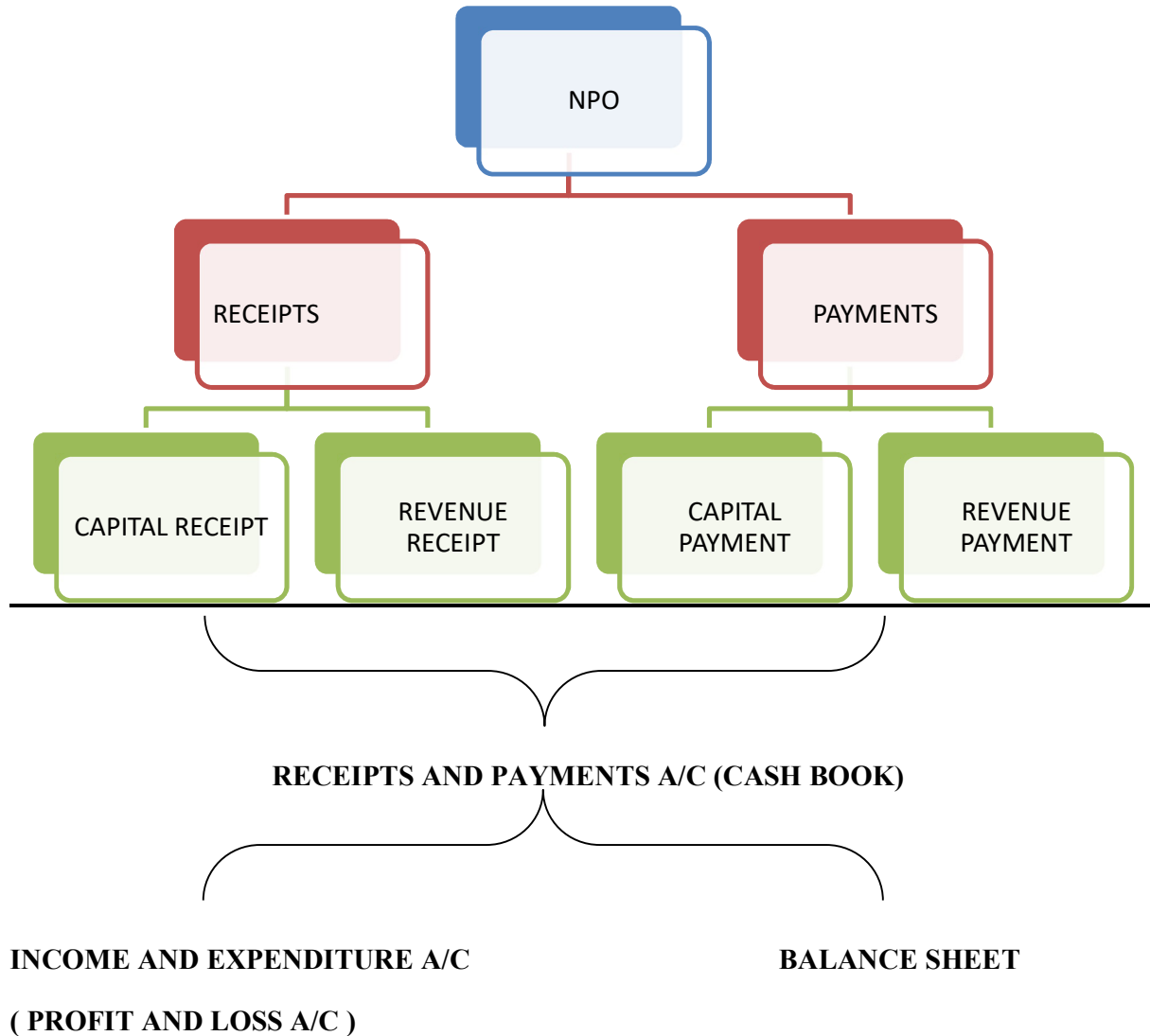


NON-PROFIT ORGANISATION

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OVERVIEW OF THE CHAPTER



TOPICS AND SUB-TOPICS TO BE COVERED

- ✓ Receipts and payment accounts
- ✓ Income and Expenditure
- ✓ Balance sheet
- ✓ Accounting for special items
- ✓ Preparation of Income and Expenditure account and Balance sheet from Receipt and Payment account
- ✓ Preparation of opening and closing balance sheet from given Income and Expenditure account and Receipt and Payment account.

DEFINITIONS:

Let us understand the meaning of the below terms to appreciate this chapter.

NON-PROFIT ORGANISATION:

NPOs are those organisations which will run for a specific objective without profit motive. For example: Trust, Society, Club etc.

NPOs also prepare financial statements in the same style and manner of profit organisations. Trial Balance is the base for Profit Organisations to prepare financial statements whereas Receipts and Payments A/c is the base for preparation of financial statements for NPOs.

The NPOs also earn profit which is termed as surplus and incurs loss which is termed as deficit. But they don't distribute Surplus among members but it should be used for specific objective purpose. We prepare **Income and Expenditure A/c** to find surplus or deficit in the same style of P&L A/c. The NPOs prepare Balance sheet just like Profit Organisations to find their financial position.

The following are the financial statements prepared by NPO:

- Receipts and payments account
- Income and expenditure account Balance sheet

Understanding of the below two concepts are very important for preparing the above financial statements.

- Cash basis
- Accrual basis

CONCPETS CLARITY

RECEIPTS AND PAYMENTS A/C:

❖ **Features of Receipts and Payments a/c:**

- It is prepared on **Cash basis**
- Receipts and payments account is just like **Cash book**.
- It is **Real account** in nature.
- It starts with opening cash and Bank balance
- It contains all receipts and payments of **both Revenue and Capital nature**.
- It contains all receipts and payments of all the periods done during the current year.
- The balancing figure in this account will represent closing cash and Bank balance
- It is the base account for preparation of both income and expenditure account and balance sheet.

❖ **Format Receipts and Payments a/c**

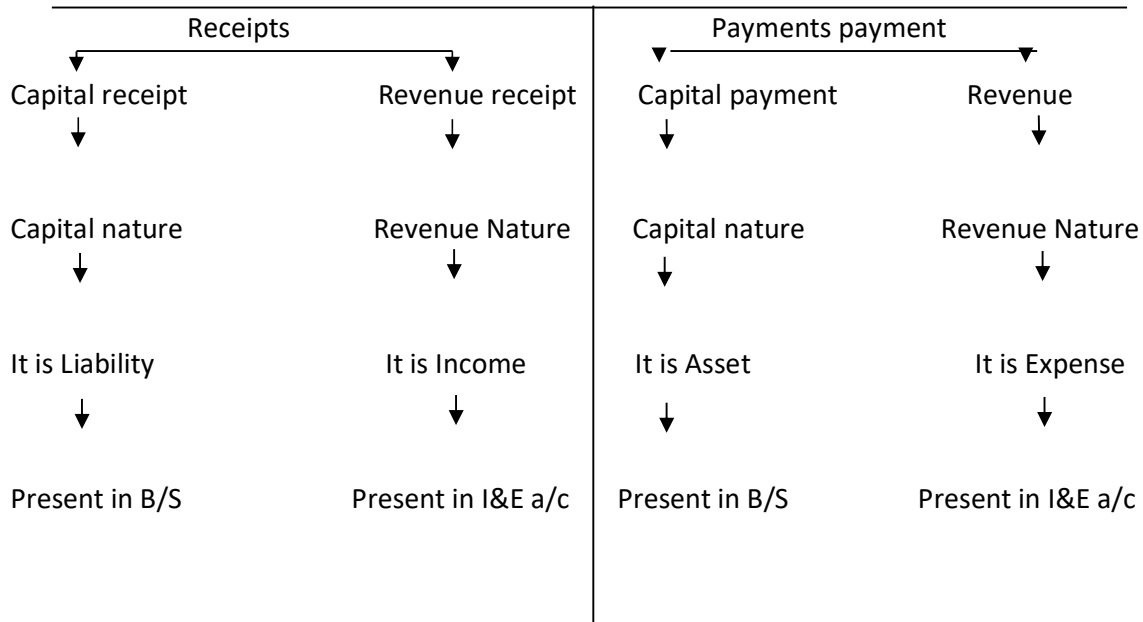
Receipts and Payments a/c for the year ending.....

DR

CR

Receipts	Amount	Payments	Amount
To balance b/d	xxx	To all payments	xxx
<ul style="list-style-type: none"> • Opening Cash • Opening Bank 		<ul style="list-style-type: none"> • Capital payments • Revenue payments 	
To all Receipts	xxx	By balance c/d	xxx
<ul style="list-style-type: none"> • Capital receipts • Revenue receipts 		<ul style="list-style-type: none"> • Closing Cash • Closing Bank 	

❖ **Analysis Receipts and Payments a/c**



Difference between revenue and capital

Revenue receipts are those receipts which are routine and regular and nominal in nature. It is relating to particular current year.

Capital receipts are those receipts which are specific and not routine. It is relating to more than one accounting period.

Revenue payments are those payments which are routine and regular and nominal in nature. It is relating to particular current year.

Capital payments are those payments which are specific and not routine. It is relating to more than one accounting period.

NOTE: The following items will not come in R&P a/c

1. Non-cash items
2. Non-monetary items
3. Credit transactions

Conceptual Understanding Problem (CP):-

Sports club has given the following items for the financial year 15-16

- Opening cash balance Rs.200000
- Opening bank balance Rs.50000
- Donations received Rs.150000
- Collections from sports activity Rs.300000 by cash
- Loan of Rs.100000 received by cash
- Sports equipment purchased by Rs.80000 by cash
- Advertisement expenses of Rs.50000 by cash
- Depreciation on sports equipment is Rs.10000
- Salary of Rs.20000 accrued and becomes due but not paid
- Rent of Rs.30000 paid in advance by cheque
- Training fees of Rs.60000 earned and due but not received

Prepare receipts and payments a/c for the year15-16

Solution:

Receipts and payments a/c for the year ended 15-16

Receipts	Amount	Payments	Amount
To balance b/d		By Sports equipment	80000
Cash	200000	By Advertisement expenses	50000
Bank	50000	By Rent	30000
To Donations	150000		
To Collections from sports activity	300000	By balance c/fd	640000
To Loan	100000		
	800000		800000

INCOME AND EXPENDITURE A/C:

❖ **Features of Income and Expenditure a/c (I&E a/c)**

- I&E a/c is nominal in nature.
- I&E a/c is prepared on Accrual basis.
- All revenue nature of non-cash, credit and non-monetary transactions will come in I&E a/c.
- I&E a/c prepared in the same format on the basis of profit and loss account.
- I&E a/c records all nominal nature type of accounts relating to current year only.
- The following items should NOT come in Income & Expenditure A/c:
 - Capital payments and Capital receipts.
 - Advances paid for the future.
 - Outstanding expenses of the previous year paid in current year.
 - Advance received in current year for the future year.
 - Income receivable in the previous year received in current year.

❖ **Format of Income and Expenditure A/c:**

Income and expenditure for the year ended.....

Dr

Cr

Expenditure	Amount	Income	Amount
To All Revenue payments		By All Revenue receipts	
To surplus (I > E)	Xxx	By Deficiency (I < E)	xxx

NOTE:

I&E account records all revenue expenditure and income on ACCRUAL BASIS. As per this concept, we should record all those revenue expenditure and income only if it is accrued and becomes due for the relevant accounting period irrespective of actual receipt or payment.

For example: Rent paid in advance in current year for future year should not record in current year I&E a/c because it is not accrued for current year though is paid in current year.

But in case of Rent accrued and due for current year but not paid should be recorded in current year I&E a/c though payment is not done in current year based on accrual concept.

NOTE:

While preparing I&E a/c from R&P a/c, we should check for each item in Receipts and payments a/c for any additional information.

Case (i): Additional information is given

We should take into account the additional information given and adjust in the manner already explained.

Case (ii): No additional information

These items can be directly presented.

Case (iii): Items given as additional information but no relevant account in R&P a/c.

The below items won't come in R&P a/c but still we need to consider these items in preparing I&E A/c.

1. Non-cash items
2. Non-monetary items
3. Credit transactions

Eg: Depreciation on fixed assets will not be in R&P but should be presented in I&E A/c

Conceptual Understanding Problem (CP):-

Receipts and payments a/c for the year ended 16 -17

Receipts	Amount	Payments	Amount
To Opening Cash balance	2,00,000	By Purchase of furniture	80,000
To Donations	3,00,000	By Advertisement expenses	50,000
To Interest received	50,000	By Rent paid in advance	30,000
To Loan	1,00,000	By Loan repaid	20,000
To Collection from debtor	80,000	By Salary paid	10,000
		By Balance c/fd	5,40,000
	7,30,000		7,30,000

Additional details:

1. Depreciation on furniture is ₹ 5,000.
2. Rent of ₹ 10,000 accrued and due at the end of year.
3. Bad debts written off ₹ 3,000

Prepare Income and expenditure a/c for the year ended 31st March 2017

Solution:

Income and expenditure a/c for the year ended 31st March 2017

Dr

Cr

EXPENDITURE	AMOUNT	INCOME	AMOUNT
To Advertisement expense a/c	50,000	To Donations	3,00,000
To Salary paid a/c	10,000	To Interest received	50,000
To Depreciation a/c	5,000		
To Rent a/c	10,000		
To Bad debts a/c	3,000		
To Surplus	2,72,000		
	3,50,000		3,50,000

BALANCE SHEET

Balance sheet of non-profit organisation is prepared in same format of profit organisation.

Balance sheet as on

LIABILITES	₹	ASSETS	₹
Capital fund		Fixed assets	
Special fund		Investment	
Reserves and surplus			
Outside liabilities		Current assets	
	XXX		XXX

ACCOUNTING FOR SPECIAL ITEMS IN NPO

DONATION:

Donation represents usual receipts of NPO. Treatment of donations is depends on nature and purpose of receipts.

✓ **Received for general purpose:**

- It can be used for any purpose.
- It is nominal in nature.
- It is revenue receipt.

✓ **Received for specific / special purpose:**

- It is treated as capital nature.
- Special fund must be created.

Eg: If donation received for constructing building purpose then this fund should be credited to building fund.

Journal Entry:

Cash / Bank A/c	Dr
To Building Fund A/c	

This special fund should be shown under balance sheet liability side. As and when the amount from specific fund is used for specific purpose then this special fund account to be

debited. If any surplus amount this fund after meeting the purpose should be transferred to General fund a/c.

SUBSCRIPTIONS:

Subscription is also one of the major income for NPOs.

The subscription should be recorded on accrual basis like other income and expense.

Accounting treatment of subscription depends on nature or mode of payment.

✓ **Annual subscription:**

- In this case, the organisation receives payment from the member every year.
- It is recurring in nature.
- It is revenue and is presented in I&E a/c.

✓ **Life membership fee:**

It is paid one time for the entire time of life. It is not pertaining to that particular accounting period. It is spread across the life of member. So it should be treated as “life membership fee a/c” and shown under liability side.

It should be recognised in income and expenditure account on proportionate basis over the life of the member.

Suppose the member dies before the expiry of the life membership then the balance in life membership fee account should be transferred to accumulated fund account.

ADMISSION / ENTRANCE FEE:

Entrance fee or admission fee received one time from members and it is not routine and regular nature so we should treat it as capital receipt and transfer to capital fund.

LEGACY:

When any property is received under a will of deceased person, it is treated as capital receipt shown under balance sheet capital fund.

ENDOWMENT FUND:

It is also received only one time and capital in nature. It will form part of capital fund.

PREPARATION OF I&E A/C FROM R&P A/C

While preparing I&E a/c, we should convert every item in R&P a/c from cash basis to accrual basis by taking into account additional information.

The following items should **NOT** come in Income & Expenditure A/c

- Capital payments and Capital receipts.
- Advances paid for the future.
- Outstanding expenses of the previous year paid in current year.
- Advance received in current year for the future year.
- Income receivable in the previous year received in current year.

The following items should come in Income & Expenditure A/c though we won't find in R&P a/c.

- Non-cash items
- Non-monetary items
- Credit transactions

We should raise two questions for every adjustment when a revenue receipt in R&P a/c transfer to I&E a/c.

1. Whether that item included in Receipt from R&P a/c?
2. Whether it belongs to current year or not?

- If it is included in the receipt but not belongs to current year then we should DEDUCT
- If it is included in the receipt and belongs to current year manes no adjustment.
- If it is not included in the receipt but belongs to current year then we should ADD.
- If it is not included in the receipt and also not belongs to current year then no adjustment.

The explanation will be illustrated with below problem.

CP

From the following information, ascertain the amount to be credited to the Income and Expenditure account in respect of subscriptions for 2014 by preparing "subscription a/c"

Total Subscription received in cash	= ₹ 33,500
Subscription received in advance on 31.03.2013	= ₹ 2,500
Subscription outstanding on 31.03.2013	= ₹ 3,500

Subscription outstanding on 31.03.2014 = ₹ 2,500

Subscription received in advance on 31.03.2014 = ₹ 500

Solution:

Subscription received during year is Rs. 33,500

(It is the total subscription received during the year taken from receipts and payments a/c)

Add:

- Subscription outstanding on 31/03/14 - Rs.2,500

(Based on accrual basis we should record all revenue expenses if it is accrued and outstanding relating to current year irrespective of payment)

- Subscription received in advance on 31/03/13 – Rs.2,500

(It is just an advance received in last year but not income for last year. It is relating to current year, so we will recognise as income in current year)

Less:

- Subscription received in advance on 31/03/14 – Rs.500

(It is just an advance received for the future year so it is not accrued and relating to current year so should not be treated as revenue for current year)

- Subscription outstanding on 31/03/13 - Rs.3,500

(It is accrued and outstanding at the end of last year and it is already treated as income in last year based on accrual basis so we shouldn't recognise as income again in current year when it is received this year.)

After all the above adjustments total subscription accrued and due should be recognised as income in I&E a/c for the year 2014 is Rs.34, 500

PREPARATION OF R&P A/C FROM I&E A/C

While preparing R&P a/c, we should convert every item in I&E a/c from accrual basis to cash basis by taking into account additional information.

The following items should **NOT** come in R&P A/c

- Non-cash items
- Non-monetary items
- Credit transactions

The following items should come in R&P A/c though we won't find in I&E a/c.

- Both capital and revenue receipts and payments
- Advances paid for the future.
- Outstanding expenses of the previous year paid in current year.
- Advance received in current year for the future year.
- Income receivable in the previous year received in current year.

We should raise two questions for every adjustment when an item I&E a/c transfer to R&P a/c.

1. Whether that adjustment included in the item in I&E a/c?
 2. Whether it is received or paid in current year or not?
- If it is included in the item but not received in current year then we should DEDUCT
 - If it is included in the item and received in current year manes no adjustment.
 - If it is not included in the item but received in current year then we should ADD.
 - If it is not included in the item and also not received in current year then we should ADD.

COMBINATION OF PROBLEMS IN NPO

The following are combination of problems will be tested in exams

Combination 1: Accounting for any specific income or expense from R&P a/c to I&E a/c and vice versa.

Combination 2: Prepare I&E a/c and balance sheet based on R&P a/c with additional information

Combination 3: Prepare R&P a/c and balance sheet based on I&E a/c with additional information

Combination 4: Prepare R&P a/c or I&E a/c and balance sheet based on details provided.

COMPLEX PROBLEMS

1. From the following information, ascertain the amount to be credited to the Income and Expenditure account in respect of Interest for 2014 by preparing “Interest received a/c”

Total Interest received in cash	= ₹ 50,000
Interest received in advance on 31.03.2013	= ₹ 2,500
Interest outstanding on 31.03.2013	= ₹ 3,500
Interest outstanding on 31.03.2014	= ₹ 5,000
Interest received in advance on 31.03.2014	= ₹ 1,500

Solution:

Interest received during year = ₹ 50,000

Add:

• Interest outstanding on 31/03/14	₹ 5,000	
• Interest received in advance on 31/03/13	₹ 2,500	₹ 7,500

Less:

• Interest received in advance on 31/03/14	₹ 1,500
--	---------

- Interest outstanding on 31/03/13 ₹ 3,500 ₹ 5,000

After all the above adjustments total Interest accrued and due should be recognised as income in I&E a/c for the year 2014 is Rs.52, 500

2. The following was the Receipts and Payments Account of Exe Club for the year ended March. 31, 2016

All the figures in thousands

RECEIPTS	AMOUNT	PAYMENTS	AMOUNT
Cash in hand	100	Groundsman's Fee	750
Balance at Bank as per Pass Book:		Moving Machine	1,500
Deposit Account	2,230	Rent of Ground	250
Current Account	600	Cost of Teas	250
Bank Interest	30	Fares	400
Donations and Subscriptions	2,600	Printing & Office Expenses	280
Receipts from teas	300	Repairs to Equipment	500
Contribution to fares	100	Honorarium to Secretary and	
Sale of Equipment	80	Treasurer of 2015	400
Net proceeds of Variety entertainment	780	Balance at Bank as per Pass Book:	
Donation for forth coming		Deposit Account	3,090
Tournament	1,000	Current Account	150
		Cash in hand	250
	7,820		7,820

You are given the following additional information:

	1-Apr-15	31-Mar-16
Subscription due	150	100
Amount due for printing etc.	100	80
Cheques unrepresented being payment for repairs	300	260
Estimated value of machinery and equipment	800	1,750
Interest not yet entered in the Pass book		20
Bonus to Groundsman o/s.		300

For the year ended March. 31, 2016, the honorarium to the Secretary and Treasurer are to be increased by a total of 200.

Required Prepare the Income and Expenditure Account for period ending 31-03-2016 and the relevant Balance Sheet.

SOLUTION:

Income and Expenditure Account of Exe Club for
the year ending 31st March, 2016

(All figures in thousand)

EXPENDITURE	AMOUNT	AMOUNT	INCOME	AMOUNT
To Groundsman's fee		750	By Donations & Subscription	2,550
To Rent of Ground		250	By Receipts from teas	
To Fares' Expenses	400		(Fares) less expenses	50
Less : Contribution	-100	300	(` 300 - `250)	
To Printing & Office Expenses		260	By Proceeds of Variety Entertainment	780
To Repairs		460	By Interest (`30 + `20)	50
To Depreciation on Machinery*		470		
To Honorarium to Sect. & Treasurer		600		
To Bonus to Groundsman		300		
To Excess of Income over Expenditure		40		
		3,430		3,430

Balance Sheet of Exe Club as on 31st March, 2016

Liabilities	Amount	Amount	Assets	Amount
Outstanding Expenses:				
Groundsman Bonus		300	Cash in hand	250
Printing		80	Cash in Deposit A/c	3,090
Honorarium		600	Subscription Due	100
Bank Overdraft (`260-`150)		110	Interest Due	20
Capital Fund: Opening	3,080		Machinery & Equipment	1,750
Add: Surplus for the year	40	3,120		
Tournament Fund (Donation)		1,000		
		5,210		5,210

Calculation of Depreciation

Machinery a/c

My Career Point – Professional Academy
Accounts – CA Damodaram P
8754940333

Particulars	Amount	Particulars	Amount
To Opening balance	800	By Bank - sale	80
To Bank – purchase	1,500	By Depreciation – (Balancing figure)	470
		By Closing balance	1,750
	2,300		2,300

Balance Sheet as on 1st April, 2015

Liabilities	Amount	Assets	Amount
Outstanding Expenses and Honorarium (`100 + `400)	500	Cash in hand	100
Capital Fund (Balancing Figure)	3,080	Cash in Deposit A/c	2,230
		Cash in Current A/c	300
		Subscription Due	150
		Machinery	800
	3,580		3,580

3. From the following Income and Expenditure Account and the Balance Sheet of a club, prepare its Receipts and Payments Account and Subscription Account for the year ended 31st March, 2016:

Income & Expenditure Account for the year 2015-16

Dr

Cr

Expenditure	Amount	Income	Amount
To Upkeep of Ground	10,000	By Subscriptions	17,320
To Printing	1,000	By Sale of Newspapers (Old)	260
To Salaries	11,000	By Lectures	1,500
To Depreciation on Furniture	1,000	By Entrance Fee	1,300
To Rent	600	By Misc. Income	400
By Deficit	2,820		
	23,600		23,600

Balance Sheet as at 31st March, 2016

My Career Point – Professional Academy
Accounts – CA Damodaram P
8754940333

Liabilities	Amount	Amount	Assets	Amount
Subscription in Advance			Furniture	9,000
(2016-17)		100	Ground and Building	47,000
Prize Fund :			Prize Fund Investment	20,000
Opening Balance	25,000		Cash in Hand	2,300
Add : Interest	1,000		Subscription (outstanding) (2015-16)	700
Less : Prizes	-2,000	24,000		
General Fund :				
Opening Balance	56,420			
Less : Deficit	-2,820			
Add : Entrance Fee	1,300	54,900		
		79,000		79,000

The following adjustments have been made in the above accounts:

- (1) Upkeep of ground ` 600 and Printing ` 240 relating to 2014-2015 were paid in 2015-16.
- (2) One-half of entrance fee has been capitalised by transfer to General Fund.
- (3) Subscription outstanding in 2014-15 was ` 800 and for 2015-16 `700.
- (4) Subscription received in advance in 2014-15 was `200 and in 2015-16 for 2016-17 ` 100.

SOLUTION:

Receipts and Payments Account for the year ending 31st March, 2016

Receipts	Amount	Payments	Amount
To Balance b/d		By Upkeep of Ground	
(Balancing figure)	4,660	(10,000 + 600)	10,600
To Subscription	17,320	By Printing (1,000 + 240)	1,240
To Interest on Prize Fund Investments	1,000	By Salaries	11,000
To Lecture (fee)	1,500	By Rent	600
To Entrance Fee	2,600	By Prizes	2,000
To Sale of Newspapers (old)	260	By Balance c/d	2,300
To Misc. Income	400		
	27,740		27,740

Working note: 600 paid for upkeep of ground for 2014-15 and 240 paid for printing have been added to the amount shown as expenditure for the year to arrive at total payment under these heads.

Subscription Account

Particulars	Amount	Particulars	Amount
To Subscription outstanding (2014-15)	800	By Cash (Balancing figure)	17,320
To Subscription In advance (2016-17)	100	By Subscription Outstanding (2015-16)	700
To Income & Expenditure A/c	17,320	By Subscription in Advance (2014-15)	200
	18,220		18,220

PRACTICE PROBLEMS

- From the below information, Calculate the total rent to be recognized as expense in current year Income and Expenditure A/c.
 - Total Rent paid in current year is Rs.2, 50,000
 - The following are the additional information given:
 - Total rent paid in advance of Rs. 50,000 in previous year for current year.
 - Total rent accrued and becomes due at the end of the previous year is Rs. 40,000.
 - Total rent paid in advance for future year in current year is Rs. 30,000.
 - Total rent accrued and becomes due at the end of the current year is Rs. 80,000.

Answer: ₹ 3, 10,000

- Receipts and payments account for the year ended 31st March 2014

RECEIPTS	AMOUNT (₹)	PAYMENTS	AMOUNT (₹)
To Cash in hand	1,300	By Salaries	2,58,000
To Cash at Bank	3,850	By Rent	71,500
To Subscriptions	4,94,700	By Printing and Stationery	3,870
To Interest on 8% Govt bonds	4,000	By Conveyance	10,600
To bank Interest	160	By Scooter purchased	50,000
		By 8% Govt.bonds	1,00,000
		By cash in hand	840
		By cash at Bank	9,200
TOTAL	5,04,010	TOTAL	5,04,010

Additional information:

Salaries paid includes Rs.6,000 paid in advance for April 2014. Monthly salaries paid were Rs.21,000

Outstanding rent on 31st march 2013 and 31st march 2014 amounted to Rs.5,500 and Rs.6,000 respectively

Stock of printing and stationery material on 31st March 2013 was Rs.340 and on 31st march 2014 was Rs.365

Scooter was purchased on 1st October 2013. Depreciation @20% PA is to be provided on it.

Investment were made on 1st April 2013

Subscriptions due but not received on 31st March 2013 and 31st March 2014 totalled Rs.14,000 and Rs.12,800 respectively. On 31st March 2014, subscriptions amounting to Rs.700 had been received in advance for April 2014.

Based on the above information, prepare Income and Expenditure a/c for the year ended 31st March 2014.

5. The Income and Expenditure account of Great City sports club for the year ended 31st March 2015.

EXPENDITURE	AMOUNT (RS.)	INCOME	AMOUNT (RS.)
To Salaries	1,20,000	By Subscriptions	1,60,000
To Printing and stationery	6,000	By Entrance fees	10,000
To Rent	12,000	By Contribution for annual dinner	20,000
To Repairs	10,000	By Profit on annual sports	20,000
To Sundry expenses	8,000		
To Annual Dinner expenses	30,000		
To Interest to Bank	6,000		
To Depreciation on sports equipment	6,000		
To Excess of Income over expenditure	12,000		
TOTAL	2,10,000	TOTAL	2,10,000

The above account had been prepared after the following adjustments

Subscriptions outstanding as on 31.03.2014 – Rs.12, 000, Subscriptions received in advance on 31.03.2014 – Rs.9, 000, Subscriptions received in advance on 31.03.2015 – Rs.5, 400.

Subscriptions outstanding as on 31.03.2015 – Rs.15, 000.

Salaries outstanding at the beginning and end of the financial year were Rs.8, 000 and Rs.10, 000 respectively. Sundry expenses included prepaid insurance expenses Rs.1, 200.

The club owned free hold ground valued Rs.2, 00,000. The club has sports equipment on 01.04.2014 valued at Rs.52, 000. At the end of the year, after depreciation, the sports equipment amounted to Rs.54000. The club raised a loan of Rs.40, 000 from a bank on 01.01.2014 which was unpaid till 31.03.2015. Cash in hand was Rs.32, 000 on 31st March-2015 and Rs.27, 800 on 31st March 2014.

Prepare receipts and payments account of the club for the year ended 31st March 2015 and balance sheet as on that date.

PRACTICAL APPROACH

Tirumala Tirupati Devasthanam (TTD) is one of the NPOs. Its main objective is to propagate and promote Hindu Dharma all over the country. Its major receipts are donations from pilgrims, fees for sevas, tickets etc.

TTD will not distribute all the collections to its trustees/members but it will be used for the objective it which it is formed. Its major payments are free medical facilities, free food, education for poor people, cleaning and maintenance of temple.

TTD will prepare R&P a/c every year through which it will prepare I&E a/c and balance sheet.

KEY PRINCIPLES

- ❖ NPO is also earn profit but it will not be distributed to members.
- ❖ We use term surplus instead of profit and deficit instead of loss in case of NPO
- ❖ The surplus will be used for the objective for which NPO is formed
- ❖ We prepare R&P a/c , I&E a/c and Balance sheet as part of financial statements
- ❖ R&P a/c is nothing but cash book which is prepared on cash basis
- ❖ I&E a/c is nothing but profit and loss a/c which is prepared on accrual basis
- ❖ R&P a/c contains both Revenue and Capital nature items and also for all the periods
- ❖ R&P a/c don't record the below items
 - Non-cash items
 - Non-monetary items
 - Credit transactions
- ❖ I&E a/c records all nominal nature type of accounts relating to current year only.
- ❖ There are three types of funds
 - Capital fund
 - General fund
 - Special fund
- ❖ General purpose donation is treated as revenue receipt and specific purpose donation is treated as capital receipt and transfer to special fund a/c
- ❖ I&E a/c records the below items also
 - Non-cash items
 - Non-monetary items
 - Credit transactions

SUMMARY

NPOs are those organisations which will run for a specific objective without profit motive. For example: Trust, Society, Club etc.

The NPOs also earn profit which is termed as surplus and incurs loss which is termed as deficit. But they don't distribute Surplus among members but it should be used for specific objective purpose.

NPOs also prepare financial statements in the same style and manner of profit organisations.

The following are the financial statements prepared by NPO:

- Receipts and payments account
- Income and expenditure account
- Balance sheet

Trial Balance is the base for Profit Organisations to prepare financial statements whereas Receipts and Payments A/c is the base for preparation of financial statements for NPOs.

NPO prepares **Income and Expenditure A/c** to find surplus or deficit in the same style of P&L A/c and balance sheet just like Profit Organisations to find their financial position. We should analysis entire receipts and payments into capital and revenue and also identify the period for which it belongs to before we prepare I&E a/c and Balance sheet from R&P a/c. We should also take into account the below items for preparation of I&E a/c.

- Non-cash items
- Non-monetary items
- Credit transactions

Understanding of the below two concepts are very important for preparing the above financial statements.

- Cash basis
- Accrual basis