

CHAPTER FOURTEEN ACCOUNTS FOR NOT-FOR-PROFIT ORGANIZATIONS

CHAPTER OUTLINE

- ❖ Not for profit organizations
- ❖ Receipt and payment accounts
- ❖ Income and expenditure accounts
- ❖ Statement of financial position
- ❖ Bar trading accounts.
- ❖ Accumulated fund
- ❖ Differences between receipt and payment and income and expenditure accounts
- ❖ Difference between profit and not-for-profit organizations
- ❖ Sources of income for not-for-profit organizations.

Learning Objectives:

At the end of this chapter, the student should be able to:

- Differentiate between profit and not-for-profit organizations.
- Prepare a receipt and payment accounts.
- Prepare income and expenditure accounts.
- Determine the accumulated fund of not-for-profit organizations.
- Prepare bar trading accounts.

14.1 NOT-FOR-PROFIT ORGANIZATIONS

Not-for-profit organizations can also be referred to as non-profit making organizations or non-commercial organizations. They are those organizations established primarily not to make profits. Their main purpose is to render services to the general public or to some group of people. They are not established for the purpose of buying and selling in order to make profit, rather they are formed to achieve other objectives. Such organizations include, charitable organizations, religious organizations, social clubs such as New Line Up Club, Football Clubs, Town Unions, Age Grades, Professional Bodies such ICAN, ANAN, CITN e.t.c. They exist for the welfare of their members and/or general public.

It is therefore, inappropriate to prepare statement of comprehensive income for not-for-profit organizations since they do not exist to make profits. The kind of final accounts prepared by these organizations are receipt and payment accounts; and income and expenditure accounts.

14.2 RECEIPT AND PAYMENT ACCOUNTS

These accounts are merely summary of the cash book. It has in its debit side, all cash receipts and in its credit all payments and expenses. This generally includes payments of capital and revenue nature.

14.3 INCOME AND EXPENDITURE ACCOUNTS

These are prepared like the statement of comprehensive income. It contains only revenue items. All revenue expenditures and losses are debited while income and gains are credited in this account. The difference between income and expenditure sides of this account of an organization is known as either surplus or deficit depending on whether the credit side is greater than the debit side or vice versa respectively.

14.4 STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)

This is prepared by all not-for-profit organizations to disclose the accumulated fund as at the end of the period.

14.5 BAR TRADING ACCOUNTS

The other account that may be prepared by not-for-profit organizations is

the bar trading accounts. This account is prepared where a non-trading organization undertakes a permanent fund raising activity like running a bar or restaurant. In such a situation, a bar trading account is prepared to record the transactions.

14.6 ACCUMULATED FUND

This is a term commonly used to describe the capital of non-trading organizations. It represents the net value of the organization at the beginning of a financial period, i.e. assets less liabilities. In a profit making organization, the accounting equation is $\text{Assets} = \text{Capital} + \text{Liabilities}$ while in non profit making organizations, the accounting equation is $\text{Assets} = \text{Accumulated Fund} + \text{Liabilities}$.

14.7 DIFFERENCES BETWEEN RECEIPT AND PAYMENT AND INCOME AND EXPENDITURE ACCOUNTS

Some basic differences between receipt and payment accounts and income and expenditure accounts are shown below:

RECEIPT AND PAYMENT ACCOUNTS	INCOME AND EXPENDITURE ACCOUNTS
1. Maintained on cash basis.	Maintained on accrual basis.
2. Include both capital expenditure and capital income.	Include only revenue items.
3. Aim at determining the cash in hand or at bank at the end and it is shown as such in the statement of financial position.	Aim at finding the surplus or deficit from its operation at the end and it is added or subtracted from the accumulated fund in statement of financial position.

14.8 DIFFERENCES BETWEEN PROFIT AND NOT-FOR-PROFIT ORGANIZATIONS

The following differences exist between profit and not-for-profit organizations:

PROFIT MAKING ORGANIZATIONS	NOT-FOR-PROFIT ORGANIZATIONS
1. Main purpose is to make profit	Main purpose is not to make profit but to render services
2. Prepare income statement/statement of comprehensive income	Prepare income and expenditure accounts.
3. Main source of revenue is from sale of goods and services.	Main source of revenue is from membership subscription fees.
4. Net income is taxable.	Net income is exempted from tax in many countries.
5. Net profit or Net Income/Net loss is the end result.	Surplus or deficit is the end result.
6. Capital, Owner's equity or Shareholders' equity is used to describe their capital.	Accumulated fund is used to describe their capital.
7. Accounting equation here is $\text{Capital} + \text{Liabilities} = \text{Assets}$	Accounting equation here is $\text{Accumulated fund} = \text{Liabilities} + \text{Assets}$.
8. Profit is distributable to owners or shareholders.	Surplus not distributable but kept for growth and expansion of the organization.
9. May be owned by a single owner (sole proprietor) or by partners (Partnership) or by shareholders (Company).	No one person owns not-for-profit organizations.

14.9 SOURCES OF INCOME FOR NOT-FOR-PROFIT ORGANIZATIONS

In most cases, sources of income for not-for-profit organizations include:

1. Membership subscription fees
2. Donations
3. Fines
4. Special event fees
5. Gate fees
6. Raffle draws, e.t.c.

Illustration 14.1.

Below is the summary of receipts and payments of New Line Up Club for the year ended 31st December, 2010.

	N
Balance as at 1 st January	24,155
Entrance fees received	2,500
Subscription received	150,000
Donations received	2,100
Proceeds of dance	18,075
Interest received on bank deposit	6,000
Wages paid	36,150
Stationery bought	4,895
Equipment bought	20,000
Repairs	8,086
General expenses	24,448
Rates	5,000
Transfer to bank deposit	60,000

Additional information:

- i. Of the subscription received N4, 000 was in arrears the previous year while N10, 000 was paid in advance for the coming year. In addition, N6000 was still being owed as at 31st, December.
- ii. Rates prepaid amount to N1,000
- iii. General expenses include N5, 000 owing since the previous year.
- iv. Wages of N2,400 were due but unpaid as at 31st December.
- v. The club had the following properties on 1st January:

Club House	N48,000
Equipment	N300,000
Bank deposit	N200,000

vi. Depreciate club house by 5%; and equipment including addition within the year, by 10%

You are required to prepare:

- Receipt and payment account
- Income and expenditure account
- Statement of financial position of New Line Up Club as at 31st December, 2010.

Solution 14.1

New Line Up Club's

Receipt and Payment Account for the year ended 31st December, 2010.

Balance 1 st January	N 24,155	Wages	N 36,150
36,150		Stationery	4,895
Entrance fees	2,500	Equipment	20,000
Subscription:		Repairs	8,086
-Previous Year	4,000	General expenses	24,448
-Current Year (150,000 - 10,000 - 4,000)	136,000	Rates	5,000
In Advance	10,000	Bank deposit	60,000
Donations	2,100	Balance c/d	44,251
Dance proceeds	18,075		
Interest on bank deposit	6,000		
	<u>202,830</u>		<u>202,830</u>

New Line Up Club's

Income and Expenditure account for the year ended 31st December, 2010.

Wages (36,150 + 2,400)	38,550	Entrance fees	2,500
Stationery	4,895	Subscription (Wks1)	142,000
Repairs	8,086	Donations	2,100
General expenses (24,448 - 5,000)	19,448	Dance proceeds	18,075
Rates (5,000 - 1,000)	4,000	Interest on deposit	6,000
Depreciation:			
Club house	24,000		
Equipment	<u>32,000</u>		
Net surplus to accumulated fund	39,696		
	<u>170,675</u>		<u>170,675</u>

Workings 1:

Computation of Subscriptions

Jan 1 Balance b/f	N 4,000	Jan - Dec. Receipt	N 150,000
Dec 31 Income & Exp.	142,000	Dec 31 (Amt in Arrears)	<u>6,000</u>
Dec 31 Bal. Amt pd in Adv.	<u>10,000</u>		
	<u>156,000</u>		<u>156,000</u>
Jan 1 Bal b/d	6,000	Jan 1 bal b/d	10,000

New Line UP Club's

Statement of financial position as 31st December, 2010

Accumulated Fund:	N	Club house	N 480,000
Bal 1 st Jan.	1,003,155	Less Depre.	<u>24,000</u> 456,000
Add Surplus	39,696	Equipment	300,000
Subscription in advance	10,000	Addition	<u>20,000</u>
Wages accrued	<u>2,400</u>		320,000
		Less depre.	<u>32,000</u> 288,000
		Subsc. in arrears	6,000
		Rates pre-paid	1,000
		Bank dep. (60,000 + 200,000)	260,000
		Cash balance	<u>44,251</u>
	<u>1,055,251</u>		<u>1,055,251</u>

Workings 2. Calculation of Accumulated Fund.

Assets as at 1 st January:	N
Club house	480,000
Equipment	300,000
Bank deposit	200,000
Subscription in arrears	4,000
Cash balance	24,155
	<u>1,008,155</u>
Less sundry liabilities:	
Expenses owing	5,000
	<u>1,003,155</u>

Illustration 14.2

The following relates to the receipt and payment accounts of Udeno Social Club for the year ended 31st December, 2012.

Udeno Social Club's
Receipt and payment Account

N		N	
Bank/cash balance (1/1/12)	13,400	Creditors for liquor	70,750
Subscriptions	42,250	New furniture	3,000
Sale of liquor	92,000	Dance & Social expenses	13,450
Sale of old furniture	750	Rent and Rates	10,000
Dance and social	17,350	Salaries	46,000
		Electricity	5,300
		Insurance premium	400
		Postage	900
		Bank bal. 31/12/12	15,950

Additional information was given as follows:

- | | At 31 st Dec, 2012 | At 1 st Jan 2012. |
|------------------------------|-------------------------------|------------------------------|
| | N | N |
| i. Cash at bank | 15,950 | 13,400 ✓ |
| Liquor stock | 9,000 | 10,500 ✓ |
| Subscription in arrears | 2,250 | 1,000 ✓ |
| Insurance premium paid | 200 | 150 ✓ |
| Furniture and equipment. | ? | 13,400 21500 ✓ |
| Creditors of liquor | 8,750 | 7,500 ✗ |
| Outstanding electricity bill | 1,350 | 1,350 |
- ii. Subscription received in the year ended 31st December, 2012 include N750 relating to the previous year. The remainder of the subscription for the year was written off as bad debt.
- iii. The old furniture sold during the year had a book value of N450 as at the date of sale.
- iv. Depreciation of N1, 250 is to be written off furniture and equipment.

Required: Prepare:

- A statement of accumulated fund as at 1st January, 2012
- Bar trading account for the year ended 31 December, 2012
- Income and expenditure account for the year ended 31 December 2012
- Statement of financial position as at that date.

Solution 14.2

(a) Udeno Social club's
Statement of accumulated fund as at 1st January, 2012.

Assets:		N	
Furniture and equipment			21,512
Liquor stock			10,500
Subscription in arrears			1,000
Prepaid insurance premium			150
Cash at bank and in hand		13,400	
			16,550
Less Liabilities:			
Creditors for liquor			7,500
Accumulated fund as at 1 January, 2012			<u>19,050</u>

(b) Udeno Social Club's
Bar trading account for the year ended 31st December, 2012.

	N	N
Sales		92,000
Less cost of sales:		
Opening stock	10,500	
Purchases (wk. 1)	72,000	
Closing stock	82,500	
Bar profit	(9,000)	<u>73,500</u>
		<u>18,500</u>

(c) Udeno Social Club's
Income and expenditure account for the year ended 31st December, 2012.

	N	N
Income:		
Bar profit		18,500
Subscription (Wk 2)		43,750
Profit on disposal of furniture		300
Dances & Socials (Wk. 4)		<u>3,900</u>
Less expenditure		66,450
Depreciation on fixtures and equipment	1,250	
Bad debt (1,000 - 750)	250	
Insurance (Wk 5)	350	
Rent & Rates	1,000	
Salaries	46,000	
Electricity (5,300 + 1,350)	6,650	
Postage	900	
Surplus	(65,400)	<u>1,050</u>

(d) Udeno Social Club's
Statement of financial position as at 31st December, 2012.

	N	N	N
Non - current asset:			
Furniture and equipment (wk.6)			22,800
Current Assets:			
Stock of liquor		9,000	
Subscription in arrears		2,250	
Prepaid insurance		200	
Cash at bank		15,950	
		<u>27,400</u>	
Less current liabilities:			
Creditors	8,750		
Accrued electricity	1,350	(10,100)	
Net Assets.			<u>17,300</u>
Financed By:			
Accumulated fund 1 st January, 2012			39,050
Surplus for the year			<u>1,050</u>
			<u>40,100</u>

Workings 1: Purchases

	N	N
Cash book	70,750	
Bal c/d	8,750	
	<u>79,500</u>	
		N
Bal b/d		7,500
Bar Purchases*		<u>72,000</u>
		79,500
Bal c/d		<u>8,750</u>

Workings 2: Subscription

	N	N
Bal b/d	1,000	
Income and Exp *	43,750	
	<u>44,750</u>	
Bal b/d	2,250	
		N
cash book		42,250
Bad debt (1,000 - 750)		250
Bal c/d		<u>2,250</u>
		44,750

Workings 3: Disposal of furniture:

Disposal Account			
	N		N
Furniture and Equipment	450	Cash book	750
Income and Exp	300		
	<u>750</u>		<u>750</u>
Bal b/d	750		

Workings 4: Dances and socials

Dances and Socials Account			
	N		N
Cash book (Exp.)	13,450	Cash book	17,350
Income and Exp.	3,900		
	<u>17,350</u>		<u>17,350</u>

Workings 5: Insurance Premium

Insurance Premium Account			
	N		N
Bal b/d	150	Income and Exp*	350
Cashbook	400	bal c/d	200
	<u>550</u>		<u>550</u>

Workings 6: Furniture and Equipment

Furniture and Equipment Account			
	N		N
Bal b/d	21,500	Disposal	450
Cash book (New Furniture)	3,000	(Income and Exp) Depreciation	1,250
	<u>24,500</u>		
Bal b/d	22,800	Bal c/d	22,800
			<u>24,500</u>