

6. Not for Profit Organisations



This chapter discusses the following themes.

- 6.1 Introduction of Not for Profit organisations
- 6.2 Members Fees as a Main Source of Income
- 6.3 Accounts for Not for Profit Organisations
 - * Receipt and Payment Account
 - * Income and Expenditure Account

Let us prepare Accounts for Not for Profit Organisations

The past students of Sandapanagala College met at the school in a Friday evening. They were planning to form a past pupils' association. The main objectives of the association were to,

- * Develop the physical assets of the school
- * Help outstanding student of the school, financially and educationally
- * Help students with economic difficulties
- * Improve sports activities

Samantha who had held many positions in school associations in the past, was selected as the Secretary of the association. Other office bearers were also selected from the gathering. However, Sampath, a Doctor by profession, and Wickrema, an Accountant by profession, were proposed as the Treasurer of the association.

Therefore it was decided to hold a ballot to select the treasurer from the two names nominated. At that time Dr.Sampath got up and delivered the following speech.

“I thank you for proposing my name as the Treasurer of this association. It takes me back the memory lane to my school days. Both Wickrema and I were in the same class up to our Ordinary Level Examination. We were members of the Commerce Association. Wickrema was the Treasurer of the association. Those days activities of our association were very popular. We always tried to increase funds for it. We held trade fairs, concerts etc. All the activities were recorded by Wickrema. The commerce teacher used to praise Wickrema for his hard work. Now he is an Accountant. I think he is the best person to be the Treasurer of our Association. I thank again for proposing my name. But I wish to withdraw my name so that we do not need a ballot to select the Treasurer.”

By reading the above paragraphs it is clear that any association needs to keep proper records of its financial activities. This chapter discusses how accounts are prepared in Not for Profit Organisations.

Introduction

Associations which are established for different human needs and wants do not pursue profit. Their objective is the welfare of the society. These associations collect funds in many ways and disburse them in many avenues. The members who join the associations are not necessarily involved in the management of finance. Therefore the financial activities of the association have to be recorded properly for the use of members as well as other interested parties.

By reading this chapter you will be able to get a clear understanding about Not for Profit Organisations and how their transactions are recorded.



Your attention is drawn on the following basic terms in this chapter.

- _ Membership Fees
- _ Lifetime Membership fees
- _ Income and Expenditure account
- _ Deficits
- _ Receipts and Payments Account
- _ Surplus
- _ Accumulated Fund



6.1 Introduction of Not for Profit Organisations

At present most of the business organisations carry out their activities for profits. However, there are some organisations which carry out their activities for other objectives than profits. Therefore organisations can be categorised as for profit organisations and not for profit organisations.

The objectives of Not for Profit Organisations are,

- ✦ Development and welfare of their members
- ✦ Development of links with the society

Think about different Societies / Associations of your school

Buddhist Association, Commerce Association, Muslim Majlis, Tamil Literary Association are some examples for different societies and associations. The main objective of these associations are members' welfare and development of interaction among members.

Further, Funeral Welfare Associations, Trade unions, Religious associations you have in your community are not for profit organisations. Even though their main objective is not to earn profits they may sometimes engage in different economic activities.

Example : ◉ Collection of membership fees

Operating canteens

Collecting money through sale of flags, organising concerts etc

Receiving donations from people and organisations

Donating money to its members in special situations

According to the above examples it is clear that these associations engage in different types of earning and expenditure of money. Members of these associations have to be aware of these monetary transactions. Therefore an accounting process has to be carried out for these transactions.



Activity 1

1. List down welfare associations in your community. Prepare a report of their activities.
 - i. Examine the different sources of funds of these associations/societies.
 - ii. Propose how you can improve funds for these associations/societies.
2.
 - i. Collect information of different associations/societies in your school. Prepare a list of welfare activities of these associations/societies.
 - ii. Prepare a report on the importance of school associations/societies and present it in the morning assembly as a speech.



A blood donating campaign organised by a welfare association



6.2 Members' Fees as a Main Source of Income

The main source of income of not for Profit Organisations are money collected as membership fees of their members. The amount of membership fee and collection of it is decided at the members' meetings. The fee has to be paid monthly or annually to the

treasurer of the association. A receipt should be issued for the payment of the fee. Some associations allow their members to pay a lifetime membership fee to get the lifetime membership.

Calculating Membership Fees

Membership fees relevant for the accounting period have to be calculated.

Membership fee income = Number of members × membership fee per member

Example : • Number of members in Samagi Association are 130.
Annual membership fee per member is Rs. 200

$$\begin{aligned} \text{Annual membership fee income} &= 130 \times \text{Rs. } 200.00 \\ &= \underline{\underline{\text{Rs. } 26,000.00}} \end{aligned}$$

You are already aware of the Accrual concept. According to the concept, though it is received or not the membership fee relevant for the accounting period has to be considered as an income.

Example : • Number of members joined the Samanala Oya Association are 655.
Annual membership fee per member is Rs. 150.00. 10 members have not yet paid. The annual membership fee income for the year 20xx is,

Money received	+	Money not yet received
645 × Rs.150	+	10 × Rs.150
Rs. 96,750	+	Rs. 1,500
		<u>Rs.98,250</u>



Activity 02

The number of members who joined the Eksath Sports Association for the year 20xx is 150. The annual membership fee per member is Rs.200. Number of members who had not paid membership fees at the end of the year were 12.

- i. Calculate membership fees received for the year 20xx.
- ii. Calculate the total membership fees relevant for the year 20xx.

Accounts of Not for Profit Organisations

There are two main accounts prepared by these associations. They are,

- i. Receipts and Payments Account
- ii. Income and Expenditure Account

In addition to the above, the Balance Sheet is prepared to calculate the financial position of the association.

Receipts and Payments Account

The account that shows all money receipts and payments for an accounting period, of not for profit organisations is known as the Receipt and Payment Account. This is an asset account. Therefore the money received is debited and monetary payments are credited to the account. This account is similar to the cash book. However in the cash book each item is accounted daily, separately and as it happens. In the Receipt and Payment Account the figures show the summarised (accumulated) amount of each receipt and payment.

Example : • The summarised receipts and payments of Sathmini Sports Association for the year 20xx are as follows. Rs.

01.01.20XX	Cash Balance	4,350
	Membership Fees received	35,000
	Receipts from Musical Show	46,000
	Donations received	25,000
	Sale of old newspapers	900
	Purchase of news papers	4,000
	Expenses of Musical Show	34,500
	Maintenance of the sports ground	5,600
	Purchase of sports goods	20,000
	Electricity expenses	600
	Stationery expenses	400
	Monetary donations for sportsmen	20,000

Based on the above information the Receipts and Payments Account for year 20xx can be prepared as follows.

Receipts and Payments account
For the year ended 31/12/20xx

Description	Amount Rs.	Description	Amount Rs.
Balance b/f 01/01/20xx	4,350	News papers	4,000
Membership Fees	35,000	To the musical show	34,500
From Musical Show	46,000	Maintenance of the ground	5,600
Donations received	25,000	Purchase of sports goods	20,000
Sale of old newspapers	900	Electricity expenses	600
		Stationery expenses	400
		Donations for sportsmen	20,000
		Balance c/d 31/12/20xx	26,150
	111,250		111,250
Balance b/f	26150		



Activity 3

Following information relates to Miniketa Children's Association for the month of January 20xx. As presented by its treasurer Supuni

Number of members: 200

Monthly membership fees	Rs. 10
Purchase of 02 pens	Rs. 50
Purchase of 02 exercise books	Rs. 120
Purchase of a flower pot	Rs. 70
Purchase of stationery for children's magazine	Rs. 400
Binding of magazines	Rs. 300
Sale of magazines	Rs. 1,100
Money to be received by sale of magazines to Nagoda Vidyayathanaya	Rs. 300

President of the Association Mr. Kadeer has purchased 2 ink bottles worth of Rs. 220 for the magazine using his money. Jeewantha, Hakeem, Sukendra, Sinal, Colvin had not paid membership fees at 31st January.

Prepare the Receipts and Payments account as at 31/01/20xx.



Activity 4

The treasurer of Pera Maga Sports Club has recorded the receipt and payment of money in a diary as follows. Based on the recordings prepare the receipts and payments account of the Sports Club for the first three months of the year 20xx.

According to the treasurer the cash in hand as at 1st January 20xx is Rs. 9,250.

Date	Description	Amount	Date	Description	Amount
1/1	Paid rent	300/-	2/1	paid rent	300/-
1/3	membership fees	450/-	2/4	expences for anniversary	2000/-
1/4	membership fees	200/-	2/7	membership fees	700/-
1/7	electricity bill	350/-	2/9	anniversary expences	1000/-
1/9	Salaries	600/-	2/11	Selling news papers	250/-
1/10	purchased a ball	750/-	2/20	membership fees	750/-
1/14	administrative salaries	1000/-	2/23	anniversary expences	230/-
1/16	membership fees	4000/-	2/26	electricity bill	120/-
1/20	refreshment expences	720/-	2/28	membership fees	1050/-
1/24	membership fees	950/-	3/2	donation (cash)	4000/-
1/27	water bill	200/-	3/10	anniversary income	9000/-
1/30	news papers	620/-	3/16	membership fees	950/-
1/31	sports equipment	3000/-	3/28	anniversary income	2050/-

Income and Expenditure Account

The account prepared by Not for Profit Organisations to calculate the results of their activities in a certain period of time is called the Income and Expenditure account. It is similar to the Profit and Loss account of For Profit organisations. Therefore the rules we use to prepare the Profit and Loss account have to be used in preparing the Income and Expenditure account.

The final balance of this account is termed as the **surplus** or the **deficit**. The excess income over expenditure is the surplus; the excess expenditure over income is the deficit. The surplus or the deficit is transferred to the **accumulated fund**.

In Not for Profit Organisations the excess incomes over its expenditure are gathered to the accumulated fund. If there are deficits the fund will be reduced. The accumulated fund shows the financial strength of the association.

In not for profit organisations the income sources are similar. However their expenditures differ according to the main objectives they try to achieve.

Example : ◉ Funeral Welfare Associations – Expenditure on funerals

Past Pupils' Association	– Expenditure on development of the school
Sports Associations	– Expenditure on improvement of sport activities

Example : ◉ The treasurer of Daham Maga Buddhist Association has forwarded following information for the year ended 31/12/20xx.

Membership fees received	5,600
Monetary donations received	9,000
Refreshments	6,000
For Buddhist activities	4,500
Electricity bill	1,200
Purchase of newspapers	2,000
Sale of newspapers	160
Donations made	2,000

With the following information let us prepare the Income and Expenditure account.

- | | |
|---|-----------|
| i. Membership fees to be received for the accounting period | Rs. 2,100 |
| ii. Electricity bill to be paid as at 31/12/20xx | Rs. 300 |

Debit		Income and Expenditure account		Credit	
Refreshments	6,000	Membership fees	7,700		
Buddhist activities	4,500	Monetary donations	9,000		
Electricity bill	1,500	Sale of newspapers	160		
Purchase of newspapers	2,000				
Donations made	2,000				
Surplus credited to accumulated fund	860				
	16,860				16,860



Activity 5

Following is the receipts and payments account of Sarana sports association for the year ended 31/12/20xx.

Debit		Receipt and Payment Account		Credit	
Balance as at 01/01/20xx	19,800	Concert expenses	11,250		
Membership fees	24,200	Purchase of newspapers	2,000		
Concert income	16,000	Annual scholarships	10,000		
Monetary donations	4,000	Building rent	4,000		
		Ground maintenance	3,000		
		Sports instructor salaries	12,000		
		Electricity bill	700		
		Telephone bill	1,300		
		Purchase of sports equipment	5,000		
		Balance c/d	14,750		
	64,000				64,000
Balance b/d	14,750				

- Prepare the Income and Expenditure account for the Sarana sports association for the year ended 31/12/20xx.
- If the accumulated fund is Rs.12,700 as at 01/01/20xx, show how it will change at 31/12/20xx.



Activity - 6

The Secretary of Nilwala Readers Association has forwarded the following information relevant to the year 20xx.

Number of members - 200

The annual membership fee is Rs.100

The annual membership fees not yet received as at 31/12/20xx is Rs.1,500

Following transactions occurred during the year.

Cash receipts	Rs.
Readers fines	530
Anniversary income	4,800
Cash payments	
Employee salaries	15,000
Electricity	3,200
Water bills	600
Light bulbs	3,100
As at 01/01/20xx	
Cash	500
Building	20,000
As at 31/12/20xx	
Cash	2,430
Building	18,000

Assume that you are the Treasurer of the Association. Based on the above information prepare the following accounts as at 31/12/20xx.

- i. Receipts and payments account
- ii. Income and expenditure account



Activity - 7

- i. Prepare a list of services a welfare society can do for the wellbeing of its' community.
- ii. Write briefly how the above services can be implemented.