CAPITAL AND REVENUE EXPENDITURE

ACCOUNTING FOR NON-PROFIT ORGANISATIONS

We come across organisations which are not engaged in business activities. Their objective is not to make profits but to serve. Examples of such organisations are: schools, hospitals, charitable institutions, welfare societies, clubs, public libraries, resident welfare association, sports club etc. These are called Not-for-Profit Organisations (NPOs). These organisations provide services to their members and to the public in general. Their main source of income is membership fees, subscription, donation, grant-in-aid, etc. As the money is involved in the activities of these organisations, they also maintain accounts. These organisations prepare certain statements to ascertain the results in financial terms of their activities for a particular period say, one year.

Characteristics of Not-for-profit organisations (NPOs):

Following are the main characteristics or the salient features of Not for Profit organisations (NPOs):

1. The objective of such organisations is not to make profit but to provide service to its members and to the society in general.

2. The main source of income of these organisations is not the profit earned from purchase and sale of goods and services but is admissions fees, subscriptions, donations, grant-in-aid, etc.

3. These organisations are managed by a group of persons elected by the members from among themselves. This group is called managing committee.

4. They also prepare their accounts following the same accounting principles and systems that are followed by business for profit organisations that are run with an objective to earn profits:

The type of financial statements that are generally prepared by Not-for Profit Organisations (NPOs) are:

1. Receipts and Payments Account
2. Income and Expenditure Account

3. Balance Sheet

The receipts and payments account is the summary of cash and bank transactions which helps in the preparation of Income and expenditure Account and the Balance Sheet.

Income and Expenditure A/c is similar to Profit and Loss Account. NPOs usually prepare the Income and Expenditure Account and balance Sheet with the help of Receipts and Payments Account.

RECEIPTS AND PAYMENTS ACCOUNT–MEANING AND NEED:

Like any other organisations Not-for-Profit Organizations (NPOs) also maintain cash book to record cash transactions on day to day basis. But at the end of the year they prepare a summary of cash transactions based on the cash-book. This summary is prepared in the form of an account. It is called Receipts and Payments account. All cash receipts and payments are recorded in this account whether these belong to current year or next year or previous year. All receipts and payments are recorded in this account whether these are of revenue nature or capital nature. As it is an account so it has the debit side and the credit side. All receipts are recorded on its debit side while all payments are shown on the credit side. This account begins with opening cash or/and bank balance. Closing balance of this account is cash in hand and or cash at bank/overdraft. Items in this account are recorded under suitable heads.

Following are the main features of Receipts and Payments Account:

1. It is prepared at the end of the year taking items from the cash book.
2. It is the summary of all cash transactions of a year put under various heads.

3. It records all cash transactions which occurred during the year concerned irrespective of the period they relate to i.e. previous/current/next year.

4. It records cash transactions both of revenue nature and capital nature.
5. Like any other account it begins with opening balance and ends with closing balance.

Need for preparing Receipts and Payments Account:

As most of the transactions of Not-for-Profit Organisations are for cash, the Receipts and Payments Account shows most of the items at one place.

As it is in a summary form, it gives an idea of large number of transactions at a glance. It contains accounting information under various heads. So it gives information item wise for the accounting year. It shows the closing cash or/and bank balance, this cash/Bank balance is taken to the Balance Sheet.

The Receipts and Payments Account serves the purpose of trial balance and becomes the basis of preparing financial statements i.e. Income and Expenditure Account and Balance sheet for the organisation. Very small Not-for-Profit Organisations (NPOs) prepare only Receipts and
Payments Account.

As the name itself suggests, Receipts and Payments Account is an account which has two sides, the debit side and the credit side. All receipts are written on the debit side and payments on the credit side. It has a definite format which is given below:

Format of Receipts and Payments Account:

Receipts and Payments Account

For the year ended on................

Dr.			Cr
Particulars	**Amount Rs**	**Particulars**	**Amount Rs**
Balance b/d :		Purchase of Assets	
Cash		Printing and stationery	
Bank		Repairs and Renewal	
Donations		Newspapers/Magazines	
Legacies		Rent and taxes	
Membership fees		Postage	
Entrance fees		Investments	
Subscriptions		Conveyance	
Donations		Honorarium	
Lockers Rent		Charity	
Sale of fixed assets		Insurance Premium	
Interest on investments		Upkeep of Ground	
Miscellaneous Receipts		Telephone Charges	
Sale of old periodicals		Balance c/d :	
		Cash	
		Bank	

SPECIFIC ITEMS OF RECEIPTS AND PAYMENTS ACCOUNT:

1. Subscription: It is a regular payment made by the members to the organisation. It is generally contributed annually. It is one of the main sources of income. It appears on the debit side i.e. Receipts side of the Receipts and Payments Account. Apart from amount for current year, it may include amount pertaining to previous year or advance payment for next years.

2. Entrance fees or Admission fees: Whenever a person is admitted as a member of the organisation certain amount is charged from him/her to give him/her admission. This is called entrance fee or admission fee. It is an item of income and is shown on the debit side of the Receipts and Payments Account.

3. Life membership fees: Membership, if granted to a person for the whole life, special fee is charged from him/her, this is called life membership fees. It is charged once in the life time of a member. It is a capital receipt for the organisation.

4. Endowment fund: It is a fund which provides permanent means of support for the organisation. Any contribution towards this fund is an item of capital receipt.

5. Donation: Donation is the amount received from some person, firm, company or any other body by way of gift. It is also an important item of receipt. It can be of two types:

(a) Specific donation: It is a donation received for a specific purpose. Examples of such donations are: donation for library, donation for building, etc.

(b) General donation: It is a donation which is received not for some specific purpose. It can be of two types:

(i) General donation of big amount (ii) General donation of small amount

6. Legacy: It is the amount which is received by organisations as per the will of a deceased person. It is treated as a capital receipt.

7. Sale of old newspapers/periodicals and sports material: Old newspapers used/condemned sport material is sold and fetches some money. It is a source of revenue. It is taken to the debit of Receipts and Payments account.

8. Purchase of fixed assets: Assets such as building, machinery, furniture, books etc. are purchased for the organisation. These are items of capital expenditure. These are shown on the credit side i.e. the payment side of Receipts and Payments Account.

9. Payment of honorarium: This is another item of payment. This is an amount paid to persons who are not the employees of the organisation but take part in the management of the organisation. Remuneration paid to them is called honorarium. For example, payment made to the secretary of the club as honorarium. This is a payment of revenue nature.

10. Purchase of consumable items: Items such as stationery, sports material, drugs and medicines etc. are called consumable items. Payments are regularly made by Not-for-Profit Organisation (NPO). These are shown on the payment side. Payments are made for rent, salary, and insurance, office expenses etc. which are payments made as revenue expenditure by both businesses for profit and not for Profit Organisations (NPOs).

Preparation of Receipts and Payments Account:

Following are the steps followed to prepare Receipts and Payments A/c :

- At first the cash and bank balance carried forward from the last year is written on its debit side. In case there is bank overdraft at the beginning of the year, enter the same on the credit side of this account.

- The amounts are written under relevant heads such as subscription, donations etc. on the receipts side and salary, rent, purchase of sports equipment, books etc. on the Payment side.

- The amounts comprise of only cash and all cash received or paid during the period for which Receipts and Payments Account is prepared. No distinction is made between the items of revenue nature or capital nature and whether these belong to current year, previous year or the coming year.

Finally, this account is balanced by deducting the total of the credit side i.e. the total payments from the total of the debit side i.e. total receipts and is put on the credit side as _balance c/d‘.

It shows the closing cash and Bank balance which is written on the asset side of the Balance sheet of the concerned organisation.

ILLUSTRATION 1 **(Preparation of Receipts & Payments Account)** From the following information, prepare Receipts and Payments Account of Vivekananda Society, Delhi, for the year ended 31st March, 2007

Particulars	₹
Cash in hand (1.4.2006)	37,000
Cash at Bank (1.4.2006)	50,000
Donations Received	2,500
Subscriptions Received by Cheque	2,000
Electricity and Water Charges Paid	500
Salary to Hari (Accountant)	25,000
Salary to Ram (Manager)	10,000
Honorarium to Lecturer Paid by Cheque	16,000
Purchase of Computer (Paid by Cheque)	28,000
Advances to Petty Cashier	200
Purchased Furniture	1,000
Cash in hand (31.3.2007)	2,800
Cash at Bank (31.3.2007)	8,000

SOLUTION:

Books of Vivekananda Society, Delhi
RECEIPTS AND PAYMENT ACCOUNT
for the year ended 31st March, 2007

Receipts		₹	Payments		₹
To Balance b/d :			By Electricity and Water Charges		500
Cash	₹37,000		By Salaries :		
Bank	₹50,000	87,000	Accountant	₹25,000	
			Manager	₹10,000	35,000
To Donations Received		2,500	By Honorarium to Lecturer		16,000
To Subscriptions		2,000	By Purchase of Computer		28,000
			By Advances to Petty Cashier		200
			By Furniture		1,000
			By Balance c/d :		
			Cash	₹2,800	
			Bank	₹8,000	10,800
		91,500			91,500

The Income and Expenditure Account:

The Income and Expenditure account is a revenue account of a Not-for-Profit entity, like a charitable or cultural society, educational institutions, hospitals, sports club etc. It is a type of income statement similar to profit and loss of other business organizations. The income and expenditure account is prepared on the basis of some principles, which are applicable in the preparation of profit and loss account. Fund based expenses are first matched against the income arising/accrued from the same fund. Fund based expenses cannot be in excess of the income accrued from the fund however a transfer may be made from general fund to the specific fund to set off the deficit.

Any surplus arising on the income of a firm has to either accumulate in the fund itself or is to be disposed off as for the specific provisions. Items of revenue nature alone are dealt with in this account but they are not confined to actual cash transacted during the accounting period. Gains whether received or accrued are credited and expenses and loses whether paid or incurred are debited to the Income and Expenditure Account. Any advance receipt of income on payment or expense is duly adjusted. After due adjustment of accruals, prepayments, provisions, depreciation etc, the final balance of the account represent an excess of income over expenditure which is called surplus. When the expenditure is in excess over the income then the balance is called deficit.

[Incomes- Expenditures = Surplus], [Expenditures-Income = Deficit].

Preparation of Income and Expenditure Account:

Following steps are involved in the preparation of the Income and Expenditure Account:

1. It is generally prepared in _T' form with revenue expenditure on the debit side (left hand side) and revenue income on the credit side (right hand side). It follows the rules given below:

   Debit Expenditure || Credit Income

2. This account can also be prepared in a vertical form where in incomes are first shown and added up. There after, the expenditures are presented and added up. From the totals of the income s the

totals of expenditure are deducted to ascertain surplus or deficit.

3. The Income and Expenditure account does not start with any opening balance, because it is prepared to ascertain only the current year‘s surplus or deficit. The previous year‘s surplus or deficit is therefore, not relevant.

4. This account shows only the revenue items and hence the capital items are not recorded. For example building owned by a sport club should not be taken into consideration.

5. In this account only the expenses and incomes of the particular current accounting year are shown. Hence, the revenue receipt and payment pertaining to the pervious year(s) and future year(s) should be suitably or all to be adjusted. Similarly, outstanding expenses and accrual incomes pertaining to the previous accounting year of which the income and expenditure account is being prepared must be included in the total of the expenses and incomes.

6. The closing balance of this account shows surplus i.e. excess of revenue income and revenue expenses. The surplus is added to and the deficit is deducted from the _Not-for-Profit‘ organization‘s _capital fund‘.

Items of Income and Expenditure Account:

Revenue Expenditure: It generally refers to the revenue expenses paid and due for a particular year and non-cash losses. It can be shown as follows in the form of an equation.

Revenue Expenditure = Revenue Payments made during the year + (outstanding revenue payments of the year + prepaid revenue payments of the year at the beginning of the year) -

(Outstanding revenue payments in the beginning of the year + prepaid revenue payments at the end of the year)

Revenue Income: It refers to the revenue receipts accruing during a particular year. Therefore;

Revenue Income = Revenue Receipt during the year + (accrued revenue receipt at the end of the year + revenue receipts received in advance at the beginning of the year) - (accrued revenue receipts in the beginning of the year + revenue receipts received in advance at the end of the year) + gain on sale of fixed assets.

The format of Income and expenditure account is given below:

Income and Expenditure Account

For the year ended.....

Expenditure	Rs.	Income	Rs.
To Salaries and Wages	***	By Subscription	***
To Rent, rates and taxes	***	By Entrance fees(only revenue	
To Printing and Stationary	***	portion)	***
To Postage and Telegraphs	***	By General Donations	***
To Communication expenses	***	By Life Membership fees (only	
To Electricity & Water Charges		revenue portion)	***
To Honorarium	***	By Interest on Investment	***
To Insurance	***	By Sale of Refreshments	***
To Repairs and Maintenance	***	By Rent for use of hall	***
To Travelling expenses	***	By Hire of Ground	***
To Entertainment Expenses	***	By Lockers Rent	***
To Tournament Expenses	***	By Advertisement in Journals	***
To Meeting Expenses	***	By Grant from Govt.	***
To Audit Fee	***	By Sale of tickets	***
To Newspapers & Magazines	***	By Tournament Collections	***
To Depreciation	***	By Sale of Old Newspapers	***
To Sports Material Consumed	***	By Sale of grass	***
To Surplus(excess of income		By Miscellaneous Incomes	***
over expenditure)	***	By deficit (excess of expenditure	
		over income)	***
	***		
	***		***

Balance Sheet for Not-for-Profit Organization

Balance sheet of a nonprofit organisation (NGO) is important financial document which shows financial position of that nonprofit organisation. So, In a nonprofit, the name of this financial statement is also called the statement of financial position.

In the balance sheet of nonprofit organisation, difference between total assets and total liabilities will be shown as net assets because there is no equity share capital in nonprofit organisation and there is also no shareholder of this organisation. This net assets will be the donation fund which is issued by its donors.

The performa Balance Sheet of a Not-for-Profit organization is given below:

Balance Sheet of (Name) of Not-for-Profit Organisation as at (Date on which it is prepared)

Liabilities	*Amount*	*Assets*	*Amount*
Capital Fund		*Assets*	
Last balance b/f		Last balance b/f	
Add capitalized incomes		Add purchase in current year	
of current year		Less book value of assets sold	
a) General Donations		Less depreciation	
b) Entrance fee		Closing balance	--------
c) Legacies		*Stock of consumable items*	
d) Life membership fee etc.		Closing stock as given or	
Special Fund Donation	--------	Last balance b/f	
Last balance b/f		Add purchases in current year	
Add a) receipts for the		Less value actually consume in	
items during the current years		current year.	
b) income arising from fund.		Closing balance	--------
Less expenses out of fund/		Cash/bank saving A/c	
donation		Fixed deposit account	
Creditors for purchase	--------	*Accrued incomes*	--------
Bank overdraft		Last balance b/f	
Outstanding expenses		Less received in current year	
Last balance b/f		Add accrued for current year	
Less paid in current year		Prepaid expenses	--------
Add o/s for current year	--------		
Income received in advance			
Income and Expenditure A/c			
Last balance (Cr) b/f			
Add surplus			
Less deficit if any	--------		

Preparation of Balance Sheet

The following procedure is adopted to prepare the *Balance Sheet*:

1. Take the Capital/General Fund as per the opening balance sheet and add surplus from the Income and Expenditure Account. Further, add entrance fees, legacies, life membership fees, etc. received during the year.

2. Take all the fixed assets (not sold/discarded/or destroyed during the year) with additions (from the Receipts and Payments account) after charging depreciation (as per Income and Expenditure account) and show them on the assets side.

3. Compare items on the receipts side of the Receipts and Payments Account with income side of the Income and Expenditure Account. This is to ascertain the amounts of: (a) subscriptions due but not yet received:

(b) Incomes received in advance; (c) sale of fixed assets made during the year; (d) items to be capitalized (i.e. taken directly to the Balance Sheet) e.g. legacies, interest on specific fund investment and so on.

4. Similarly compare, items on the payments side of the Receipt and Payment Account with expenditure side of the Income and Expenditure Account. This is to ascertain the amounts if: (a) outstanding expenses; (b) prepaid

expenses; (c) purchase of a fixed asset during the year; (d) depreciation on fixed assets; (e) stock of consumable items like stationery in hand; (f) Closing balance of cash in hand and cash at bank as, and so on.

Illustration 3:

From the following, prepare an Income and Expenditure Account for the year ended 31st March, 2011:

Date	Receipts	₹	Date	Payments	₹
2010			2011		
April 1	To Balances:		Mar. 31	By Salaries	36,000
	Cash in Office	550		By Rent	6,000
	Cash at Bank	4,500		By Printing and Stationery	1,450
2011				By Postage	250
Mar. 31	To Subscription (including ₹ 2,000 for 2011-2012)	30,000		By Bicycle (Purchased)	5,950
				By Govt. Bonds	6,800
	To Interest on Investments (Cost of Investments, ₹ 1,50,000)	15,000		By Balances:	
				Cash in Office	120
				Cash in Bank	1,130
	To Bank Interest	100			
	To Sale of Scooter	7,500			
		57,700			57,700

Subscriptions include Rs 1,200 for 2009-10. Also rent includes Rs 500 paid for March, 2010. Subscriptions amounting to Rs 1,500 have still to be collected for the year 2010-2011. Rent for March, 2011 is still to be paid and Rs 250 is outstanding against a stationery bill. The book value of the scooter was Rs 8,200.

Solution:

Income and Expenditure Account for the Year ended March 31, 2011:

A Sample Income and Expenditure Account

Dr.	₹	₹		₹	Cr. ₹
To Salaries		36,000	By Subscriptions		
To Rent	6,000		Collected	30,000	
Less: Relating to previous year	500		*Less:* Relating to 2009-10	1,200	
	5,500			28,800	
Add: Outstanding Rent	500	6,000	*Less:* Relating to 2011-2012	2,000	
To Printing and Stationery	1,450			26,800	
Add: Outstanding Stationery	250	1,700	*Add:* Outstanding on 31/3/2011	1,500	28,300
To Postage		250	By Interest on Investments		15,000
To Loss on Scooter:			By Bank Interest		100
Book Value	8,200		By Excess of Expenditure over Income		1,250
Less: Realised amount	7,500	700			
		44,650			44,650

If, in the above illustration, one is required to prepare a Balance Sheet as on March 31, 2011, one will have to first find out the Capital Fund of the institution.

This can be done by preparing Balance Sheet as at March 31, 2010 as follows:

Balance Sheet as on March 31, 2010

Liabilities	₹	*Assets*	₹
Rent Outstanding	500	Cash at Bank	4,550
Capital Fund (balancing figure)	1,64,000	Cash in Office	550
		Investments	1,50,000
		Subscriptions Outstanding	1,200
		Scooter	8,200
	1,64,500		1,64,500

Having determined the Capital Fund in the beginning, one can now prepare the Balance Sheet as at March 31, 2011 as follows:

Balance Sheet as on March 31, 2011

Liabilities		₹	*Assets*	₹
Rent Outstanding		500	Cash at Bank	1,130
Stationery Outstanding		250	Cash in Office	120
Subscriptions Received in Advance		2,000	Investments	1,50,000
Capital Fund	1,64,000		Subscriptions Outstanding	1,500
Less: Deficit for the year	1,250	1,62,750	Bicycle	5,950
			Government Bonds	6,800
		1,65,500		1,65,500