Unit 1

Accounting for Not –For – Profit Organization

State whether True or False

1) Receipt & Payment account is a summary of cash transaction. (True)
2) Receipt & Payment account is an expenses account. (False)
3) Donation for specific purpose is always capitalized. (True)
4) Receipt & Payment account is equivalent to Profit & Loss account. (False)
5) Receipt & Payment account shows the cash position. (True)
6) An Income & Expenditure Account includes only revenue items (True)
7) A credit balance of Income & Expenditure Account denotes an excess of expenses over income. (True)
8) Income derived from the specific fund investment is credited to the specific fund account. (True)
9) R G Baruah College is a not for profit Organization. (True)
10) Capital Grant received from Govt. is a capital income & not to be credited to the Income and expenditure account. (True)
11) A not for profit organization neve undertakes trading activities. (False)

Fill in the blanks

1) Receipt & Payment account and Income & Expenditure account are prepared by a ________ (Non-trading organizations)
2) Receipt & Payment account generally starts with opening _____ (Balance)
3) A Receipt & Payment account is prepared on ______ basis of accounting. (Cash)
4) A Receipt & Payment account only _____ transactions are shown. (Cash)
5) An Income & Expenditure account is prepared on ______ basis of accounting. (Accrual)
6) An Income & Expenditure account records only transactions of ______nature. (Revenue)
7) An Endowment Fund is a _____receipt. (Capital)
8) Outstanding subscription is shown on the _____ side of the balance sheet. (Assets)
9) Excess of income over Expenditure is denoted by _____. (surplus)

Chose the correct alternatives

1) A not for profit organization prepares.
   (a) Receipt & Payment Account
   (b) Trading Account
   (c) Income & Expenditure Account
   (d) Both (a) and (c)

   Ans- (d). Both (a) and (b).
2) An Income and Expenditure Account reveals.
   (a) Cash position
   (b) Surplus or deficit.

(c) Capital Fund.
(d) None of the above

Ans- (b). Surplus or deficit

3) Donation Received for a specific purpose is.
   (a) Credited to Income & Expenditure Account.
   (b) Credited to specific fund account.
   (c) Credited to a capital fund account.
   (d) None of the above.

Ans-(b). Credited to specific fund a/ c

4) Subscription received in advance is
   (a) An Assets account
   (b) A liability accounts
   (c) An Income
   (d) An Expenses

Ans- b). A liability a/c

5) Excess of sports expenses over sports fund is.
   (a) Debited to Income & Expenditure account.
   (b) Deducted from capital fund account.
   (c) Shows on the assets side of the Balance sheet as a negative balance.
   (d) None of the above.

Ans-(a). Debited to the income and expenditure a/c.

6) Interest on specific fund is.
   (a) Credited to Income & Expenditure Account.
   (b) Credited to specific fund account.
   (c) Debited to specific fund account
   (d) Credited to a capital fund account.

Ans- (b). Credited to the specific fund a/c

7) When the construction of building is completed, the balance of Building Fund Account is.
   (a) Transfer to Income & Expenditure account.
   (b) Transfer to Capital Fund Account
   (c) Continue in the Building Fund Account
   (d) None of the above

Ans- (b). Transfer to capital fund account.

8) When there is a Building Fund and construction os the building is completed, the amount spend is.
   (a) Transfer to Capital Fund Account
   (b) Transfer to Income & Expenditure account.
   (c) Continue in the Building Fund Account
   (d) None of the above

Ans- (c). continue to the building fund a/c

9) When sports expenses are less than the amount of Sports Fund, the items are shown in.
   (a) Balance sheet
   (b) Receipt & Payment Account.
   (c) Income & Expenditure Account.

(d) None of the above.

Ans- (a). Balance sheet

10) Life membership fees is.

(a) A liability
(b) An Assets
(c) An Expenses
(d) None of above

Ans-(b). A liability.

11) Capital Receipts are represented in.

(a) Balance Sheet.
(b) Trading account.
(c) Profit & Loss account
(d) Manufacturing account.

Ans-(a). Balance sheet.

Very short Answer Type

Q. What is Not for Profit Organization?

Ans: - There are certain organizations which are formed not to earn profit but to render services to its members and to the public. Such organizations include clubs, hospitals, libraries, schools, religious institutions, charitable institution etc. The main source of income of these organizations is membership subscriptions, donations and grant etc.

Q. Write two features of Not for Profit Organization.

Ans: - Main two features of not- for- profit organizations are-

1. **Main aim is service**-Such organizations are set up to provide service to a specific group or the public at a large either free of cost or at nominal rates and not to earn profit.
2. **Separate entity**- Not for profit organization are treated as separate entity distinct from its members.

Q. Write two distinction between Not- for -profit organization and Trading organizations.

Ans: -Distinction between Not- for -profit organization and Trading organizations are-

Basis	Not- for -profit organization	Trading organizations
1.Primery motive	Primary motive of such organizations is to provide service.	Primary motive of such organizations is to earn profit.
2.Distribution of profit	Surplus or deficit is not distributed among its members. It is adjusted in capital fund	Profit or loss is distributed among the partners.

Q. Write the Name of four Not- For- profit Organizations.

Ans: -Four Name of Not- For- profit Organizations are- clubs, hospitals, libraries, schools, religious institutions, charitable institution etc.

Q. Mention the objectives of Not- For- profit Organizations.

Ans: - Objectives of not for profit organizations are-

(a) Such organizations are formed for providing service to a specific group or public at large such as education, health care, sports etc. without any consideration of caste, creed, religious etc.

(b) Such organizations are set up to provide service to a specific group or the public at a large either free of cost or at nominal rates and not to earn profit

Q. What is Receipt and Payment Account?

Ans: -Receipt and Payment account is merely a summary of the cash transactions appearing in the cash book. Receipt and Payment is prepared at the end of the year from the cash book. All receipts and payments which are entered in the cash book are also entered in the Receipt and Payment account.

Q. What is the basis of preparing Receipt and Payment account and Income and Expenditure account?

Ans: -Receipt and Payment account is prepared on cash basis because it is the summery of cash book. It contains only cash receipts and cash payments and excluded all non-cash items and outstanding.

Income and Expenditure account is prepared on accrual basis like a profit and loss account in order to ascertain the operational surplus or deficit made during the year.

Q. Write two limitations of Receipt and Payment account

Ans: -Two limitations of Receipt and Payment account: -

(a) **No details of transactions**-Receipt and Payments account shows the transactions in total. Therefore, the details of transactions are not available there from

(b) **No distinction between capital and revenue items**- It includes all receipts and payments taken place in a given period and does not make any distinction between capital and revenue.

Q. What is Income and Expenditure Account?

Ans: -Income and Expenditure account is a summary of income and expenses for an accounting year, prepared on accrual basis like a profit and loss account in order to ascertain the operational surplus or deficit made during the year. It is prepared from Receipt and payment account and other information. the surplus or deficit is transferred to the capital fund shown in the balance sheet.

Q. What is Capital Fund?

Ans-The term capital fund is used in case of Non trading organization in place of capital. It is sometimes called General Fund or Accumulated Fund or corpus Fund. It is the excess of assets over liabilities on a particular date.

Q. Write a short note on Donation for specific purpose?

Ans: -When donation is received for specific purpose like donation for building, donation for prize fund etc. are called donation for specific purpose. It is credited to the separate fund account and is shown on the liability side of the balance sheet irrespective of whether the amount is large or small. Any income derived from it I s credited to that fund account. Similarly, any expenditure incurred for carrying out the purpose of that fund is debited to that fund account.

Q. What is surplus /deficit?

Ans-While preparing Income and Expenditure account closing balance of the account indicates either excess of income over expenditure is called surplus or excess of expenditure over income is called deficit.

Q. What is cash basis of accounting?

Ans-Cash basis of accounting is a basis of accounting under which incomes /expenses are considered if they have been received or paid in cash. Outstanding and prepaid income or expenses are not considered

Q. What is capital Grant?

Ans: -It is a grant which is received from Government, or other institutions etc. for the acquisition of an assets. It is capital income and is shown on the debit side of Receipt and Payment account when it is received.

Q. What is accrual basis of accounting?

Ans: - Accrual basis of accounting is a basis of accounting under which incomes are considered irrespective of, whether the same has actually been received or not and expenses are charged irrespective of the fact whether they have actually been paid or not.

Short Answer Type

Q. State three features of Receipt and Payment account

Ans: -Three features of Receipt and Payment account-

(a) **It starts with opening balance of cash in hand and bank-**Receipt and Payment account is always start with opening debit balance of cash in hand and at bank, if bank balance is unfavorable then it will be the credit opening balance.

(b) **Non-cash items are not recorded in this account**-This account records only the actual receipts and payments of cash. Non-cash items such as depreciation, outstanding expenses and accrued incomes are ignored while preparing it.

(c) **Nature item recorded-** It includes all receipts and payments taken place in a given period and does not make any distinction between capital and revenue.

Q. State three objectives of preparing Receipt and Payment account

Ans: - Three objectives of preparing Receipt and Payment account-

(a) **To show the cash trial**-It shows the cash trial comparing the cash balance of Receipt and Payment account with that of cash book.

(b) **To show the cash position**- It shows the cash position at the end of the period by deducting the total payments from the total receipts.

(c) **To show the clues for existing of outstanding item**s- It provide the clues for the existing of outstanding items of some of the regular incomes and expenses.

Q. Mention three distinguish features of cash basis of accounting

Ans: -Three distinguish features of cash basis of accounting-

(a) **Users-** Professionals rendering services records their transactions and ascertain their profit and loss under this basis.

(b) **Requirement of knowledge**- Application of this basis does not require any technical knowledge.

(c) **Nature** of transactions- Units with cash transactions prefer this basis.

Q. Mention three features of fund-based accounting

Ans: -Three features of fund-based accounting-

(a) **Opening of a separate fund account**- When a donation is received for a specific purpose, a separate fund account is created in the name of the specific purpose such as Building fund, Prize fund etc. Such fund account shown on the liabilities side of the Balance Sheet.

(b) **Income received on specific fund investment-**If the fund money is invested, any income derived from the investment of such a fund money is credited to that fund account and not to the Income and Expenditure account.

(c) **New donation relating to the specific fund-** Any new donation or receipt on such a specific fund should be credited to that fund.

Q. Mention three features/objectives of Income and Expenditure account

Ans: -Three features/ objectives of Income and Expenditure account-

(a) **Accrual basis**- It is prepared on accrual basis, that is, it includes the expenses incurred during a period whether paid or not and revenue earned during the same period whether actually received or not.

(b) **Placement of items**-Expenses is recorded on the debit side and income is recorded on the credit side like the Profit and Loss account of a Trading concern.

(c) **Period Covered**-It includes the expenses and revenue of the current period only and excludes the items relating to past and future periods, if any.

Q. Mention three principle source of income and heads of expenditure of a not for profit organization

Ans: Not – For –Profit organizations raise funds by collecting subscriptions from members, taking donations from public and institutions, receiving Grants-in-aids from Government and earning incomes from investments of its corpus. They spend the money on admission, on offering specific services and in creating necessary infrastructure for the fulfillment of their objectives.

Q. Write a short note on incidental trading activities carried on by a non-trading organization

Ans: Not – For –Profit organization Is non-trading organization but sometime it may also undertake trading activities like restaurant, shop, hospitals, beauty parlous etc. to provide certain facilities to its members or to general public in order to earn some profit. Such profit is also used for the furtherance of the goals of the organizations.

Q. State the accounting treatment of the following

Ans: - The accounting treatment of the following are-

(a) **Donation for a specific fund**-It is capitalized and is shown on the liabilities side of the balance sheet.

(b) **Life membership fees**-It is a receipt of capital nature since the members will not be required to pay the fees annually, hence to be added to the capital fund or shown separately on the liabilities side of Balance Sheet.

(c) **Entrance fees**-In absence of any specific instruction; entrance fees may be treated as revenue receipt and as such may be shown on the credit side of income and expenditure account. However, if any instruction is given to treat it as capital receipt it should be shown on the liability side of the current year balance sheet.

(d) **Sale of old furniture**-It appears on the debit side of receipt and payment account. It is capital receipt and as such should not be transferred to income and expenditure account. However, the profit or loss on sale of furniture must be taken to the income and expenditure account.

(e) **Sale proceeds of sports materials/equipment**-It appears on the debit side of receipt and payments account and is transferred to the credit side of income and expenditure account due to the fact that selling old used sports materials like old bats, balls etc.

(f) **Legacy**-It is the amount which a non-profit entity receives as per Will of a deceased person. It appears on the debit side of the receipt and payment account. This amount is not of a recurring nature and as such it is treated as capital receipt and shown on the liabilities side.

(g) **Endowment fund**-It is a fund arising from a bequest or gift the income of which is devoted for a specific purpose; thus, it is capital receipt because it provides a permanent income to the institution. It should be shown on the liabilities side of Balance Sheet.

Q. State the accounting principle followed in fund-based accounting

Ans: Following accounting principle followed in fund-based accounting-

(a) **Opening of a separate fund account**- When a donation is received for a specific purpose, a separate fund account is created in the name of the specific purpose such as Building fund, Prize fund etc. Such fund account shown on the liabilities side of the Balance Sheet.

(b) **Income received on specific fund investment-**If the fund money is invested, any income derived from the investment of such a fund money is credited to that fund account and not to the Income and Expenditure account.
(c) **New donation relating to the specific fund-** Any new donation or receipt on such a specific fund should be credited to that fund.
(d) **Profit on sale of investment**-If there is a profit or loss on sale of investment, that profit or loss should be adjusted to that fund account
(e) **Balance of fund account after fulfillment of objectives**-If the balance shows credit balance, such balance is transferred to capital fund account. If the balance shows debit balance, such balance is transferred to the Income and Expenditure account

Q. Give three difference between fund based and non-fund-based accounting

Ans: -Three difference between fund based and non-fund-based accounting-

Basis	Fund Based Accounting	Non- Fund Based Accounting
1.Use of fund	Funds are used for specific purposes except for general fund	Fund can be used for any profit earning purpose
2.Application	It is applicable to Not-For -profit organization	It is applicable to profit seeking commercial organization
3.Result of operation	Under this system, the result of operation represents either surplus or deficit	Under the system, the result of operation represents either net profit or net loss

Q. What is subscription? How is it calculate

Ans: It is the main source of income of a non-trading organization. It will be appearing on the debit side of Receipt and Payment account and out of it the subscription belonging to the current year will be posted to the credit side of Income and Expenditure account.

Calculation of subscription Income can be made in any of the following three methods-

(a) Statement form
(b) Account form
(c) Equation form

Long Answer Questions

Q. Mention five distinction between Receipt and Payment Account and Income and Expenditure Account

Ans: Five distinction between Receipt and Payment Account and Income and Expenditure Account

Basis	**Receipt and Payment Account**	**Income and Expenditure Account**
1.Form	It is a summary of cash transaction of a particular period	It is the equivalent of a profit and loss account of a non-trading concern
2.Nature of items	It includes both capital and revenue items and does not distinguish between them	It records revenue items only

3.Nature of account	It is an assets account	It is a revenue account
4.Side of recording	Receipts are shown on the debit side and payments are shown on the credit side	Incomes are shown on the credit side and expenses are shown on debit side of the account
5.Basis of accounting	It records cash transaction only excludes outstanding items	It records all incomes whether received or accrued and all expenses whether paid or outstanding.
6.Period	It includes all receipts and payments relating to any period but taken place during the current period	It includes all revenue income and expenditure relating to the relevant period only

<u>Q. Mention five Features of receipt and payment account-</u>

Ans-Features of receipt and payment account-

(a) **It starts with opening balance of cash in hand and bank-**Receipt and Payment account is always start with opening debit balance of cash in hand and at bank, if bank balance is unfavorable then it will be the credit opening balance.
(b) **Non-cash items are not recorded in this account**-This account records only the actual receipts and payments of cash. Non-cash items such as depreciation, outstanding expenses and accrued incomes are ignored while preparing it.
(c) **Nature item recorded-** It includes all receipts and payments taken place in a given period and does not make any distinction between capital and revenue.
(d) **Receipt and payment covering any period**- It includes all receipts and payments relating to any period but taken place during the current period.
(e) **Cash position-**It shows the balance of cash position at the end of a period but does not show the net income or net deficit of the period

<u>Q. Give five features of Income and Expenditure account</u>

Ans-Features of Income and Expenditure account-

(a) **Accrual basis**- It is prepared on accrual basis, that is, it includes the expenses incurred during a period whether paid or not and revenue earned during the same period whether actually received or not.
(b) **Placement of items**-Expenses is recorded on the debit side and income is recorded on the credit side like the Profit and Loss account of a Trading concern.
(c) **Period covered**-It includes the expenses and revenue of the current period only and excludes the items relating to past and future periods, if any.
(d) **Matching of expenses against revenue**-It matches expenses against the revenue of a period concerned. It means that expenses incurred to earn the revenues are compared with those revenue.
(e) **Balance-**It does not start with any opening balance but ends with a balance representing either surplus or deficit.

Q. State the principle of preparing an Income and Expenditure account from a given Receipt and Payment account-

Ans-Principle of preparing an Income and Expenditure account from a given Receipt and Payment account-

(a) Capital receipts and capital payments should br excluded as they are shown in the balance sheet.

(b) Revenue receipt is to be taken out from the receipt and payment account and are be shown on the income side of the Income and expenditure account. Some of these items may be required to be adjusted by excluding the amounts relating to the preceding and succeeding periods and by including the amounts not yet paid or paid in the previous year for the current year.

(c) Revenue expenses is to be taken out from the receipt and payment account and are be shown on the expenses side of the Income and expenditure account. Some of these items may be required to be adjusted by excluding the amounts relating to the preceding and succeeding periods and by including the amounts not yet paid or paid in the previous year for the current year.

(d) The following items which do not appear in the Receipt and Payment account for determining the surplus or deficit for the current year are to be taken into consideration:

i. Depreciation on fixed assets
ii. Provision for doubtful debt
iii. Profit or loss on sale of fixed assets
iv. Hidden income and expenses such as interest on investments and loans taken.

Long answer type question

Q. What are the financial statement prepared by a ? State the objectives of each of them

Ans- Financial statement prepared by Not-for-profit organizations are: -

a. Receipt and Payment Account
b. Income and Expenditure Account
c. Balance Sheet

objectives of Income and Expenditure account-

(a) **Accrual basis**- It is prepared on accrual basis, that is, it includes the expenses incurred during a period whether paid or not and revenue earned during the same period whether actually received or not.

(b) **Placement of items**-Expenses is recorded on the debit side and income is recorded on the credit side like the Profit and Loss account of a Trading concern.

(c) **Period covered**-It includes the expenses and revenue of the current period only and excludes the items relating to past and future periods, if any.

objectives of preparing Receipt and Payment account-

(a) **To show the cash trial**-It shows the cash trial comparing the cash balance of Receipt and Payment account with that of cash book.

(b) **To show the cash position**- It shows the cash position at the end of the period by deducting the total payments from the total receipts.

(c) **To show the clues for existing of outstanding items**- It provide the clues for the existing of outstanding items of some of the regular incomes and expenses

Objectives of preparing of Balance Sheet-

(a) To Know the financial position on the last date of the accounting year
(b) To show the position of different funds

Q. Mention three features of receipt and payment account and five distinction between Receipt and Payment Account and Income and Expenditure Account

Ans- Features of receipt and payment account-

(a) **It starts with opening balance of cash in hand and bank-**Receipt and Payment account is always start with opening debit balance of cash in hand and at bank, if bank balance is unfavorable then it will be the credit opening balance.
(b) **Non-cash items are not recorded in this account**-This account records only the actual receipts and payments of cash. Non-cash items such as depreciation, outstanding expenses and accrued incomes are ignored while preparing it.
(c) **Nature item recorded-** It includes all receipts and payments taken place in a given period and does not make any distinction between capital and revenue.

Five distinction between Receipt and Payment Account and Income and Expenditure Account

Basis	Receipt and Payment Account	Income and Expenditure Account
1.Form	It is a summary of cash transaction of a particular period	It is the equivalent of a profit and loss account of a non-trading concern
2.Nature of items	It includes both capital and revenue items and does not distinguish between them	Its records revenue items only
3.Nature of account	It is an assets account	It is a revenue account
4.Side of recording	Receipts are shown on the debit side and payments are shown on the credit side	Incomes are shown on the credit side and expenses are shown on debit side of the account
5.Basis of accounting	Its records cash transaction only excludes outstanding items	It records all incomes whether received or accrued and all expenses whether paid or outstanding.
6.Period	It includes all receipts and payments relating to any period but taken place during the current period	It includes all revenue income and expenditure relating to the relevant period only

****