

Financial Statement of Non Profit Organisation

C.A. Mahesh Kumar¹, Naresh Babu. K², Kedarnath Reddy. K³

¹Asst Professor, ^{2,3}Mba Student
GATES Institute of Techonology, Gooty, Anantapur

ABSTRACT

It is a study on financial statement of non profit organization. This paper defines about financial statement and non profit organization which is incorporated for the benefits to the members and society at large. It creates a detail knowledge about the financial statement of non profit organization. Paper helps to get awareness in a way to preparing or presenting the systematic financial statement of not for profit organization. In case of non for profit organization, the financial statement contains Receipt and Payment Account, Income and Expenditure Account and Balance Sheet. It does not include profit and loss account because it is not a profit concern. It explains the features of each account either receipt and payment or income and expenditure account. Shows difference between receipt and payment account and income and expenditure account. This paper helps to identify the general terms used in not for profit organization.

Keywords: Capitalized, Donation, Entrance fee, Fund raising, Grants, Legacy, Subscription.

I. INTRODUCTION

A non profit organization is a social, legal and accounting entity that is operates for the welfare of society as a whole. NFPOs are an essential part of every community. It is not for providing benefit to a sole proprietor or a group of partner or shareholder. They exist to provide benefits to members of the community. Operations of Non Profit Organizations are based on the receipt of subscription, grants, donations, fundraising as the principal income source. In some cases, NFPOs uses their income to conduct trading activities and profit will reserve for members welfare. These NFPOs are not-for-profit basis, Have to adopt good financial management practices will ensure that there are adequate resources to achieve their objectives, remain solvent and continue the community for long period.

Although profitability is not the core purpose of an NFPO, it is necessary to ensure that the NFPO is sustainable, properly capitalized and funded. It would be fair to say that NFPOs need to ensure they have adequate cash flow to support their operations over the duration of their lives and contribute to meet their goals. It has to discuss about the financial statement of Not For Profit Organisation.

II. NON PROFIT ORGANIZATIONS CAN BROADLY BE DIVIDED INTO THREE CATEGORIES

1. Organization work for the welfare of their members e.g. clubs, staff associations, residents associations etc.
2. Charitable institutions are hospitals, educational institutions etc.
3. Professional associations are Chartered Accountants, Tax consultant, Advocates, Doctors, etc.

III. METHODOLOGIES

We made a conceptual paper on financial statement of non profit organization. The data will be collected from secondary sources such as Journals, Books, Online websites and so on.

IV. OBJECTIVES

- ✓ Understanding about Not for profit organization and making difference between profit making and non profit making organization.
- ✓ Accounting procedure for non profit organization.
- ✓ Know about Receipts and Payments Account and Income and Expenditure Account and see the difference between two Accounts
- ✓ Understand techniques for preparing Receipts and Payment Account and Income and Expenditure Account.
- ✓ Income sources to Non Profit Organization.

- ✓ Pattern for preparing Balance Sheet of Non Profit Organization.
- ✓ Terms used in Financial Statement of Non Profit Organization.

V. FINANCIAL STATEMENTS

Financial statement is a formal record of the financial position and activities of business, person or other entity. They don't have to sell or purchase of goods and not to receive bills of exchange nor to make credit transactions. Most of Non Profit Organization are making cash transactions, so they have to maintain detail books of accounts like profit concerns. However NFPO's are maintain cash book and minimum number of books which required for their purposes. For example Register of fee should be maintain in case of school or college, Register of members and minute books are maintain in case of club or society. The Non Profit Organization also prepare it's final accounts at end of the accounting year. The financial statement of NFPOs.

- 5.1. Receipts and Payment Accounts
- 5.2. Income and Expenditure
- 5.3. Balance Sheet

5.1.Receipts and Payment Accounts:

Receipts and Payment Accounts is a summary of cash transactions which have take place during the accounting period. It is an elementary form of account is commonly adopted by non profit concerns for presenting periodical results of work. The cash receipts and cash payments are recorded in cash book. It has recorded in chronological order. The receipts and payments accounts is a summary of total cash receipts and cash payments made under different heads during a particular period of time. Receipts and Payment Accounts consists of opening and closing balances of cash. The cash receipt are recorded in left side of account and cash payments are recorded in right side of account. The same transactions are appear in cash book.

5.1.1.Features of Receipts and Payment Account:

- It is a real account.
- It is similar to the cash book, the cash and bank items are merged in a single column. The contra entry between cash and bank are removed.
- The receipts and payment account is starts with opening balance of cash and bank and ends with closing balances of cash and bank.
- The receipts and payment account recorded with all types of receipts and payments irrespective of nature, it record capital or revenue receipts and payment.
- It record all cash and bank receipts and payments, whether they related to current, past or future periods.
- All the receipts are debited and payments are credited.
- It does not show any surplus or deficit, it is a cash trial.

5.2.Income and Expenditure Account

Income and Expenditure Account is same as to the profit and loss account of business. This account is mostly adopted by the non profit organization and accrual principle is required for preparing this account. Only revenue nature of items recorded in Income and Expenditure Account . For the preparation of account have to adjust the outstanding and advance items before these are included in Income and Expenditure Account.

5.2.1.Features of Income and Expenditure Account

- It is a nominal account.
- The income and expenditure account is prepared at the end of financial year to know the surplus or deficit at that period.
- It is prepared for matching expenses with revenue of that period.
- All the income and gains are record on credit side and expenses and losses are record on debit side of account.
- Account allowed to record both cash and non cash transactions.
- All capital expenditure and incomes are not recorded, only current year income and expenses are considered.
- The balance of account shows either the excess of income over expenditure (surplus) or the excess of expenditure over income (deficit).

5.3.Balance Sheet

Balance sheet is a statement includes assets and liabilities of an accounting at particular period. In case of non profit organization the balance sheet is prepared at the end of the accounting year after preparation of income and expenditure account. Excess of assets over liabilities is referred as capital fund. Amount contributed by members called capital

fund. Two balance sheet have to prepare. Balance sheet at the beginning of the year is to ascertain the capital fund at beginning. Balance sheet at the end of the year is to ascertain the financial position of the institute on that period.

VI. DIFFERENT BETWEEN RECEIPTS & PAYMENTS AND INCOME & EXPENDITURE ACCOUNTS:

Receipts & Payments	Income & Expenditure
<ul style="list-style-type: none"> ❖ Real Account ❖ It contains the actual cash receipts and payments for a particular period. ❖ It allow both capital and revenue transactions. ❖ It is to record all receipts and payments irrespective of the period. ❖ Non cash items are not allowed. ❖ It is begins with opening balance and end with closing balance. ❖ Excess of receipts over payments shows cash balance and excess of payments over receipts shows bank overdraft. 	<ul style="list-style-type: none"> ❖ Nominal Account. ❖ It contains the incomes and expenses of a particular period. ❖ It allow only revenue transactions. ❖ It is to record only income and expenses of a particular period. ❖ Both cash and non cash items are allowed. ❖ It does not have any opening and closing balances. ❖ Excess of income over expenditure shows surplus and excess of expenditure over income shows deficits.

VII. TERMS USED IN NON PROFIT ORGANIZATION:

- 7.1.Subscription.
- 7.2.Donations.
- 7.3.Entrance fee.
- 7.4.Special funds.
- 7.5.Legacy.
- 7.6.Sale of old newspapers.
- 7.7.Miscellaneous.

7.1Subscription: In case of non trading concern subscription is generally received. Subscription are the amount payable by the members off an organization to maintain their membership. Subscription may be periodical and lumpsum subscription.

- 7.1.1.Periodical subscription: It is treated as revenue receipt and credited to Income and Expenditure Account.
- 7.1.2.Lumpsum subscription: It is treated as capital receipt and ceadited to life membership fund account.

7.2.Donation: The charitable institutions may received donations from time to time. It is a amount given by the members or outsider voluntarily to an organization. The donations may be General Donations and Specific Donation.

- 7.2.1.General Donation: It is treated as revenue receipt and credited to Income and Expenditure Account.
- 7.2.2.Specific Donation: It is treated as capital receipt and credited to special fund account.

7.3.Entrance fee: Entrance fee is an initial amount payable at the time of seeking admission as member to non profit organization. The entrance fee is accounted in three ways it is treated as revenue receipt, treated as capital receipt and treat it some portion as revenue and some other portion as capital receipt.

7.4.Special fund: The non profit organization has to maintain special fund for special purpose. Income related to this special fund is added to the special fund account in the balance sheet at liabilities side.

7.5.Legacy: It is an amount which one gets on account of will. The received as legacy as good as donation and it should be taken to the balance sheet on liabilities side. It is generally of a non-recurring nature.

7.6.Sale of old newspapers: Sale of old newspapers is a recurring in nature. Amount on sale of old newspapers is taken as income in the income and expenditure account.

7.7.Miscellaneous: Adjustment may have to be made in respect of certain items such as sports material, Printing and stationery material, etc. to find out the actual materials used during a particular period for the concerned expenditure.



VIII. CONCLUSION

By studying this paper we may get better idea about the financial statements and non profit organization. The financial statement of non profit concern is differ from profit concern. Here we observed the treatment of general terms used in not for profit organization.

IX. ACKNOWLEDGEMENT

The study on “Financial Statement of Non Profit Organisation” has been given to me as part of the curriculum in 2years Masters Degree in Business Administration. I tried my best to present the information as clearly as possible using basic terms. This study has been completed under the guidance of C.A. Mahesh Kumar , asst professor. I also thankful to the peoples ho helps me to completion of this paper.

REFERENCES

- [1] https://en.wikipedia.org/wiki/Financial_statement
- [2] <https://www.slideshare.net/pradeepmalanada/financial-statement-of-non-profit>
- [3] <http://www.vikaspublishing.com/author-details/-dr-s-n-maheshwari/3314>
- [4] <http://promrek.ru/littledms/folder1/chapter-9-financial-statements-of-not-for-profit-organisations-2.pdf>