

# ADVANCED ACCOUNTING

3<sup>rd</sup> SEMESTER

**TOPIC:**

ACCOUNTING OF NON-PROFIT  
ORGANIZATIONS meaning  
and special features

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## **Introduction:**

Nonprofit organizations serve to build a more equitable society through support to individuals and communities. The work emphasizes benefits to stakeholders, not shareholders, and revenue generated is returned to the efforts and missions of the organization. Other sectors, including corporations and all levels of education, realize direct and indirect advantages from the work of the nonprofit sector. Nonprofit organizations are tremendously diverse in the populations they serve, how they perform their work, and how they use technology, but there are some common representative characteristics:

# Meaning, Characteristics, and Accounting for Non-Profit Organizations

Usually, every business undertakes economic activities with a motive to earn a profit. But, there are some organizations which work with a motive to provide service to its members as well as to the general public. The trustees of these organizations are fully accountable to the members and the public.

Hence, Accounting for Non-Profit Organizations become necessary.

Examples of such organizations are charitable institutions, religious organizations, clubs, educational institutions, trade unions, etc

Not-for-Profit Organizations are organizations which are set up for the welfare of the society or for the promotion of art and culture in the society. These are usually set up as a charitable institution with the service motive.

The trustees manage these organizations.

The members of the organization elect the trustees. The Not-for-Profit Organizations raise funds from its members as well as from the general public for meeting their objectives.

The main motive of these organizations is to provide service. However, they may earn profits in the due course. Generally, these organizations do not manufacture, purchase or sell goods or provide services.

Thus, they do not need to prepare Trading and Profit and Loss A/c. They credit the funds received to the Capital Fund or General Fund A/c.

## **Browse more Topics under Accounting For Not For Profit Organizations**

- ✓ Receipt and Payment Account
- ✓ Income and Expenditure Account
- ✓ Balance Sheets

## **Characteristics of Not-for-Profit Organizations**

**1. Service Motive:** These organizations have a motive to provide service to its members or a specific group or to the general public. They provide services free of cost or at a bare minimum price as their aim is not to earn the profit. They do not discriminate among people on the basis of their caste, creed or colour. Examples of services provided by them are education, food, health care, recreation, sports facility, clothing, shelter, etc.

**2. Members:** These organizations are formed as charitable trusts or societies. The subscribers to these organizations are their members.

**3. Management:** The managing committee or the executive committee manages these organizations. The members elect the committee.

**4. Source of Income:** The major sources of income of not-for-profit organizations are subscriptions, donations, government grants, legacies, income from investments, etc.

**5. Surplus:** The surplus generated in the due course is distributed among its members.

**6. Reputation:** These organizations earn their reputation or goodwill on the basis of the good work done for the welfare of the public.

**7. Users of accounting information:** The users of the accounting information of these organizations are present and potential contributors as well as the statutory bodies.



## Accounting for Non-Profit Organizations

As we know that the not-for-profit organizations do not trade in goods or provide services with a profit motive. But, they also require to keep proper records of incomes, expenses, assets, and liabilities. Their major source of income is donations, subscriptions, grants, etc. Therefore, most of their transactions are in cash or through the bank account.

They need to keep proper books firstly because they are accountable to the members and the contributors and secondly because the law requires them to maintain proper books so that the government can keep proper control over the grants. Also, proper accounting reduces the risk of fraud and embezzlement. In addition to the ledgers and cash book, they are also required to maintain a stock register.

Also, in a Stock register, a complete record of all fixed assets and consumables is maintained.

In accounting for non-profit organizations, instead of maintaining a Capital A/c, these organizations maintain Capital Fund or General Fund A/c. They credit this account with the surplus, life membership fees, donations, legacies, etc. The not-for-profit organizations also require to prepare the final accounts or the financial statements at the end of the accounting year as per the accounting principles. The final accounts of these organizations consist of:

**1. Receipts and Payments A/c:** It is the summary of the cash and bank transactions. It helps in the preparation of Income and Expenditure A/c and Balance Sheet. We also need to submit it to the Registrar of Societies along with Income and Expenditure A/c and Balance Sheet.

**2. Income and Expenditure A/c:** It is similar to the Profit and Loss A/c and ascertains the surplus or deficit if any.

**3. Balance Sheet:** We prepare it in the same manner as the Balance Sheet of concerns with a profit motive.

The following are the financial statements that they prepare at the end of the year:

- ✓ **Receipts and Payments A/c**
- ✓ **Income and Expenditure A/c**
- ✓ **Balance Sheet**

### **Receipt and Payment Account**

“A receipt and payment account is a summarized cash book for a given period”. “This is a summary of the cash transactions as in the cash book”. Non-profit organizations prepare receipt and payment account at the end of the year.

With the help of this account and some additional information, we prepare income and expenditure account to disclose the true results of non-profit organizations.

Receipt and payment account cannot disclose the true result of a non-profit organization. We prepare this account on the basis of the information available from the cash book.

# Characteristics of Receipt and Payment Account

Following are the characteristics of receipt and payment account:

1. It is a summary of the cash book.
2. We record all the cash receipts during the whole year on its debit side. Whereas, we write all the cash payments for the whole year on its credit side.
3. We include both receipts and payments in cash whether they are of capital and revenue nature.

4. We record only cash transactions in receipt and payment account.

5. It generally shows a debit balance. In the case of overdraft balance, its net balance may be credit.

6. Its closing balance shows closing cash in hand and closing cash at the bank.

7. Non-cash items such as depreciation, outstanding expenses, accrued incomes are also shown in this account.

## Method of Preparation

As we know, we prepare Receipts and payment account with all the cash receipts and cash payments for the whole year. We determine the net result of cash receipts and cash payments of a fixed time through this account.

The left-hand side of this account is known as “Receipts” and right-hand side of this account is known as “Payments”.

All cash receipts are recorded on the left-hand side, while all cash payments are recorded on the right-hand side and are arranged in a classified form.

1. We start with taking opening balances of cash in hand and cash at bank and enter them on the debit side. (if there is bank overdraft at the beginning, we enter the same on credit side).
2. Now, we enter the total amounts of all receipts on the debit side and total amount of all payments on credit side (whether capital or revenue) and whether they are of past, current and future periods.

3. We do not include the incomes or expenses that do not involve the inflow or outflow of cash.

4. Now, we will find the difference between the total of the debit side and the total of the credit side of the account, the amount so found will be the closing balance of cash or bank.

In case, if the credit side is more than the debit side, the amount will be debited as bank overdraft and we will close the account.



**THANK YOU**