

## Chapter 06

# *Not for Profit Organizations*

This chapter discusses the followings.

6.1 Introduction to not for profit organizations

6.2 Financial statements of not for profit organizations



## 6.1 Introduction to not for profit organizations

As the word ‘business’ is heard, the term “profit” automatically comes to our mind. The reason for this is that most of the business organizations operate their businesses with a profit motive. But there are some organizations that function with different purposes rather than focusing on the profits. Social welfare is one of the purposes of such organizations.

You can think about such organizations that you have been involved and organizations that you have know in your school. Commerce association, Sinhala and Tamil Literary associations, Buddhist, Hindu, Islamic and Christian associations are some of them.

Further, you can think about different associations that function in your living area. Sometimes your mother, father or brother may be a member of such an organization. Sports clubs, women’s associations, rural development associations and welfare associations are some of the examples for such organizations.

By observing the activities of such organizations we can arrive at a common conclusion that such associations function with a purpose of enhancing social welfare and wellbeing.

In accounting, such organizations are termed as Not for Profit organizations.

Social services, funding for flooding, drought aids, scholarships and student funds are some of the activities that these organizations perform to fulfill their purposes.



### *Activity 01*

01. Prepare a list of not for profit organizations that operates in your area or in your school.
02. Specify the activities that the above not for profit organizations carry out to make their objectives a reality.

## 6.2 Financial statements of a not for profit organization

There should be an adequate income to maintain the daily operations of these not for profit organizations. For this purpose, such organizations have to use different means to earn an income. It is also necessary that such organizations have to bear expenses in conducting the operations of the organizations.

### *Examples :-*

- Collection of subscription
- Sale of flags
- Conduct entertainment events and functions
- Conducting cafeterias
- Organizing different competitions
- Organization of exhibitions
- Donations from different organizations



*Figure 6.1*

As explained above, it is clear that even the organizations that run without a profit motive conduct financial activities. Thus, these financial activities should be recorded appropriately to achieve following objectives.

- P To raise awareness among the members of the society and other stakeholders
- P To maintain the trust of the members
- P To plan the future activities of the organization
- P To conduct the operations of the organization smoothly

In order to meet the above objectives, the not for profit organizations prepare financial statements. In order to prepare the financial statements at the end of the accounting period, all the transactions that occur in an organization must be recorded. Some organizations do keep proper accounts for this purpose while some organizations do not. However, every organization should maintain an account to record all the cash receipt and payments.

### **Receipt and payment account**

Receipt and payment account is the account that all the cash receipts and payments occurred within an accounting period in a not for profit organization is recorded. This is very similar to the cash book prepared in a profit oriented organization. This is an asset account. All cash receipts are debited to the receipt and payment account while all cash payments are credited. The difference between cash receipts and payments is the cash balance available at the end of the period.

Following objectives can be achieved by preparing a receipt and payment account.

- P To know the cash balance at the end of an accounting period
- P To manage cash properly
- P To minimize fraud and misuse of cash
- P To utilize cash reserves more productively to achieve the organizational objectives
- P To obtain information regarding the sources of cash receipts and payments

Cash receipts and payments due are recorded in the cash receipt and payment book on a daily basis as they occur. A summary of receipts and payments are prepared and presented with financial statements of the not for profit organizations. As a result, a summarized statement of cash receipt and payment account is considered as an element of the financial statements of a not for profit organization.

### Preparation of receipt and payment account

#### *Example :-*

A summary of cash receipt and payments of the Commerce Society of the Doramadalawa Maha Vidyalaya for the year ended 31.12.20xx is given below.

<b>Receipts</b>	<b>Rs.</b>	<b>Payments</b>	<b>Rs.</b>
Subscriptions received	6 200	Printing of magazines	2 800
Proceeds from sale of magazines	4 100	Stationery	800
Donations	2 300	Transport expenses	200
Advertisements	14 400	Donations paid	400

Using the above information, preparation of the cash receipt and payment account can be discussed as follows;

Commerce Society  
Cash Receipt and Payment Account  
For the year ended 31.12.20XX

Subscription	6 200	Printing of magazines	2 800
Magazine sales	4 100	Stationery	800
Donation	2 300	Transportation	200
Advertisements	14 400	Donation	400
		Balance c/d	22 800
	<u>27 000</u>		<u>27 000</u>
Balance b/f	22 800		

**Example :-**

Summarized information relating to cash receipts and payments of Dirisaviya Community Association for the year ended 31st December 20XX is given below;

Cash balance as at 01.01. 20XX Rs. 12 300	Interest income Rs. 15 000
Subscription received Rs. 27 000	Interest for bank loan Rs. 1 200
Rent expenses Rs. 12 000	Purchase of equipment Rs. 12 000
Donation from government Rs. 150 000	Payment of salaries Rs. 10 000
Ceremony expenses Rs. 11 400	Electricity Rs. 400
Payment for fruit plants Rs. 4 200	Advertising Rs. 6 200
Fertilizer expenses Rs. 3 500	Transportation expenses Rs. 1 700

Observe how the receipt and payment account has been prepared based on above information.

Diri Saviya Community Association  
Receipt and Payment Account  
for the year ended 31st December 20XX

Balance b/f	12 300	Rent expense	12 000
Subscription fees	27 000	Ceremony expenses	11 400
Donations	150 000	Fruit plants	4 200
Interest Income	15 000	Fertilizer	3 500
		Interest expense	1 200
		Equipment	12 000
		Salaries	10 000
		Electricity	400
		Advertisement	6 200
		Transportation	1 700
		Balance c/d	141 700
	<u>204 300</u>		<u>204 300</u>
Balance b/f	141 700		



## Activity 02

Given below is the cash receipt and payment account prepared by the treasurer of the Shakthi Sports Club. After balancing the cash receipt and payment account a credit balance of Rs. 78 300 existed in the account, but physically Rs. 26 900 worth of cash of the sports club was there with him. Check the given cash receipt and payment account for any corrections and prepare the corrected cash receipt and payment account.

### Shakthi Sports Club Cash Receipt and Payment Account For the year ended 31.12.20XX

Subscription fee	190 000	Balance b/f	7 400
Purchase of sports equipments	40 000	Salaries and wages	99 000
Balance c/d	78 300	Donation received	24 300
		Sale of flags	8 200
		Refreshment expenses	5 400
		Stationeries	7 500
		Purchase of equipments	4 800
		Printing charges for flags	5 600
		Miscellaneous expenses	15 000
		Maintenance of ground	8 200
		Fees for umpiring	17 500
	<u>308 300</u>		<u>308 300</u>



## Activity 03

Pubudu Children's community has 450 members. The subscription fee per member is Rs. 100. A summary of cash transactions relevant to month of January 20XX is given below.

	Rs.
Purchase of stationery	2 400
Expenses for internet facilities	70
Income from selling magazines	6 400
Postal expenses	60
Transport cost	200
Printing expenses	700
Receipt of donations	1 000

Following additional information is also available

Income of Rs 200 from magazine sales is yet to be received.

15 members have not paid their membership fees for the month of January 20XX

Using the given information, prepare the cash receipt and payment account for the month of January 20XX of Pududu Children community.



## Activity 04

Below given are the receipts and payments for the first three months of year 20xx recorded by the treasurer of the Samagi Youth club. Prepare the cash receipt and payment account using the information given.

Balance of cash in hand as at 20xx.01.01 is Rs. 12 400

	Rs.		Rs.
04.01 Salaries-administration	10 200	28.02 Anniversary expenses	11 400
07.01 Subscription fee	3 200	03.03 Stationery expenses	300
10.01 Electricity expenses	1 400	07.03 Purchase of papers	600
15.01 Rates and taxes	300	10.03 Income from carnivals	20 000
20.01 Subscription fees	7 300	10.03 Expenses for carnivals	94 200
23.01 Match referee fee	1 500	13.03 Rates and taxes	27 500
30.01 Transportation fee	1 200	16.03 Electricity	42 200
01.02 Subscription fees	15 800	20.03 Receipt of donations	300
05.02 Receipt of donation	4 000	21.03 Electricity	1 300
10.02 Salaries -administration	10 200	22.03 Receipt of donations	15 000
13.02 Stationery expenses	400	24.03 Match referee fee	1 500
15.02 Electricity expenses	1 200	25.03 Payment for papers	1 200
20.02 Subscription fees	9 600	28.03 Subscription fee	8 000
24.02 Transportation fee	5 000	29.03 Expenses for carnivals	1 800
26.02 Subscription fees	17 200	30.03 Water bill	1 300

## Income statement

An income statement is prepared to calculate the net result of the economic activities conducted by the not for profit organizations. This statement will calculate the excess or the deficit generated by a not for profit organization within a specific time period, considering all the income and expenses relating to the relevant period. An **surplus** is generated in the income statement when the income generated is more than to the expenses of the period. When the expenses are more than to the income generated a **deficit** is recognized.

Differences can be recognized between the receipt and payment account and the income statement prepared by the not for profit organizations. Some differences are given below.

Receipt and Payment Account	Income Statement
Very much similar to the cash book	Similar to Profit or Loss Statement
Records the cash receipts and payments	Records only income and expenses
Records all the cash receipts and payments relating to the time period	Records income and expenses relating only to the time period
Shows the cash balance available at the end of the period	The balance will represent either an excess or a deficit
Prepared on cash basis	Prepared on accrual basis

### Subscription fees

Main source of income for the not for profit organizations is the subscription income. The subscription fees can be charged monthly, quarterly, bi-annually or annually. Members who are willing to make a lump sum payment for their entire membership can obtain life time membership period by making a onetime payment.

The total annual subscription income can be calculated as follows;

$$\text{Annual Subscription Income} = \text{No. of members} \times \text{Annual membership fee per member}$$

#### Example :-

The Commerce Society of Sathmini Maha Vidyalaya has 420 members. The annual membership fee per member is Rs 60. The annual subscription fee is,

$$\begin{aligned} \text{No. of members} \times \text{Annual membership fee per member} \\ = 420 \times \text{Rs. } 60 \\ \underline{\text{Rs. } 25\,200} \end{aligned}$$

#### Example :-

The annual membership fee of a sports association is Rs 200 per member. The total number of members are 400 and 20 members have not paid their annual membership fee.

Subscription fees	+	Subscription fees in arrears
380 × 200		20 × 200
Rs. 76 000		Rs. 4 000
Subscription fees for the year		<u>Rs. 80 000</u>





## Activity 05

Seasath Sports Society has 120 members for the year 20XX. The annual membership fee per member is Rs. 350. 15 members have not paid their subscription fees as at the end of the year.

1. Calculate the subscription fee received for the year 20XX
2. How much is the accrued membership fee for the year 20XX
3. Calculate subscription fee for the year 20XX

### Preparation of income statement

Using the below example, observe how to prepare the income statement

#### Example :-

The treasurer of the Science Association of Medawala Maha Vidyalaya, has presented the information relating to Income and Expenses for the year 20XX as below;

Income	Rs.	Expenditure	Rs.
Membership fee	25 200	Printing of magazines	2 800
Sale of magazines	4 100	Stationeries	800
Donation	2 300	Transportation	200
Advertisements	14 400	Payments as donation	400

The income statement is prepared using the above information is shown below.

#### Science Society of the Sesath Maha Vidyalaya

#### Income Statement

For the year ended 31.12.20XX

Income	Rs.	Rs.
Membership fees	25 200	
Sale of magazines	4 100	
Donations	2 300	
Advertisements	14 400	46 000
<b>Less : expenses</b>		
Printing of magazines	2 800	
Stationery	800	
Transportation	200	
Payments as donations	400	4 200
<b>Surplus</b>		<b>41 800</b>

**Example :-**

Observe how the Income statement has been prepared by the treasurer of Janajaya Society by using following data.

	Rs.		Rs.
Cash balance 01.01.20xx	12 300	Sale of flags	86 400
Membership fees received	74 300	Electricity	1 450
Payments as donation	1 200	Purchase of papers	1 280
Stationery purchases	520	Telephone expenses	720
Receipt of donations	40 000	Sale of old papers	200
Payments for aids	2 500	Rent of building	7 000
		Refreshment expenses	640

**Additional information**

1. Number of members are 746 and the annual membership fee per member is Rs. 100. However, 03 members have not paid membership fees
2. Annual telephone charge is Rs. 840
3. Rs. 1 600 is to be received from the sales of flags
4. Prepaid electricity expense is Rs. 150

Janajaya Society  
Income Statement  
For the year ended 31.12.20XX

	Rs.	Rs.
<b>Income</b>		
Membership fee	74 600	
Sales of old papers	200	
Donations	40 000	
Flag sales	88 000	202 800
<b>Less : expenses</b>		
Payments for donations	1 200	
Stationery	520	
For papers	1 280	
Telephone expenses	840	
Payments for aids	2 500	
Electricity expenses	1 300	
Building rent	7 000	
Refreshment expenses	640	15 280
<b>Surplus</b>		187 520



### Activity 06

Chintana Readers Club of has 30 members. The annual membership fees per member is Rs. 300. The treasurer of the club has presented a summary of the receipt and payment account as at 31.12.20XX.

#### Receipt and Payment Account

01.01.20xx bank balance	1 500	Telephone expenses	1 200
Membership fees received	12 000	Building rent	1 600
Building rent	9 370	Refreshment expenses	2 200
Sales of magazines	5 600	Equipment maintenance	3 500
		Stationeries	350
		Transport expenses	1 200
		Printing expenses	6 100
		Balance c/d	12 320
	28 470		28 470

Following information are also given

1. Building rent payable is Rs. 400
2. Building rent received in advance Rs. 200
3. The club has equipment amounting to Rs.8 000 which need to be depreciated at 5%
4. Prepaid printing expense is Rs. 600

Prepare the Income Statement of Chintana Readers Club for the year ended 31.12.20XX



### Activity 07

The treasurer of Liyasevana women organization has presented you, a summary of cash transactions relating to the year ended 31.12.20XX

	Rs.		Rs.
Cash balance 01.01.20XX	30 000	Purchase of magazines	600
Subscriptions received	75 000	Sale of magazines	400
Building rent	30 000	Purchase of furniture	7 500
Telephone charges	7 500	Refreshment expenses	2 000
Purchase of equipments	25 000	Receipt from well wishers	23 000
Labor cost	2 800	Transportation cost	1 200

### Additional information

01. Number of members are 400. Membership fees per member is Rs. 200.
02. Telephone charges of Rs. 600, refreshment expenses of Rs. 1 500 have to be paid.
03. The rent payment includes Rs. 5 000 paid for the next year
04. The book value of non-current assets as at 31.12.20xx is as follows;  
    Equipments     Rs. 24 500  
    Furniture       Rs. 7 125

Prepare

1. The receipt and payment account for the year ended 31.12.20XX
2. Income statement for the year ended 31.12.20XX



### Activity 08

Summarized Statement of Receipt and Payment account for the Shakthi Sports Club for the year ended 31.12 20XX is presented below

#### Receipt and Payment Account

Cash balance 01.01.20xx	1 500	Stationery	1 100
Subscription fees received	12 870	Renovation of ground	1 600
Renting of ground	22 500	Rates	6 600
Ticket sales	7 300	Salaries and wages	11 200
		Electricity	2 400
		Match expenses	3 500
		Balance c/d	17 770
	<u>44 170</u>		<u>44 170</u>

#### Additional information

01. Annual per membership fee is Rs. 400. 12 members have have not yet paid their subscription fees for the current year
02. The value of Sports equipments at the beginning of the period was Rs. 64 200 and at the end of the period the value has been estimated as Rs. 58 800
03. Taxes and rates payable is Rs. 800
04. Income received in advance for the sports ground is Rs. 2 500

Using the given information prepare the Income Statement for the year ended 31.12.20XX