

Specialized Accounting: For third year of English Section:

Clubs and Societies:

Non-Profit Making Organizations:

What is a non-for-profit making organization?

-There are organizations which do not trade or do not deal in purchasing and selling of goods, but their existence is to provide services for their members. Example of such organizations include sports and social clubs.

-Such organizations are usually entrust their financial affairs to an elected official known a treasurer. The chief functions of a treasurer are: (a) to maintain records of the club's financial transactions; and (b) to prepare an annual financial report, which is presented to the members at an annual general meeting.

-In most cases, at the end of the accounting period, a non-profit making organization will prepare its final accounts, which include the following: ***Receipts and Payments Account, *Income and Expenditure Account, and *Balance Sheet.**

Receipts and Payments Account:

-A receipts and payments account is a summary of the *cashbook* for the period under review. It is merely a summary of the cash transactions under appropriate heads which have taken place during the accounting period.

- The main characteristics of the receipts and payments account can be summarized as below:

*It is an abbreviated copy of the cashbook. The cash and bank items are usually merged in one column. Thus, contra entries between cash and bank are eliminated.

*It is a real account.

*All cash receipts are recorded on the debit side while all cash payments are recorded on the credit side.

*It begins with the balance in the starting of the accounting year and ends with the balance at the end of the accounting year.

Illustration:

From the following information, taken from the cashbook of a Club, prepare a Receipts and Payments Account (L.E.).

Opening Balance: Cash in hand 100,000, Cash at bank 500,000.

Receipts: Subscriptions 3,300,000, Donations 260,000.

Payments: Investment purchased 1,000,000, Rent paid 400,000, General expenses 210,000, Postage and stationery 70,000, and Sundry expenses 30,000.

Closing cash balance in hand 20,000.

Now, how does the receipts and payments account appear? See your material, page 200.

Income and Expenditure Account:

The income and expenditure account prepared by a non-profit making institution is similar in many ways to the *profit and loss account* prepared by a business organization. It performs the same functions and is compiled and constructed on exactly the same principles. The *essential features of this account may be as below:*

{1} An income and expenditure account shows the organization's revenue and expenses for the period under review, calculated in accordance with normal accounting principles.

{2} If the organization has a trading operation in addition to its other activities, the revenue and expenses of this trading operation may be shown in a separate trading and profit and loss account. The profit or loss revealed by this account is then transferred to the income and expenditure account. An example of such a trading operation would be a members' restaurant operated by a social club, annual party, annual journey, etc.

{3} If the income and expenditure account shows revenue in excess of expenses, the excess is usually referred to as the *surplus of income over expenditure*. Similarly, an excess of expenses over revenue, is referred to as the *surplus of expenditure over income*. Accordingly, the term net profit and net loss are not used.

{4} The income and expenditure account is usually accompanied by a balance sheet detailing the assets and liabilities of the club or the society. The *capital* of a club or society is generally referred to as the *accumulated fund*.

Illustration:

From the information given in the *above illustration*, prepare an *Income and Expenditure Account*.

Solution

Income and Expenditure Account for the Year Ending...

To Rent	400,000	By Subscriptions	3,300,000
To General expenses	210,000	By Donations	260,000
To Postage & stationery	70,000		
To sundry expenses	30,000		
To Accumulated fund (<i>surplus of income over expenditure</i>)	2,850,000		
Total.....	3,560,000	Total.....	3,560,000

Subscriptions:

-In general, much of income of a club or society will take the form of members' annual subscriptions. Subscriptions may be a major source of income of the club or society. The Receipts and Payments Account records the amount of actual subscriptions received while the Income and Expenditure Account records only the subscriptions which relate to the accounting period, whether received or not.

-Therefore, unless all members pay their subscriptions when due, it is necessary to consider the accounting treatment of subscriptions paid in *advance* and subscriptions *outstanding (in arrears)*. Hence, adjustments may be required to find out the actual amount of income from subscriptions.

Illustration:

From the following data extracted from the Receipts and Payments Account and the additional information, you are required to compute the income from subscriptions for the year ending December 31st, 2019 and show the subscriptions item in the final accounts of a Club.

Receipts and Payments Account

Receipts for the year ending 31/12/ 2019 Payments

To Subscriptions	200,000		
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Additional Information:

(1) Subscriptions outstanding on December 31, 2018, of L.E.40,000.

- (2) Subscriptions outstanding on December 31,2019, of L.E.80,000.
- (3) Subscriptions received in advance as on December 31, 2018, of L.E.60,000.
- (4) Subscriptions received in advance as on December 31, 2019, of L.E.40,000.

Subscriptions account will be as presented in your material, page 210.

Income and Expenditure Account for the Year Ending December 31, 2019

	By Subscriptions a/c	260,000
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Balance Sheet as on December 31, 2019

Outstanding Subscriptions	80,000	Subscriptions received in advance	40,000
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Donations:

-Clubs and societies, especially charitable institutions, may receive donations from time to time. The amount of donations may be taken as income or capitalized and taken to balance sheet depending upon whether they are specific donations or general donations.

{1} Specific Donations: In case a donation has been received for a specific purpose, the donation is termed as a specific donation. For example, an organization may receive donation for construction of building or for giving prizes to best sportspersons. The amount of such donation cannot, hence, be used for any other purpose. It should be taken to the balance sheet on the liabilities side and be used only for the purpose for which it is intended, irrespective of its amount.

{2} General Donations: When a donation is not received for a specific or a determined purpose, it is termed as a **General Donation**.

Fee for Life Membership:

-It is sometimes possible for a club member to pay a one-off fee so as to obtain life membership of the club. In this cases, organizations charge fee for making persons as life members and such members have to pay fee only once in their life time. Such a receipts is of a capital nature and should, therefore, be taken to the balance sheet on the liabilities side.

-Such fees should be credited initially to a Life Membership Account and should then be transferred to the income and expenditure account by instalments. The number of these instalments should be equal to the number of years for which the member concerned is likely to use the club’s facilities. It is normal for a club to transfer life membership fees to the Income and Expenditure Account over an arbitrary number of years, often ten or twenty.

Illustration:

Life membership of the Egyptian Workers’ Union can be obtained by paying a fee of L.E.60,000. It is the Union’s policy to allocate life membership fees to the Income and Expenditure Account over a 10-year period. On January 1, 2019, the balance on the Life Membership Account was L.E.438,000, representing the unexpired portion of the fees paid by 11 life members during the previous 9 years. In the year to December 31, 2019, a further L.E.180,000 was received from 3 new life members. You are required to write up the Life Membership Account for the year to December 31st, 2019. Life Membership account will be as presented in your material, page 224.

Now, let us test our understanding of this subject, through answering the following questions: **MULTIPLE CHOICE:**

Choose the best answer for each of the following questions and circle the identifying letter.

Use the following data for questions 1 through 5.

Life membership of a club can be obtained by paying a fee of L.E.300,000 and transferred to income and expenditure account over a 20 year period. At the beginning of a year, the balance on the life membership account was L.E.2,190,000, representing 10 life members of the previous years. During this year, L.E.900,000 was received from new life members.

1. Refer to the above data. The amount of life membership which must be transferred to income and expenditure account for this year would be of:

A 45,000. B 150,000. C 195,000. D 855,000.

2. Refer to the above data. The amount of revenue on life membership relating to old members would be of:

A 45,000. B 150,000. C 195,000. D 855,000.

3. Refer to the above data. The amount of revenue on life membership relating to new members would be of:

A 45,000. B 150,000. C 195,000. D 855,000.

4. Refer to the above data. If the new members decide to cancel their life membership from the club at year-end, they could lose of:

A 45,000. B 150,000. C 195,000. D 855,000.

5. Refer to the above data. The amount of unexpired portion of the fees paid by the new revenue on life membership relating to new members at year-end would be of:

A 2,040,000. B 2,895,000. C 2,190,000. D 855,000.

Best wishes Dr Ali Abdelkarim Rawy