and received during an accounting period. Similarly, a Cash Book also helps us to assess the cash position of an organization. Thus, on the basis of the above mentioned points and similarities, the statement 'Receipt and Payment Account is a summarized version of Cash Book ' is justified.

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Proforma of Receipt and Payment Account

Receipts	Amount (Rs.)	Payments	Amount (Rs.)
Balance b/d	xxxxx	Balance b/d (overdraft)	xxxxx
Cash in hand	xxxxx	Wages and Salaries	xxxxx
Cash at bank	xxxxx	Rent	xxxxx
Subscriptions	xxxxx	Rates and Taxes	xxxxx
General Donations	xxxxx	Insurance	xxxxx
Sales of newspaper	xxxxx	Printing and Stationery	xxxxx
Sale of Sports materials	xxxxx	Advertisement	xxxxx
Interest on fixed deposits	xxxxx	Sundry expenses	xxxxx
Interest in investments	xxxxx	Telephone charges	xxxxx

Receipts	Amount (Rs.)	Payments	Amount (Rs.)
Locker rent	xxxxx	Entertainment expenses	xxxxx
Sales of scraps	xxxxx	Audit Fees	xxxxx
Received from charity	xxxxx	Honorarium	xxxxx
Miscellaneous receipts	xxxxx	Repairs and Renewals	xxxxx
Sale of Investments	xxxxx	Purchase of Assets	xxxxx
Sale of Fixed Assets	xxxxx	Purchase of Investments	xxxxx
Life Membership Fees	xxxxx	Balance c/d	xxxxx
Entrance fees	xxxxx	Cash in hand	xxxxx
Balance c/d (overdraft)	xxxxx	Cash at bank	xxxxx
	xxx		xxx

Income and Expenditure Account

The role of a non-trading firm is to provide services to its members. However, in order to do the same, it needs to earn some revenue and incur certain expenditures. When a non-profit firm does so, it needs to prepare an income and expenditure account, which can help it in ascertaining the surplus earned or deficiency incurred during a period. Let us understand more about the income and expenditure account which is prepared by a non-profit organization.

Income and Expenditure Account

Format

Income & Expenditure A/c
For the year ended

Expenditures	Amount	Incomes	Amount
To all revenue payments (current year whether paid or not) To Depreciation To Bad debts To Loss on sale of fixed assets To Consumed part of medicine, stationery, spot equipments etc. To Surplus (Excess of income over Expenditure)		By all revenue receipts (current year whether received or not) By profit on sale of fixed assets By Deficit (Excess of expenditure over Income).	

The Income and Expenditure Account is a summary of all items of incomes and expenses which relate to the ongoing accounting year. It is prepared with the objective of finding out the surplus or deficit arising out of current incomes over current expenses. It is quite similar to the Trading and Profit and Loss Account of a trading concern and is prepared in an exact manner.

Income and Expenditure Account is prepared on an accrual basis.

All incomes and expenses relating to the accounting year, whether they are actually received and paid or not, are taken into consideration. Expenditure is recorded on the debit side and income is recorded on the credit side. A distinction is made between capital and revenue items and only revenue items are included in this account.

Income and Expenditure Account is a nominal account. Therefore, the rule of nominal account (debit all expenses and losses and credit all incomes and gains) is followed while preparing it.

While preparing the account, only items of revenue nature are recorded and all items of capital nature are ignored. For example, the profit earned or loss suffered on the sale of an asset will be recorded in it but the amount received from the sale of an asset will not be recorded in it.

The closing balance of this account shows a surplus or deficit for the year. If the credit side exceeds the debit side, there is surplus. On the other hand, if the debit side exceeds the credit side, there is a deficit. The surplus is added to the Capital Fund while the deficit is deducted from the Capital Fund.

Distinction between Income & Expenditure Account and Receipt & Payment Account

Basis of distinction Account	Income and Expenditure Account	Receipt and Payment Account
Nature	It is like as profit and loss account.	It is the summary of the cash book.
Nature of Items	It records income and expenditure of *revenue* nature only.	It records receipts and payments of *revenue as well as capital nature.*
Period	Income and expenditure items relate only to the current period.	Receipts and payments may also relate to preceding and succeeding periods.
Debit side	Debit side of this account records expenses and losses.	Debit side of this account records the receipts.
Credit side	Credit side of this account records income and gains.	Credit side of this account records the payments.
Depreciation	Includes depreciation.	Does not includes depreciation.
Opening Balance	There is no opening balance.	Balance in the beginning represents cash in hand /cash at bank or overdraft at the beginning.
Closing Balance	Balance at the end rep-resents excess of income over expenditure or vice-versa.	Balance at the end represents cash in hand at the end and bank balance (or bank overdraft).

Preparation of Income and Expenditure Account

For preparing an income and expenditure account, follow the steps as listed below.

- ✓ Include all items of revenue receipts and expenses, on the respective side of the account.
- ✓ Ensure that no items of capital incomes and expenses are included in this account.
- ✓ Also, adjustment for amounts prepaid and outstanding, with respect to each item will have to be made.

- ✓ Further, items included in receipts and payment account, depreciation, provisions, and profit or loss on sale of assets will have to be included in this account.
- ✓ Finally, after putting down all items of revenue and expenses, you'll get a balance. The resulting balance will then reveal the surplus or deficit for the period.

Balance Sheet

Preparing the final accounts is the last stage of the accounting cycle. They help in determining the financial position of the business at the end of the financial as well as the accounting year. These include Trading account, Profit and loss account, and Balance sheet.

The balance sheet is a statement which states the assets and liabilities of a firm as at a certain date. As even a single transaction can make a difference in assets or liabilities, so the balance sheet is true only at a particular period of time. This is the significance of “asset” in the balance sheet. It is based on the accounting equation that is:

Total assets = Total liabilities + Capital

As balance sheet is a statement and not an account so there is no debit or credit side.

So, Assets are shown on the right-hand side and liabilities on the left-hand side of the balance sheet.

Classification of Assets and Liabilities

Assets

Assets can be classified as:

a. Long term assets:

Long-term assets are those assets which are not to be sold by the firm and to be used for a long period of time, such types of assets are also known as Fixed assets. For example, land and building, plant and machinery, vehicles, equipment, etc.

b. Current assets:

Currents assets are those assets which can be converted into cash easily from the market. Generally within a year. For example, cash in hand, cash at bank, trade receivables, inventory, etc.

c. Intangible assets:

Intangible assets are those which cannot be seen or touched. For example, goodwill, patents, copyrights, etc.

Liabilities

Liabilities can be classified as:

a. Long term liabilities:

Long-term liabilities are those which exists for one or more than one year. For example, long-term loan from the bank.

b. Current liabilities:

Current liabilities or short-term liabilities are those which are to be settled within a year. For example, trade payables, creditors, outstanding expenses, etc.


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3
25 28 31 34 37 40 43 46 49

Proper presentation of the balance sheet improves the understandability of the information that is to be communicated to its users.

Characteristics of the Balance Sheet

1. Balance sheet is prepared for a particular day rather than the entire period. It will be prepared by considering activities which happened on that particular day.

2. Total of both the sides i.e Assets and liabilities will tally otherwise it is considered as an error.
3. Preparation of balance sheet is only possible after the preparation of the profit and loss a/c. That is why the P& L Account, Balance Sheet and Cash flow Statement are collectively called Final Accounts.


help
foundation
charity
NPO
poverty
grant
public interest
nonprofit organization
money

Preparation of Balance Sheet for Non-Profit Organization

In the case of non-profit organizations, the Capital Fund is accumulated along with capital Receipts and receipts that are capitalized by further increasing the surplus or decreased by the deficit, during the year. At the beginning of a non-trading concern, there will be no formal capital Fund and in such case, the Surplus, if any, earned during the year constitute the Capital Fund at the end of the year.

The balance sheet of a non-profit organization is prepared in the same manner as in the case of a business enterprise. The assets of the organization are recorded on the Right side and liabilities on the Left side. The Non-profit organizations do not use the term Capital. Instead, General Fund or Accumulated Fund appears on the Balance Sheet. The NPO might also create a special fund, such as prize fund or match fund. The purpose of which is to meet the expenses related to the purpose for which it is created.

The incomes on the amount which is invested from these funds accrue to the fund alone and not the income and expenditure account.

Accounting Treatment of General Fund and Preparation of Balance Sheet

- ✓ Preparation of a balance sheet starts with the general fund. You have to add the respective surplus or deficit in the amount.
- ✓ Further, add life membership fees or legacies at this stage.

- ✓ Put all fixed assets on the asset side of the balance sheet.
- ✓ Showcase the amounts paid in advance and amount due on the assets and liabilities side.
- ✓ Post the closing balances of the assets and liabilities on the respective side of the balance sheet.
- ✓ To calculate the amount of the fund, deduct the value of total liabilities from the value of assets.

Proforma of the Balance Sheet

Liabilities	Amount	Assets	Amount
Capital a/c:		Tangible fixed assets:	
Balance xxxx		Land and building	Xxxx
Add: net profit/less net loss xxxx		Plant and machinery	Xxxx
Less: drawings xxxx	xxxx	Vehicle	Xxxx
Long term loans:		Furniture and fixtures	Xxxx
Term loans	Xxxx	Intangible assets:	
Other loans	Xxxx	Goodwill	Xxxx
Short term loans:		Patents	Xxxx
Cash credit	Xxxx	Investments:	

Liabilities	Amount	Assets	Amount
Overdraft	Xxxx	Long term investment	Xxxx
Other loans	Xxxx	Current assets:	
Current liabilities:		Cash in hand	Xxxx
Trade payables	Xxxx	Cash at bank	Xxxx
Outstanding expenses	Xxxx	Inventory	xxxx
Advance taken	Xxxx	Trade receivables	Xxxx
Provision:		Prepaid expenses	Xxxx
Provision for bad and doubtful debts	xxxx	Short term investment	Xxxx
Provision for taxation	xxxx	Advance	Xxxx
	Xxxx		Xxxx

THANK YOU