



JMC JAYASEKERA
MANAGEMENT CENTRE
"Pioneers in Professional Education"

Chartered Accountancy – BL 01

Financial Accounting

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Not for Profit Organizations

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Not for Profit Organizations


- Social Organizations
- Sports Societies
- Libraries
- Charities
- Hospitals
- Education Organizations
- Temples
- Churches

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Objectives

- Social Services
- Religious Work
- Charity Work
- Member Welfare
- Promote Art and Science



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Receipts

- Membership Fee
- Donations
- Grants
- Aids



The Excess of an NPO cannot be Distributed as Dividends

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Comparison of Profit Oriented and Not for Profit Organizations

Description	Profit Oriented	Not for Profit
Objective	Profit	Welfare
Owner's Equity	Capital and Retained Earnings	Members Contributions, Donations, Grants and Excess of Activities
Net Result of Activities	Profit or Loss	Excess or Deficit
Financial Reports	Statement of Profit or Loss Statement of Financial Position Statement of Changes in Equity Statement of Cash Flows Notes	Receipts and Payments Account Membership Contribution Cash Account Income and expenses Account Statement of Financial Position Notes

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Accounting in an NPO

Following books are generally maintained at an NPO.

1. Receipts and Payments Book (Cash Book)
2. Assets Register
3. Membership Fee Register

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Receipts and Payments Account (Cash Book)

Brought Forward Balance			Brought Forward Balance (Bank O/D)		X
Cash	X		Salaries		X
Bank	X	XX	Rent, Rates and Insurance		X
Membership Contribution			Annual Sports Event Expenses		X
For Previous Year	X		Office Maintenance Expenses		X
For Current Year	X		Purchase of Furniture		X
For Next Year	X	XX	Purchase of Sports Equipment		X
Admission Fees		X	Books and Publications Purchase		X
Donations for the Building		X	Audit Fees		X
General Donations		X	Printing and Stationary		X
Lifetime Membership Fees		X	Accounting Fees		X
Dividends and Interest		X	Bank Charges		X
Other Income		X	Balance Carried Down		
Receipts from Sports Event		X	Cash		X
Other Receipts		X	Bank		X
Balance Carried Down (Bank O/D)		X			
		XX			XX

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Question 01

Cash in hand of Ragama Sports Club as at 1/1/20X9 was Rs.4,600. The bank balance was Rs.17,200. Following cash transactions were presented by the treasurer of the club for the year 2019. Prepare the Receipts and Payments account for the year 2019.

Membership Fee Received	80,000
Donations Received	15,000
Receipts for Event	25,000
Receipts from Selling Old Newspapers	1,500
Purchase of Newspapers	7,500
Event Expenses	18,500
Salaries of Guardian of Playground	20,000
Purchase of Sports Equipment	25,000
Stationary	3,000
Electricity	8,000
Renting out a Hall	15,000
Bank Balance as at 31/12/2019	19,200

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Income and Expenditure Account

This is similar to a profit or loss account. This is prepared using the accrual basis to show the income and expenses of not for profit organization.

Features

- Expenses and Losses will be debited
- Income and Gains are Credited
- Transactions of Revenue nature will be recorded
- Transactions for the year will only be recorded
- Non-cash items such as Depreciation will be recorded



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Structure of an Income and Exepnses Account

XXX Sports Club
For the Year Ended 31/12/20X4
Income and Expenses Account

Expenses	Rs.	Income	Rs.
Salaries and Wages	X	Membership Fees	X
Rent and Rates	X	Admission Fee portion relevant for the Year	X
Insurance	X	General Donations	X
Depreciation of Furniture and Fittings	X	Lifetime Membership Fee portion relevant for the Year	X
Stationary and Publications	X	Building Rent Income	X
Audit Fees	X	Dividends and Interest	X
Postage	X	Annual Sports Event Profit	X
Electricity and Water	X	Other Receipts	X
Excess	X	Deficit	X
	XX		XX

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Difference between Receipts and Payments Account and Income and Expenses Account

Item	Receipts and Payments Account	Income and Expenses Account
Nature	Asset Account	Final Account that record Income and Expenses
Structure	Similar to a Cashbook	Similar to Profit or Loss Statement
Objective	Record Cash Receipts and Payments	Calculate the financial performance of a year

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Difference between Receipts and Payments Account and Income and Expenses Account

Item	Receipts and Payments Account	Income and Expenses Account
Balance	Opening and Closing Balances are Shown	Nominal account. There's no Opening and Closing balances.
Items Recorded	Cash Receipts Debit Cash Payments Credit	Expenses Debit Income Credit
Basis	Cash Basis	Accrual Basis

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Question 02

The receipts and payments account of Janasetha Organization for the year ended 31/3/20X7 is as follows.

20X6/4/1 Opening Balance	100	Salaries	36,000
Membership Fees Received including Rs.2,000 received for the next year	35,000	Rent	6,000
Interest Income	15,000	Printing Expenses	1,450
Sale of Bikes	2,500	Postage Expenses	250
		Purchase of Bikes	2,080
		Furniture Purchase	6,800
		Balance Carried Down	120
	52,700		52,700

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Question 02

Prepare the Income and Expenses account for the year ended 31/3/2017.

1. Accrued rent expenses opening balance was Rs.500 and the accrued rental for the current year is Rs.750
2. The book value of the bike sold is Rs.3,200
3. Accrued printing cost at the end of the year is Rs.250
4. Furniture to be depreciated by 10% per annum.

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Accounting for Special Items in an NPO

Accumulated Fund (Capital Fund)

- Excess of Income and Expense Account
- Accumulated Donations



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Accounting for Special Items in an NPO

Admission Fees

Fee charged at the admission of new members.

Revenue Nature

Recognized in Income and Expense Account

Capital Nature

Transferred to Accumulated Fund in Financial Position



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Membership Fee/Member Contribution

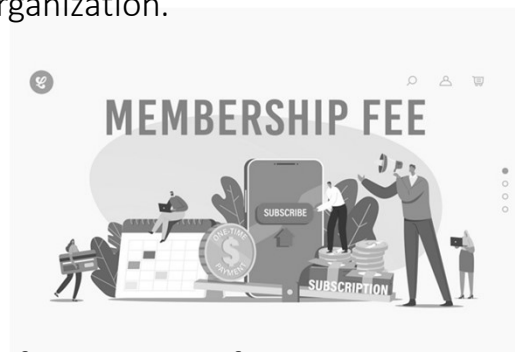
Members pay a Membership Fee to maintain the membership. It is the main income source of a Not for Profit Organization.

Payment Methods

Annual
Lifetime

Accounting of Annual Membership Fee

First, this will be recorded in the membership fee account. After making the adjustments, the amount relevant for the year will be transferred to the Income and Expense account.



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Membership Fee/Member Contribution

Accrual Basis is applied in Accounting

- Membership Fee Receivable Balance
- Membership Fee Received in Advance Balance may be required

Writing off Membership Fee Receivable

Sometimes the membership fee uncollectible shall be written off.

- Income and Expense Account or Accumulated Fund Debit
- Membership Fee Account Credit



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Structure of Membership Fee Account

Membership Fee Receivable B/F Balance	X	Membership Fee Received in Advance B/F Balance	X
Income Expense Account (Residual Balance)	X	Membership Fee Received	X
Membership Fee Received in Advance C/D Balance	X	Membership Fee Receivable C/D Balance	X
	X		X
	X		X

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Question 03

Following information is relevant to Samagi Sports Club for the year 20X8.

Total Membership Fee Received over the year 20X8 is Rs.58,000

Membership Fee Received for the year 20X9 is Rs.800

Membership Fee Receivable at 20X7 of Rs.1,200 has been received in full during 20X8.

Membership for the year 20X8 of Rs.2,000 was received during 20X7.

Membership Fee Receivable for the year 20X8 is Rs.15,000

Required,

Prepare the Membership Fee account and calculate the membership fee income relevant for the year 20X8.

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Lifetime Membership Fee



Accounting can be made using one of following methods.

1. Consider as a Capital Receipt. Thereby, transfer the amount directly to Lifetime Membership Fund in Financial Position and show it there until the end of membership.
2. Consider as a Deferred Revenue and transfer to Lifetime Membership Fee account. From Lifetime Membership Fee account a balance relevant to current year membership fee will be transferred to Income and Expense account.
3. Consider as an income of the year

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Donation

Amount donated by someone for a specific purpose of a general purposes of the organization.



Types of Donations and Accounting

Donation Type	Accounting
Normal Donations (Cash)	Consider as a Revenue Nature Receipts and transferred to Income and Expense Account. If amounts are material, it can be directly credited to accumulated fund.
Specific Donations	<p>These are Capital Receipts received for a Specific Objective. Amounts received are kept in special fund account (E.g. Building Construction Fund). Once the project is over, the excess in the Special fund will be transferred to the accumulated fund.</p> <p>Donations received will be added to fund. Revenue nature expenses will be deducted from the fund directly. However, the capital nature expenses (E.g. Building) will be recognized as an asset in the statement of financial position. Amount equivalent will be transferred to the accumulated fund.</p>
Other Donations	<p>Donations of Books, Lands etc. will be recorded as follows.</p> <p>Debit Asset</p> <p>Credit Accumulated Fund</p>

Question 04

Trial balance of the Kandy Sports Club for the year ended 31/3/20X3 is as follows.

	Debit Rs.000	Credit Rs.000
Cash in Bank	5,910	
Sports Equipment (Cost)	2,500	
Salaries	1,800	
Printing and Stationary	250	
Purchases of Café	2,800	
Dinner Part Expenses	350	
Maintenance of Playground	180	
Maintenance of Building	220	
Electricity	550	
Telephone	92	
Playground Expenses	140	
Expenses of Cafe	470	

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Sri Lanka Cricket Board Fee	250	
Admission Fee Received		1,500
Membership Fee Received		4,500
Dinner Party Income Received		620
Donations Received		1,250
Income from Café		3,700
Playground Income		800
Land (Cost)	5,800	
Buildings (Cost)	7,500	
Motor Vehicle (Cost)	3,500	
Accumulated Depreciation 01/04/20X2		
Sports Equipment		2,500
Buildings		1,600
Motor Vehicles		500
Inventory of Café 01/04/20X2	2,800	
Accumulated Fund 01/04/20X2		18,642
	35,612	35,612

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Following additional information is applicable.

1. 2,500 members have paid membership fee at the beginning of the year. During the year 20X2/3, 150 new members have joined. The annual membership fee is Rs.2,000. Total membership fee received was credited to membership fee account. Membership fee is recognized on accrual basis. Admission fees are recognized as an income at the point of receipt.
2. A new playground was opened on 1/1/20X3. on the same day new sports equipment was purchased. It is expected to use these sports equipment for a period of 4 years. Members need to pay Rs.750 for the use of these sports equipment. Amount receivable from members for the usage of playground was Rs.15,000 as at 31/3/20X3. Amount payable for the playground maintenance is Rs.40,000.
3. Amount receivable for the annual dinner party is Rs.180,000
4. Property, Plant and Equipment shall be depreciated on
 - Buildings 5%
 - Motor Vehicles 20%

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5. Following expenses are payable as at 31 March 20X3.

	Rs.
Purchases of Cafe	800,000
Electricity	52,000
Telephone	8,000
Expenses of Cafe	130,000

6. The closing stock of Cafe is Rs.3.5Mn.

Required,

1. Income and Expense account of Kandy Sports Club for the year ended 31 March 20X3
2. Statement of Financial Position as at 31 March 20X3.

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