DegreeLive

B.Com Honours

Semester II

Calicut University

Financial Accounting

Course Code: COM2CJ101 • Module 3 Notes

1. Preparation of Financial Statements of Not-for-Profit Organisations

Not-for-Profit Organisations (NPOs) are established to promote cultural, educational, religious, sports, or charitable objectives. Their primary goal is service, not profit generation. Since they do not engage in trade, they do not prepare a Trading and Profit & Loss Account. Instead, they maintain basic accounting records to prevent embezzlement and prepare final statements: Receipts and Payments Account, Income and Expenditure Account, and a Balance Sheet.

Receipts & Payments Account

A **Receipts and Payments Account** is a summary of the cash book for a specific period. It records all physical cash and bank transactions.

- **Nature of Account:** Real Account.
- **Basis:** Prepared strictly on cash basis. Only actual cash receipts and payments are recorded.
- **Inclusions:** Records both capital and revenue items. It includes cash transactions relating to previous, current, or future financial years, as long as cash changed hands in the current year.
- **Balance:** Starts with opening cash/bank balance and ends with closing cash/bank balance.

Income & Expenditure Account

An **Income and Expenditure Account** is similar to a Profit & Loss Account of a commercial firm. It is prepared to determine the operational surplus (excess of income over expenditure) or deficit (excess of expenditure over income).

- **Nature of Account:** Nominal Account.
- **Basis:** Prepared on accrual basis. Adjustments for outstanding expenses, prepaid items, and depreciation are mandatory.
- **Inclusions:** Records revenue items only. It excludes all capital expenditures and receipts. It includes items relating strictly to the current financial year.
- **Balance:** The closing balance represents either a Surplus (added to Capital Fund) or a Deficit (deducted from Capital Fund) on the Balance Sheet.

Comparative Table: Receipts & Payments vs. Income & Expenditure

Feature	Receipts and Payments Account	Income and Expenditure Account
Account Type	Real Account (Cash summary).	Nominal Account (Revenue summary).
Accounting Basis	Cash basis (only cash movements recorded).	Accrual basis (outstanding items adjusted).
Capital & Revenue	Both capital and revenue items are recorded.	Only revenue items are recorded.
Period Coverage	Includes receipts/payments of any year.	Includes incomes/expenditures of current year only.
Closing Balance	Closing cash and bank balance.	Surplus or Deficit.

Accounting Treatment of Special NPO Items

NPOs have unique revenue streams that require specific accounting entries:

- **Subscriptions:** Membership fees paid periodically. Only current year subscriptions are credited to Income & Expenditure. Outstanding subscriptions are assets; received-in-advance subscriptions are liabilities.
- **Donations:** **General Donations** are revenue receipts (credited to Income & Expenditure). **Specific Donations** (e.g., Building Fund) are capital receipts and added directly to liabilities.
- **Legacies:** Amount received by NPO under a will. Capitalized as a liability.
- **Life Membership Fees:** One-time payments. Capitalized under Capital Fund.