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Financial Statements of Not-for Profit Organisations

Question 1

Explain the accounting treatment of donation received for specific purpose in the case of charitable society.

(4 Marks) (May, 2007)

Answer

Donations may have been raised either for meeting some revenue or capital expenditure; those intended for the first mentioned purpose are credited directly to the Income and Expenditure Account but others, if the donors have declared their specific intention, are credited to special fund account and in the absence thereof, to the Capital Fund Account. If any investments are purchased out of a special fund or an asset is acquired therefrom, these are disclosed separately. Any income received from such investments or any donations collected for a special purpose are credited to an account indicating the purpose and correspondingly the expenditure incurred in carrying out the purpose of the fund is debited to this account. On no account any such expense is charged to the Income and Expenditure Account. The term "Fund" is strictly applicable to the amounts collected for a special purpose when these are invested, e.g. Scholarship Fund, Prize Fund etc. In other cases, when the amounts collected are not invested in securities or assets distinguishable from those belonging to the institution, the word "Account" is more appropriate e.g. Building Account, Tournament Account etc.

Question 2

Following is the Receipts and Payments Account of Mayur Club for the year ended 31st March, 2008:

<i>Receipts</i>	<i>Rs.</i>	<i>Payments</i>	<i>Rs.</i>
<i>Opening balance (1.4.2007)</i>		<i>Payments:</i>	
<i>Cash on hand</i>	39,100	<i>Sports materials</i>	3,04,500
<i>Cash at bank</i>	50,000	<i>Salaries</i>	3,15,000
<i>Receipts:</i>		<i>Equipment purchased on 1.10.2007</i>	60,000
<i>Subscriptions</i>		<i>Bank fixed deposits on 31.3.2008</i>	1,50,000
<i>For the year 2006-07</i>	18,000	<i>Rent</i>	1,48,500
<i>For the year 2007-08</i>	9,63,000	<i>Ground maintenance</i>	22,120
<i>For the year 2008-09</i>	4,500	<i>Insurance</i>	38,400
<i>Interest on bank</i>		<i>Stationery</i>	3,450
<i>Fixed deposits</i>	45,000	<i>Sundry expenses</i>	5,880
<i>@10%</i>			
		<i>Closing balance as on 31.3.2008</i>	
		<i>Cash on hand</i>	31,750
		<i>Cash at bank</i>	40,000
	<u>11,19,600</u>		<u>11,19,600</u>

Following additional information is provided to you:

- (i) The club has 220 members. The annual subscription is Rs.4,500 per member.

- (ii) Depreciation to be provided on furniture at 10% p.a. and on sports equipment at 15% p.a.
- (iii) On 31st March, 2008, stock of sports material in hand (after members use during the year) is valued at Rs.78,000 and stock of stationery at Rs.3,150. Rent for 1 month is outstanding. Unexpired insurance amounts to Rs.9,600.

- (iv) On 31st March, 2007 the club had the following assets:

Furniture	Rs.	2,70,000
Sports equipment	Rs.	1,80,000
Bank fixed deposit	Rs.	4,50,000
Stock of stationery	Rs.	1,500
Stock of sports material	Rs.	73,500
Unexpired insurance	Rs.	8,400
Subscription in arrear	Rs.	22,500

Note: There was no liability on 31.3.2007.

You are required to prepare:

- (i) Income and Expenditure Account; and
- (ii) Balance Sheet as at 31st March, 2008.

(16 Marks) (May, 2008)

Answer

Mayur Club

- (i) **Income and Expenditure Account for the year ended 31.3.2008**

Expenditure		Rs.	Income		Rs.
To	Sports Material used		By	Subscription (W.N.2)	9,90,000
	Opening stock	73,500	By	Interest on fixed deposit	45,000
	Add: Purchases	<u>3,04,500</u>			
		3,78,000			
	Less: Closing stock	<u>78,000</u>			
		3,00,000			
To	Salaries	3,15,000			
To	Rent	1,48,500			
	Add: Outstanding (W.N.6)	<u>13,500</u>			
		1,62,000			
To	Ground maintenance	22,120			

To Insurance	38,400		
Less: Unexpired on 31.3.08	<u>9,600</u>		
	28,800		
Add: Unexpired on 1.4.07	<u>8,400</u>	37,200	
To Stationery used			
Opening stock	1,500		
Add: Purchases	<u>3,450</u>		
	4,950		
Less: Closing Stock	<u>3,150</u>	1,800	
To Sundry expenses		5,880	
To Depreciation on			
Furniture	27,000		
Sports equipment	<u>31,500</u>	58,500	
To Excess of income over expenditure		<u>1,32,500</u>	
		<u>10,35,000</u>	<u>10,35,000</u>

Balance Sheet as at 31st March, 2008

<i>Liabilities</i>		Rs.	<i>Assets</i>		Rs.
Capital fund:			Equipments:	Opening	1,80,00
			balance		0
Opening balance (W.N.1)	10,95,00		Add: Addition		<u>60,000</u>
Add: Excess of					2,40,00
income over expenditure	<u>1,32,500</u> 0	12,27,500	Less: Depreciation (W.N.5)		<u>31,500</u> 0
Rent outstanding (W.N.6)		13,500	Furniture:		2,70,00
					0
Subscription received in advance for 2008-09		4,500	Less: Depreciation		<u>27,000</u> 0
			Sports material		78,000
			Stock of stationery		3,150
			Fixed deposit in bank		

	(4,50,000 + 1,50,000)	6,00,000
		0
	Subscription in arrears:	
	For 2006-07 (W.N.3)	4,500
	For 2007-08 (W.N.4)	<u>27,000</u>
	Prepaid insurance (unexpired)	9,600
	Cash on hand	31,750
	Cash at bank	
		<u>40,000</u>
	<u>12,45,500</u>	<u>12,45,500</u>

Working Notes:

1.

Balance Sheet as at 31.3.2007

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
Capital fund (Bal. fig.)	10,95,000	Sports equipment	1,80,000
		Furniture	2,70,000
		Sports materials	73,500
		Stock of stationery	1,500
		Fixed deposits in bank	4,50,000
		Subscription in arrears	22,500
		Prepaid insurance (unexpired)	8,400
		Cash on hand	39,100
		Cash at bank	<u>50,000</u>
	<u>10,95,000</u>		<u>10,95,000</u>

2. **Income on account of subscription**

Rs.

220 members @ Rs.4,500 each 9,90,000

3. **Subscription still in arrears of 2006-2007**

Opening balance of subscription in arrears (as on 1.4.2007) 22,500

Less: Arrears subscription of 2006-07 received during the year 2007-08 18,000

Subscription of 2006-07 still in arrears as on 31.3.2008 4,500

4. Subscription in arrear on 31.3.2008

Subscription for the year 2007-08	9,90,000
Less: Subscription received for the year	<u>9,63,000</u>
Subscription in arrears for 2007-08	<u>27,000</u>

5. Depreciation on sports equipment

On Rs.1,80,000 @ 15% for full year	27,000
On Rs.60,000 @ 15% for 6 months	<u>4,500</u>
Total	<u>31,500</u>

6. Outstanding rent of 2007-2008

Outstanding rent = $\frac{\text{Rs.1,48,500}}{11\text{months}} \times 1\text{month}$	<u>13,500</u>
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Question 3

What is "Fund Based Accounting" under not-for-profit organisations?

(2 Marks) (November, 2008)

Answer

Fund based accounting essentially involves preparation of financial statements fund-wise. Not-for-profit organizations, particularly educational institutions, sometimes maintain separate account or fund for any specific activities of the organization such as sports prizes, refreshments, and in that cases presentation of information in Financial Statements is made fund wise. In such cases, contribution and donations for income from and expenses on those activities are not recorded in Income and Expenditure account but are directly adjusted in Specific Fund account.

Question 4

Following is the Receipts and Payments Account of Nanoo Club for the year ended 31st March, 2009:

Receipts	Amount (Rs.)	Payments	Amount (Rs.)
Opening balance:		Salaries	1,20,000
Cash	10,000	Creditors	15,20,000
Bank	3,850	Printing and stationery	70,000
Subscription received	2,02,750	Postage	40,000
Entrance donation	1,00,000	Telephone and fax	52,000
Interest received	58,000	Repairs and maintenance	48,000
Sale of fixed assets	8,000	Glass and table linen	12,000
Miscellaneous income	9,000	Crockery and cutlery	14,000
Receipts at coffee room	10,70,000	Garden upkeep	8,000
Wines and spirits	5,10,000	Membership fees	4,000
Swimming pool	80,000	Insurance	5,000

Tennis court	1,02,000	Electricity	28,000
		Closing balance:	
		Cash	8,000
		Bank	<u>2,24,600</u>
	<u>21,53,600</u>		<u>21,53,600</u>

Following additional information is provided to you:

(i) Assets and liabilities as on 31.3.2008 were as follows:

	Rs.
Fixed assets	5,00,000
Stock	3,80,000
Investment in 12% Government securities	5,00,000
Outstanding subscription	12,000
Gratuity fund	1,50,000
Prepaid insurance	1,000
Sundry creditors	1,12,000
Subscription received in advance	15,000
Entrance donation received pending membership	1,00,000

(ii) Subscription received in advance as on 31.3.09 was Rs.18,000.

(iii) Outstanding subscription as on 31.3.09 was Rs.7,000.

(iv) Outstanding expenses as on 31.3.09 are:

Salaries	:	Rs.8,000
Electricity	:	Rs.15,000

(v) 50% of the entrance donation was to be capitalized. There was no pending membership as on 31.3.09.

(vi) The cost of assets sold as on 1.4.08 was Rs.10,000.

(vii) Depreciation was provided @ 10% p.a. on fixed assets on written down value basis.

(viii) A sum of Rs.20,000 received in October, 2008 as entrance donation from an applicant was to be refunded, as he has not fulfilled the requisite membership qualification. The refund was made on 3.6.09.

(ix) Purchases made during the year 2008-09 amounted to Rs.15,00,000.

(x) The value of closing stock as on 31.3.09 was Rs.2,10,000.

(xi) The Club as a matter of policy charges off to Income and Expenditure account, all purchases made on account of crockery, cutlery, glass and linen in the year of purchase.

You are required to prepare:

(i) Income and Expenditure account for the year ended 31st March, 2009.

(ii) Balance Sheet as on 31st March, 2009.

(20 Marks) (June, 2009)

Answer

**Income and Expenditure Account of Nanoo club
for the year ended 31st March, 2009**

<i>Expenditure</i>	<i>Amount</i> <i>(Rs.)</i>	<i>Income</i>	<i>Amount</i> <i>(Rs.)</i>
To Salaries (W.N.8)	1,28,000	By Subscriptions (W.N.2)	1,94,750
To Printing and stationery	70,000	By Entrance donation (W.N.3)	90,000
To Postage	40,000	By Interest (W.N.4)	60,000
To Telephone & fax	52,000	By Miscellaneous income	9,000
To Repairs and maintenance	48,000	By Profit from operations (W.N.6)	92,000
To Glass and table linen	12,000	By Excess of expenditure over	
Crockery and cutlery	14,000	income transferred to capital	
		fund (deficit)	30,250
To Garden upkeep	8,000		
To Membership fees	4,000		
To Insurance (W.N.5)	6,000		
To Electricity charges (W.N.8)	43,000		
To Loss on sale of assets (10,000 – 8,000)	2,000		
To Depreciation (W.N.9)	<u>49,000</u>		
	<u>4,76,000</u>		<u>4,76,000</u>

**Balance Sheet of Nanoo Club
as on 31st March, 2009**

<i>Liabilities</i>	<i>Amount</i> <i>(Rs.)</i>	<i>Assets</i>	<i>Amount</i> <i>(Rs.)</i>
Capital fund(W.N.10)	10,89,600	Fixed assets (W.N.9)	4,41,000
Gratuity fund	1,50,000	Stock	2,10,000
Sundry creditors (W.N.7)	92,000	Investments in 12%	
Subscription received in advance	18,000	Government securities	5,00,000
Entrance donation refundable	20,000	Subscription outstanding	7,000
Outstanding salary	8,000	Interest accrued (W.N.4)	2,000
Outstanding electricity charges	15,000	Bank	2,24,600
		Cash	<u>8,000</u>
	<u>13,92,600</u>		<u>13,92,600</u>

Working Notes:

(1)

**Opening Balance Sheet
as on 1st April, 2008**

<i>Liabilities</i>	<i>Amount (Rs.)</i>	<i>Assets</i>	<i>Amount (Rs.)</i>
Capital fund (Bal.Fig.)	10,29,850	Fixed assets	5,00,000
Sundry creditors	1,12,000	Stock	3,80,000
Subscription received in advance	15,000	Investment in 12% Government securities	5,00,000
Entrance donation received in advance (pending membership)	1,00,000	Subscription outstanding	12,000
Gratuity fund	1,50,000	Prepaid insurance	1,000
		Cash	10,000
		Bank	<u>3,850</u>
	<u>14,06,850</u>		<u>14,06,850</u>

(2)

Subscription

Rs.

Subscription received during the year	2,02,750
Add: Outstanding subscription on 31.3.2009	7,000
Add: Received in advance as on 1.4.2008	<u>15,000</u>
	2,24,750
Less: Outstanding subscription as on 1.4.2008	(12,000)
Less: Received in advance as on 31.3.2009	<u>(18,000)</u>
	<u>1,94,750</u>

(3)

Entrance Donation

Rs.

Entrance Donation received during the year	1,00,000
Add: Received in Advance as on 1.4.2008	<u>1,00,000</u>
	2,00,000
Less: Refundable to Ineligible Member	<u>20,000</u>
	1,80,000
Less: 50% Capitalized	<u>90,000</u>
	<u>90,000</u>

(4)

Interest received

Rs.

Interest on Rs.5,00,000 @ 12% p.a.	60,000
Less: Interest received during the year	<u>58,000</u>
Interest accrued as on 31.3.2009	<u>2,000</u>
Interest credited to Income and Expenditure A/c	<u>60,000</u>

(5)

Insurance

Rs.

Insurance paid during the year	5,000
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	<i>Add:</i> Prepaid Insurance as on 1.4.2008	<u>1,000</u>
		<u>6,000</u>
(6)	Profit from Operations	Rs.
	<u>Cost of Goods sold</u>	
	Opening Stock as on 1.4.2008	3,80,000
	<i>Add:</i> Purchases	<u>15,00,000</u>
		18,80,000
	<i>Less:</i> Closing Stock	<u>2,10,000</u>
	Cost of Goods Sold (A)	<u>16,70,000</u>
	<u>Receipts from operations</u>	
	Receipts from Coffee Room	10,70,000
	Receipts from Wines & Sprints	5,10,000
	Receipts from Swimming Pool	80,000
	Receipts from Tennis Court	<u>1,02,000</u>
	Total of Receipts (B)	<u>17,62,000</u>
	Profit from Operations (B-A)	<u>92,000</u>
(7)	Sundry Creditors	
	Opening Balance as on 1.4.2008	1,12,000
	<i>Add:</i> Purchases made during the year	<u>15,00,000</u>
		16,12,000
	<i>Less:</i> Payment made during the year	<u>15,20,000</u>
	Closing Balance as on 31.3.2009	<u>92,000</u>
(8)	(a) Salary	
	Salary paid as on 31.3.2009	1,20,000
	<i>Add:</i> Outstanding Salary as on 31.3.2009	<u>1,28,000</u>
		<u>8,000</u>
	(b) Electricity charges	28,000
	<i>Add:</i> Outstanding Electricity charges as on 31.3.2009	<u>43,000</u>
		<u>15,000</u>
(9)	Fixed Assets	
	Fixed Assets as per Trial Balance	5,00,000
	<i>Less:</i> W.D.V. of Assets sold	<u>10,000</u>
		4,90,000
	<i>Less:</i> Depreciation @ 10% on Rs.4,90,000	<u>49,000</u>

Fixed Assets as on 31.3.2009	<u>4,41,000</u>
(10) Capital fund	<i>Rs.</i>
Capital fund as on 31.3.2008	10,29,850
<i>Add:</i> Entrance donation capitalized	<u>90,000</u>
	11,19,850
<i>Less:</i> Deficit	<u>30,250</u>
	<u>10,89,600</u>