UNIT-2

Accounts for Non-Trading Organizations

Introduction, Meaning of Trading and Non-Trading Organisation - Need of Accounts and Books of Accounts of Non-Trading Organisation Distinctive Classification of Capital-Revenue and Deferred transaction - Exceptions and Debatable points in Expense and Incomes -Receipts and Payment Account & Income and Expenditure Account-Preparing Income - Expenditure Account from Receipt Payment Account -Preparing Receipt- Payment Account from Income Expenditure Account - Preparing Opening and Closing Balance sheet form Receipt-Payment Account and Income Expenditure Account

Introduction:

A Non-Trading Organisation (NTO) is an organisation formed not for earning profit, but for promoting social, educational, religious, cultural, charitable, sports, or other welfare activities.

The main objective of such organisations is to provide services to their members or society, rather than to earn and distribute profits.

Examples: Charitable trusts, clubs, schools, colleges, hospitals, libraries, sports clubs, and religious institutions.

Unlike business organisations, their main financial statements generally include a Receipts and Payments Account, Income and Expenditure Account, and Balance Sheet.

Meaning:

1.**Trading Organisation:**

A trading organisation is an organisation established mainly with the objective of earning profit through business or commercial activities such as buying and selling goods or providing services. The profit earned is generally distributed among the owners or shareholders.

Examples: Companies, sole proprietorships, partnership firms, etc.

2. **Non-Trading Organisation:**

A non-trading organisation is an organisation established not for earning profit, but mainly to provide services and promote social, educational, religious, charitable, cultural, or recreational objectives.

Examples: Schools, colleges, hospitals, clubs, libraries, charitable institutions, and religious organisations.

Books of Accounts of a Non-Trading Organisation:

A Non-Trading Organisation maintains books of accounts to record its receipts, payments, income, expenses, assets and liabilities. Since its main objective is not to earn profit, its accounting system is different from that of a trading organisation. The books maintained are as follows:

1. **Cash Book:** It records all cash and bank receipts and payments. It is the basic book for recording day-to-day financial transactions.

2. **Receipts and Payments Account:** It is a summary of all cash and bank transactions during an accounting period. It includes both capital and revenue receipts and payments. It records receipts and payments irrespective of the period to which they relate.

3. **Income and Expenditure Account**: It is prepared to determine the surplus or deficit for the accounting year. It records only revenue income and revenue expenditure relating to the current period. It is similar to the Profit and Loss Account of a trading organisation.

4. **Balance Sheet**: It shows the financial position of the organisation at the end of the accounting period. It contains assets, liabilities and the Capital Fund/General Fund.

5. **Other Books Maintained**: Subscription Register, Donation Register, Stock Register, Asset Register, etc.

Need of Accounts:

Although a Non-Trading Organisation is not established for earning profit, it still needs to maintain proper accounts. Accounting helps the organisation manage its funds properly and ensure that its objectives are being achieved.

1. **To maintain systematic records:**
   Accounts provide a systematic record of all receipts, payments, income, expenses, assets and liabilities.

2. **To determine surplus or deficit:**
   The Income and Expenditure Account helps determine whether the organisation has a surplus or deficit during the year.

3. **To know financial position:**
   The Balance Sheet shows the assets, liabilities and capital fund of the organisation at the end of the year.

4. **To control receipts and payments:**
   Proper accounting helps management monitor how much money has been received and how much has been spent.

5. **To prevent misuse of funds:**
   Proper records provide control over the use of donations, subscriptions, grants and other funds and help reduce the possibility of fraud or misuse.

6. **To ensure proper utilisation of funds:**
   Accounts help determine whether funds are being used for the specific purposes for which they were received.

7. **To calculate subscriptions and other income:**
   Accounting helps ascertain the actual income relating to the current accounting period by considering outstanding and advance amounts.

8. **To assist in budgeting and planning:**
   Past accounting information helps management prepare budgets and plan future activities.

9. **To provide information to members and donors:**
   Members, donors, grant providers and other stakeholders can understand how the organisation's funds have been utilised.

10. **To meet legal and regulatory requirements:**
    Many NTOs are required to maintain accounts and prepare financial statements under applicable laws, regulations, or their governing documents.

11. **To facilitate audit:**
    Proper books of accounts provide the necessary records for conducting an audit and verifying the financial transactions.

12. **To support decision-making:**
    Management can use accounting information to make decisions regarding expenditure, activities, investments and future programmes.

Classification of capital and revenue transactions:

Every receipt or expenditure of an organisation is classified into Capital, Revenue, or Deferred Revenue depending on its nature and purpose.

1. **Capital Transaction:** A capital transaction is one that relates to the acquisition or improvement of a long-term asset or provides a benefit for a long period. These are transactions related to long-term assets or permanent sources of funds. Examples: Donation received for construction of a building, Purchase of furniture, Purchase of land, Purchase of equipment, Life membership fees received.

   Accounting treatment:

- Capital expenditure → recorded as an asset in the Balance Sheet.
  Example: Purchase of assets (building, furniture, computer, sports equipment, vehicles, musical instruments, AC system), construction of hall, major improvement, purchase of library books.

- Capital receipts → generally shown in the Balance Sheet/Fund Account, rather than treated as regular income.
  Example: Specific donation, life membership fees, legacies, donation for specific fund, building fund donation, entrance fees, sale of fixed assets, government grant for asset, permanent endowment fund.

2. **Revenue Transaction:** A revenue transaction is a transaction relating to the normal day-to-day activities of the organisation. Examples: Salaries, repairs, maintenance expenses, membership fees, subscription, interest received, etc.

   Accounting Treatment:

- Revenue expenditure→ recorded as expenditure in income and expenditure account.
  Example: Salaries & wages, rent, electricity, printing and stationery, repairs, telephone expenses, annual maintenance expenses, insurance premium, postage & courier, advertising expenses, travelling expenses, audit fees, legal & professional fees, sports expenses, refreshment expenses, cleaning expenses, annual maintenance charges, stationary for members/students.

- Revenue Receipts→ recorded as income in income and expenditure account.
  Examples: membership fees, subscription, entrance fees, interest received, rent received, income from regular activities, general donation, dividend received, tuition/class fees, sports/gym fees, sale of publication, advertisement income, annual function income, canteen income, registration fees.

3. **Deferred Revenue Expenditure:** This is an expenditure that is revenue in nature, but its benefit extends over more than one accounting period. It is not a normal capital expenditure, but the expenditure may be spread over several years where accounting principles permit.
   Examples: Heavy expenditure on a special event, Large-scale promotional expenditure (advt. campaign), Major organisational campaign, heavy initial expenses, preliminary/formation expenses.

Exceptions and Debatable Expenses and Incomes

Some receipts and expenses cannot be classified simply as capital or revenue. Their treatment depends upon the nature and purpose of the transaction.

Item	**Possible Treatment**	**Reason**
Entrance Fees	Capital or Revenue	Depends on rules and nature of organisation
Life Membership Fees	Generally, Capital	Benefit extends over a long period
Donations	Capital or Revenue	Depends on whether donation is specific/general

Item	**Possible Treatment**	**Reason**
Government Grant	Capital or Revenue	Depends upon purpose of grant
Special Fund Contribution	Capital	If received for a specific purpose
Repairs	Revenue	Normal repairs are revenue expenditure
Major Improvement	Capital	If it increases the asset's capacity/useful life
Sale of old asset	Capital receipt	Related to disposal of an asset
Interest on Investments	Revenue income	Regular income from investment
Subscription	Revenue income	Usually, recurring income

Difference Between:

1. Trading and Non-trading Organisation:

Sr. No.	**Basis**	**Trading Organisation**	**Non-trading Organisation**
1.	**Meaning**	An organisation established mainly to carry on business activities and earn profit.	An organisation established mainly to provide services and achieve social, educational, religious, charitable or similar objectives.
2.	**Main Objective**	The primary objective is earning profit.	The primary objective is service or welfare, not profit.
3.	**Nature of Activities**	Engages in commercial activities such as manufacturing, buying, selling or providing services for consideration.	Engages in activities such as education, charity, sports, religion, culture, healthcare, etc.
4.	**Profit Motive**	There is a profit motive.	There is no primary profit motive.
5.	**Use of Surplus/Profit**	Profit may be distributed among owners, partners or shareholders, subject to applicable law.	Surplus is generally retained and used for achieving the organisation's objectives rather than distributed among members.
6.	**Members/Owners**	Usually owned by proprietors, partners or shareholders who	Generally formed by members who join for a

		have an economic interest in the organisation.	common objective and do not have a claim over the surplus as personal profit.
7.	**Capital**	Capital is generally introduced by owners, partners or shareholders.	Funds may come from subscriptions, donations, grants, entrance fees, membership fees, etc.
8.	**Main Sources of Income**	Sales revenue, fees, commission, interest, rent, etc.	Subscriptions, donations, grants, membership fees, entrance fees, legacies, etc.
9.	**Accounting Objective**	Accounts are prepared mainly to determine profit or loss and financial position.	Accounts are prepared mainly to determine the surplus or deficit and financial position.
10.	**Main Revenue Statement**	Trading Account and Profit & Loss Account are generally prepared.	Income and Expenditure Account is generally prepared.
11.	**Receipts & Payments Account**	Normally not a principal final account.	A Receipts and Payments Account is commonly prepared to summarise cash and bank transactions.
12.	**Balance Sheet**	Prepared to show assets, liabilities and capital/equity.	Prepared to show assets, liabilities and capital fund/general fund.
13.	**Treatment of Surplus**	Profit increases owners' capital/equity and may be distributed according to the organisation's structure.	Surplus generally increases the capital fund/general fund.
14.	**Treatment of Deficit/Loss**	Loss reduces capital/equity.	Deficit generally reduces the capital fund/general fund.
15.	**Examples**	Manufacturing companies, trading firms, retail businesses, banks, etc.	Clubs, charitable institutions, educational institutions, libraries, religious institutions, sports associations, etc.
16.	**Performance Measurement**	Performance is mainly measured through profitability and return on investment.	Performance is mainly assessed through the services provided and achievement of objectives, along with financial sustainability.
17.	**Distribution of Assets on Dissolution**	After settling liabilities, the remaining assets may ultimately belong to owners/shareholders, subject to applicable law.	Assets are generally applied according to the organisation's governing rules and applicable law, often for similar charitable/service purposes rather than being distributed as personal profit to members.

2. Receipts and Payment Account and Income and Expenditure Account

Sr. No.	Basis	Receipts & Payments Account	Income & Expenditure Account
1.	**Meaning**	Summary of all cash and bank receipts and payments during the year.	Account prepared to determine surplus or deficit for the year.
2.	**Nature**	Real Account in nature.	Similar to a Profit & Loss Account of a trading organisation.
3.	**Basis**	Prepared on cash basis.	Prepared on accrual basis.
4.	**Objective**	Shows the cash position of the organisation.	Shows the operating result—surplus or deficit.
5.	**Opening Balance**	Always starts with opening cash and bank balance.	No opening cash/bank balance is shown.
6.	**Closing Balance**	Shows closing cash and bank balance.	Does not show closing cash/bank balance.
7.	**Capital Items**	Includes both capital and revenue receipts/payments.	Generally, includes only revenue incomes and expenditures.
8.	**Revenue Items**	Includes actual cash receipts/payments relating to the current or other periods.	Includes revenue income and expenditure relating to the current accounting period, whether received/paid or not.
9.	**Outstanding Items**	Not recorded unless actually paid/received.	Outstanding income and expenditure are included.
10.	**Advance Items**	Included when actually received or paid.	Adjusted to the relevant accounting period.
11.	**Depreciation**	Not recorded because it is a non-cash expense.	Recorded as expenditure.
12.	**Result**	Does not show surplus or deficit.	Shows Surplus or Deficit.
13.	**Period**	Records cash transactions during the accounting period.	Records income and expenditure belonging to the accounting period.
14.	**Starting Point**	Prepared from the cash book.	Usually prepared from the Receipts & Payments Account and additional information.
15.	**Closing Balance**	Closing balance represents cash/bank in hand.	Balance represents Surplus or Deficit, transferred to Capital Fund/General Fund.

3. Capital Expenditure and Revenue Expenditure:

Basis	**Capital Expenditure**	**Revenue Expenditure**
1. Meaning	Expenditure incurred to acquire, construct or improve a long-term asset.	Expenditure incurred for the day-to-day running and maintenance of the organisation.
2. Purpose	To acquire or improve an asset or obtain a long-term benefit.	To maintain the existing operations of the organisation.
3. Benefit	Benefit generally extends over more than one accounting period.	Benefit is generally consumed during the current accounting period.
4. Nature	Non-recurring or relatively infrequent in nature.	Generally recurring in nature.
5. Accounting Treatment	Shown as an asset in the Balance Sheet and may be depreciated/amortised where applicable.	Charged to the Income & Expenditure Account.
6. Effect on Fund/Capital	Generally, increases the assets/fund of the organisation.	Reduces the surplus of the current period.
7. Examples	Purchase of building, furniture, computer, vehicle, sports equipment.	Salary, rent, electricity, stationery, ordinary repairs, insurance.
8. Depreciation	Fixed assets acquired through capital expenditure may be subject to depreciation.	Revenue expenditure itself is not depreciated.
9. Frequency	Usually not incurred regularly.	Usually incurred regularly.
10. Example in NTO	Construction of a new auditorium for a club.	Electricity and cleaning expenses of the auditorium.

4. Revenue Income and Capital Receipt

Basis	Revenue Income	Capital Income / Capital Receipt
1. Meaning	Income arising from the regular activities or recurring sources of the organisation.	Amount received that is capital in nature or intended to increase the organisation's capital/fund.
2. Nature	Generally recurring or regular.	Generally non-recurring or occasional.
3. Purpose	Used for day-to-day activities and administration.	Generally, strengthens the capital/fund or is meant for a specific long-term purpose.
4. Benefit	Relates mainly to the current accounting period.	May provide a long-term benefit or be retained as part of the fund.
5. Accounting Treatment in NTO	Generally shown on the income side of the Income & Expenditure Account.	Generally credited to the Capital Fund/Specific Fund or shown appropriately in the Balance Sheet.
6. Effect on Surplus	Increases the surplus of the organisation.	Generally does not directly increase the current year's surplus.
7. Examples	Subscription, interest, rent, general donation, fees from regular activities.	Specific donation, life membership fee, legacy, building fund donation, permanent endowment.
8. Relation to Fixed Assets	Usually not directly related to acquisition of fixed assets.	May be related to acquisition/construction of fixed assets or creation of a specific fund.

Format of Income and Expenditure Account:

Expenditure		Amount	Income		Amount
To Salaries	XXX		By Subscriptions	XXX	
Add: Outstanding at the end	XXX		Add: Outstanding at the end	XXX	
Less: Outstanding in the beginning	(XXX)	XXX	Advance in the beginning	XXX	
To Rent		XXX	Less: Outstanding in the beginning	(XXX)	
To Insurance Premium	XXX		Advance at the end	(XXX)	XXX
Less: Prepaid	XXX	XXX	By Entrance Fees (revenue receipts)		XXX
To Audit Fees		XXX	By Donations		XXX
To Printing and Stationery		XXX	By Sale of Old Newspapers		XXX
To Honorarium		XXX	By Hall Rent		XXX
To Telephone Expenses		XXX	By Sundry Receipts		XXX
To Repairs		XXX			
To Depreciation on fixed assets		XXX			
To Sports Material used		XXX			
To Surplus (excess of income over expenditure)*		XXX	By Deficit (excess of expenditure over income)*		XXX
Total		XXXX	Total		XXXX

Format of Receipt and Payment Account:

Receipt & Payment Account

(for the year ending __________)

Receipts	Amount	Payments	Amount
To balance b/d:		By balance b/d:	
Cash In Hand XXX		Bank-overdraft XXX	XXX
Cash At Bank XXX	XXX	By Wages and Salaries	XXX
To Subscription	XXX	By Rent	XXX
To General Donations	XXX	By Rates and Taxes	XXX
To Sale of Old Newspaper	XXX	By Insurance	XXX
To Sale of Old Furniture	XXX	By Printing & Stationery	XXX
To Entrance Fee	XXX	By Postage & Courier	XXX
To Life Membership Fees	XXX	By Advertisement	XXX
To Sale of Old Sports Material	XXX	By Sundry Expenses	XXX
To Investments	XXX	By Telephone Charges	XXX
To Interest on Fixed Deposits	XXX	By Entertainment Expenses	XXX
To Interest/Dividend in General	XXX	By Audit Fees	XXX
To Locker Rent	XXX	By Honorarium	XXX
To Sale of Scraps	XXX	By Repair and Renewals	XXX
To Proceeds from Charity Show	XXX	By Upkeep of Ground	XXX
To Miscellaneous Receipts	XXX	By Conveyance	XXX
To Grant-in-aid	XXX	By Newspaper & Periodicals	XXX
To Legacies	XXX	By Purchase of Assets	XXX
To Specific Donations	XXX	By Purchase of Investment	XXX
To Sale of Investments	XXX	By Balance c/d:	XXX
To Sale of Fixed Assets	XXX	Cash In Hand XXX	
To Balance c/d (bank overdraft)*	XXX	Cash At Bank* XXX	XXX
Total	**XXXX**	**Total**	**XXXX**

Format of Balance Sheet:

Liabilities		Amount (₹)	Assets		Amount (₹)
			Fixed Assets:		
Capital Fund	XXX		Building	XXX	
Add: Surplus(or less: Deficit)	XXX		Add: Additions	XXX	
Entrance Fee(Capitalised amount)	XXX	XXXX	Less: Depreciation	XXX	XXXX
Building Fund	XXX		Furniture	XXX	
Add: Donation for Building	XXX		Add: Additions	XXX	
Income from Building Fund	XXX		Less: Depreciation	XXX	XXXX
Investments	XXX	XXXX			
Sports Fund	XXX		**Current Assets:**		
Add: Donation for Sports Fund	XXX		Cash in Hand		XXX
Interest on Sports Fund	XXX		Cash at Bank		XXX
Investments	XXX		Cash at Bank		XXX
Less: Sports Prize Awarded	XXX	XXXX	Subscription in Arrears		XXX
Current Liabilities:			Accrued Interest		XXX
Outstanding Expenses:			Prepaid Insurance		XXX
Rent	XXX		Prepaid Rates & Taxes		XXX
Salaries	XXX		Building Fund Investments		XXX
Electricity/Water Charges	XXX	XXXX	Sports Fund Investments		XXX
Subscriptions Received in Advance		XXX			
Total		**XXX**	**Total**		**XXX**