Non-Profit Organization

There are some organizations that function with different purposes **rather than focusing on the profits.**

Social welfare is one of the purposes of such organizations.

In accounting, such organizations are termed as "Not for Profit organizations."

school	Commerce association, Sinhala and Tamil Literary associations, Buddhist, Hindu, Islamic and Christian associations
In your living area	Sports clubs, women’s associations, rural development associations and welfare associations

Financial Statements for a Non-Profit Organization

There should be an adequate income to maintain the daily operations of these not-for-profit organizations.

For this purpose, such organizations have to use different methods to earn an income.

It is also necessary that such organizations have to bear expenses in conducting the operations of the organizations.

Examples: -

1. Collection of subscription (Membership fee)
2. Sale of flags
3. Conduct entertainment events and functions
4. Conducting cafeterias
5. Organizing different competitions
6. Organization of exhibitions
7. Donations from different organizations

As explained above, it is clear that even the organizations that run without a profit motive conduct **financial activity**.

Thus, these financial activities should be recorded appropriately to achieve the following objectives and in order to meet those objectives, the not-profit organizations prepare **financial statements.**

1. To raise awareness among the members of the society and other stakeholders
2. To maintain the trust of the members
3. To plan the future activities of the organization
4. To conduct the operations of the organization smoothly

Usually, non-profit organizations maintain following financial statements,

1. **Receipt and payment account**
2. **Income statement**

Receipt & Payment account

All **the cash receipts and payments** that occurred within an accounting period in a not-for-profit organization is recorded.

This is very similar to the **cash book** prepared in a profit-oriented organization. This is an asset account.

The following objectives can be achieved by preparing a receipt and payment account.

1. To know the cash balance at the end of an accounting period
2. To manage cash properly
3. To minimize fraud and misuse of cash
4. To utilize cash reserves more productively to achieve organizational objectives.
5. To obtain information regarding the sources of cash receipts and payments

Receipt and Payment Account (Cash Book) (Rs.)

	Cash	Bank		Cash	Bank
Cash in Hand	xxx		Salaries and Wages	xxx	xxx
Cash at Bank		xxx	Telephone Expenses	xxx	xxx
Subscriptions received	xxx	xxx	Electricity Expenses	xxx	xxx
For previous year	xxx	xxx	Advertising Expenses	xxx	xxx
For current year	xxx	xxx	Insurance	xxx	xxx
For next year	xxx	xxx	Rent	xxx	xxx
Entrance fees	xxx	xxx	Stationary Expenses	xxx	xxx
Cash Donations	xxx	xxx	Entertainment	xxx	xxx
Miscellaneous Receipts			Expenditure on sports coaches	xxx	xxx
Sale of old newspapers	xxx	xxx	Ticket printing Expenses	xxx	xxx
Procedds from disposal of assets	xxx	xxx	Festival Expenses	xxx	xxx
Sale of old sport materials	xxx	xxx	Purchase of Fixed Assets	xxx	xxx
Proceeds from sport events	xxx	xxx			
Receipts from ticket lottery	xxx	xxx	Closing Cash in Hand	xxx	
			Closing Cash in Bank		xxx
	xxx	xxx		xxx	xxx
B/F Cash in Hand	xxx				
B/F Cash in Bank		xxx			

Example 01

The following information has been extracted for the year ending 31 December 2019, in relation to the receipts and payment account of the Jeewaka funeral aid society.

			(Rs.)
Balance as at 01/01/2019	35 000	Salaries and Wages	24 000
Subscriptions from Members	250 000	Interest Income on Investments	16 000
New members admission fee	40 000	Purchase of Chairs	60 000
Cash Donations	30 000	Purchase of Plates	80 000
Building Rent	48 000	Banner and Printing Expenses	8 000
Electricity Expenses	12 000	Advertising Expenses	3 000
Rates	2 000	(Loudspeakers and Three Wheelers)	

Jeewaka Funeral Aid Society
Receipt and Payment Account
For the year ended 31 December 2019 (Rs.)

Balance as at 01/01/2019	35,000	Building Rent	48,000
Subscriptions from Members	250,000	Electricity Expenses	12,000
New Members Admission Fees	40,000	Rates	2,000
Cash Donations	30,000	Salaries andWages	24,000
Interest on Investments	16,000	Purchase of Chairs	60,000
		Purchase of Plates	80,000
		Bannar and Printing Expenses	8,000
		Advertising Expnses	3,000
		(Loudspeakers and Three Wheel-ers)	
		Balance as at 31/12/2019	134,000
	371,000		371,000

Income & Expenditure Account

An income statement is prepared to calculate the net result of the economic activities conducted by the not-for-profit organizations.

This statement will calculate the surplus, or the deficit generated by **a not-for-profit organization** within a specific time period, considering all the income and expenses relating to the relevant period.

A surplus is generated in the income statement when the income generated is more than the expenses of the period. (Income > Expenses).

When the expenses are more than the income generated a deficit is recognized. (Expenses > Income).

Sport Club		
Income Statement		
Income		
Membership fee (working 01)	xxx	
Joining fee	xxx	
Life membership fee	xxx	
General donation	xxx	
Special Donation	xxx	
Canteen Profit (Working 02)	xxx	xxx
Expenses		
Maintenance fee	xxx	
telephone fee	xxx	
Sport expenses	xxx	
bank loan interest	xxx	
machine depreciation	xxx	(xxx)
Surplus / Deficit		**xxx / (xxx)**

Receipt and Payment Account	Income Statement
Very much similar to the cash book	Similar to Profit or Loss Statement
Records the cash receipts and payments	Records only income and expenses
Records all the cash receipts and payments relating to the time period	Records income and expenses relating only to the time period
Shows the cash balance available at the end of the period	The balance will represent either an excess or a deficit
Prepared on cash basis	Prepared on accrual basis

Membership fee / Subscription fee

Main source of income for the not-for-profit organizations is the **subscription income**.

The subscription fees can be charged monthly, quarterly, bi-annually, or annually.

Members who are willing to make a **lump sum payment** for their entire membership can obtain **a lifetime membership** period by making a onetime payment.

The total annual subscription income can be calculated as follows.

Annual Subscription Income = No. of members x Annual membership fee per member

Example :-

The Commerce Society of Sathmini Maha Vidyalaya has 420 members. The annual membership fee per member is Rs 60.
The annual subscription fee is,

No. of members X Annual membership fee per member
= 420 X Rs. 60
Rs. 25 200

Example :-

The annual membership fee of a sports association is Rs 200 per member. The total number of members are 400 and 20 members have not paid their annual membership fee.

	Subscription fees	+	Subscription fees in arrears
	380 X 200		20 X 200
	Rs. 76 000		Rs. 4 000
Subscription fees for the year			Rs. 80 000

Membership Fee Account (Annual Membership)

B/B/F **(A)**	XXX	B/B/F **(B)**	XXX
Subscription fee income **(C)**	XXX	Subscription fee receipts **(D)**	XXX
B/C/D **(E)**	XXX	B/C/D **(F)**	XXX

A	Unpaid subscription fee	
B	Prepaid subscription fee	
C	Subscription fee recognized in the income statement.	Income statement
D	Subscription fee received in cash	Receipt & payment account
E	Prepaid subscription fee	Current liability in SOFP
F	Unpaid subscription fee	Current asset in SOFP

Question 01.

2016/04/01 – membership fee receivable Rs.6,000
2016/04/01 - membership fee received in advance Rs.1,000
2017/03/31 – outstanding membership fee Rs.4,000
2017/03/31 - membership fee received in advance Rs.1,000
membership fee during the year Rs.40,000

Prepare the membership account.

Workings

Question 02

- Information of ABC welfare society as follows. (Assume Current Financial year 2024/25).
- Annual membership fee = Rs.1,000
- As at 31/03/2025 there were 50 members in the society. (Assume all the members were in the society during the whole year)
- Membership fee received in cash during the year was Rs.65,000. This included the membership fee of Rs.15,000 received for year 2023/24 and membership fee of Rs. 14,000 received for the year 2025/26.
- 10 members had paid membership fee for 2024/25 in the previous year.

Prepare the membership fee account.

Workings

Life Membership Fund

Members who are willing to make a **lump sum payment** for their entire membership can obtain **a lifetime membership** period by making a onetime payment.

As per the company policy, a part of the life membership fee received can recognized as income in the current year and the remaining will maintain as a **<u>separate fund</u>** and recognized as revenue for future periods.

- Receipt of life membership subscription

Receipt and Payment A/c	Debit	
Life Membership Subscription A/c		Credit

- The amount transfer from life membership subscription account during the period

Life membership Subscription A/c	Debit	
Income and Expenditure A/c		Credit

Example:

- ABC sport club has started on 01.01.2024. At the beginning there were 100 members. (This includes 10 lifetime members)
- Annual membership fee = 1,000.
- Lifetime membership can be obtain by paying 10,000/= lifetime membership fee.
- **Company policy is to recognize the lifetime membership fee over 10 years.**

In this case,

- life membership fee received / Lifetime fund as at **01.01.2024** = (10* 10,000) = Rs.100,000.
- Income recognized during the year = (100,000/10) = 10,000/=
- Lifetime fund as at **31.12.2024** = (100,000 - 10,000) = Rs.90,000.

Question 01

As at 01.01.2024 lifetime fund = 200,000

As at 31.12,2024 lifetime fund = 160,000

What is the lifetime fund income recognized during the period?

Question 02

ABC sport club has started on 01.01.2024. At the beginning there were 100 members. (This includes 15 lifetime members)

- Annual membership fee = 2,000.
- Lifetime membership can be obtained by paying 20,000/= lifetime membership fee.

Company policy is to recognize the lifetime membership fee over 5 years.

1. What is the lifetime membership fee income recognized during the period?
2. What is the lifetime membership fund as at 31.12.2024 ?

Workings

Donations

General Donations	Special Donations
Donations that received for daily activities of the society. **Will recognizes as an income.** Cash Acc Dr Donation Income Cr Ex: Sport club received a donation of 10,000 to use for club activities. Cash Acc Dr 10,000 Donation Income Cr 10,000	Donations received for a **specific purpose**. This will be maintained as a **separate fund under accumulated fund in the SOFP** and recognize the revenue in a proportionate basis as per the company policy. Ex:

Special Donations

- Special Donations/Limited aid (Received by cash)

Receipt and Payment Account	Debit	
Relevant Fund		Credit

Special donation (Received as goods / assets)

Relevant Asset A/C Dr
Relevant Fund A/C Cr

Example 01 - Special donations received as a good / Asset

Sport club received a 300,000 worth of vehicle as a special donation. Useful life of the vehicle is 3 years. Company policy is to recognize the revenue over the useful life of the vehicle.

Receive the donation

Vehicle Acc Dr 300,000
Vehicle donation Acc Cr 300,000

Recognize the revenue in the current year

Vehicle donation Acc Dr 100,000
Donation Income Acc Cr 100,000

Here as at the end of the current year remaining part of the vehicle donation fund will be 200,000. (300,000 – 100,000)

Joining fee / Entrance Fee

When a new member joint to the society, a joint fee or an entrance fee may be charged from the member. This can be recognized as follows,

1. Recognized the total entrance fee / join fee as an income during the period, Or

2. Recognized part of the entrance fee / join fee as an income during the period and recognize the remaining part as a separate fund like in the Lifetime membership fund.

Example: 01

ABC sport club has started on 01.01.2024. At the beginning 100 members newly join to the club.

- Entrance fee = 1,000 per member
- Company policy is to recognize the entrance fee over 10 years.

1. How this should be recognized at 31.12.2024 ?

2. If the company policy is to recognize entire amount as an income how this is impact to financials as at 31.12.2024 ?

Workings

Sources of income through external activities

- **External activities**

  To fullfil the objective of growth and development of organizations that do not have profit as an objective, beside its main objective it may engage in other activities that are profit motivated.

  Example:

  - Carrying on a canteen
  - Conducting sports competitions
  - Having dance and exhibition events

  The results of these events must be calculated separately and included in the Income statement.

Such activities should be held in the same manner as in the ordinary course of business, and the profit or loss of each sector should be calculated separately. The calculated profit or loss should be transferred to the income and expenditure account as follows.

Statement of the Financial Position

Manasa Institute
Statement of Financial Position
As at 31 December 2018

		(Rs. 000')
Assets		
Non-Current Assets (Net Amount)		
Building and Furniture		83,500
Medical Equipment		36,000
Under construction building		13,000
		132,500
Current Assets		
Stock of medicine	990	
Receivable Accounts	500	
Receivable Membership Fee	250	
Cash in Hand	2,970	4,710
Total Assets		137,210

Funds and Liabilities		
Accumulated Fund	111,900	
Add: Surplus	500	112,400
Hospital Fund		22,000
		134,400
Current Liabilities		
Membership Fee received in Advance	1,700	
Expenses to be paid to hospital contractor	500	
Expenses to be paid for medicine	40	
Accrued Expenses		
Salaries and Wages	330	
Electricity Expenses		
Water Expenses	80	
Water Charges	160	2,810
Total Funds and Liabilities		**137,210**

Let's Do Questions !