

## 2. Accounts of 'Not for Profit' Concerns

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### EXERCISE - 2

#### Q.1 Objective Type Questions:

A) Select the most appropriate alternatives from those given below.

1. Not for Profit Concern renders ..... services to public at large.

- a) Commercial
- b) Social**
- c) Individual
- d) Group

2. Donation for Scholarship Fund is .....

- a) Capital Receipt**
- b) Revenue Receipt
- c) Capital Expenditure
- d) Revenue Expenditure

3. Income and Expenditure Account is a ..... Account

- a) Capital
- b) Real
- c) Personal
- d) Nominal**

4. Outstanding subscription at the end of the Accounting Year represents .....

- a) Liability
- b) An Expenditure
- c) An Asset**
- d) Capital Fund

5. Subscription received in advance during the accounting year is .....

- a) An Income
- b) An Expense
- c) An Asset
- d) A Liability**

6. Excess of Income over Expenditure is termed as .....

- a) Deficit
- b) Profit

**c) Surplus**

d) Loss

**7. Not for Profit Concerns prepares ..... account instead of Profit and Loss account to know the result.**

a) Trading

**b) Income and Expenditure**

c) Cash

d) Receipt and Payments

**8. The closing balance of Receipts and Payments account usually represent .....**

a) Closing stock

**b) Cash and Bank balance**

c) Surplus

d) Deficit

**9. Not for Profit Organization is also called ..... organization.**

**a) Service**

b) Trading

c) Profit making

d) Commercial

**10. Expenditure on Purchase of Building is a ..... Expenditure.**

**a) Capital**

b) Revenue

c) General

d) Recurring

**B) Write the Word / Term / Phrase which can substitute each of the following statements.**

**1. The Form of Organization providing services to the society only.**

**Ans:** Not for profit concern

**2. An account which is prepared by Not for Profit Concern instead of Profit and Loss Account.**

**Ans:** Income and expenditure Account

**3. Donation received for a specific purpose.**

**Ans:** Specific domination/ Capital Receipt

**4. The Receipts which are not recurring in nature.**

**Ans:** Capital Receipt

**5. An Account which records only revenue items in case of Not for Profit Concern.**

**Ans:** Income and Expenditure Account

**6. Accounts which records only cash transactions in case of Not for Profit Concern.**

**Ans:** Receipt and Payment Account

**7. The income which is earned during the year but not received during the year.**

**Ans:** Outstanding income

**8. The credit balance of Income and Expenditure Account.**

**Ans:** Surplus

**9. The excess of total assets over total liabilities of a Not for Profit Concern.**

**Ans:** Capital fund

**10. All such receipts which are non-recurring in nature and not forming a part a regular flow of income.**

**Ans:** Capital Receipts

**C) State whether the following statements are True or False with reasons.**

**(1) Not for Profit concerns do not have profit motive.**

**Ans. This statement is True**

Not for profit concerns. main aim is to give services to its members or to the society at large. They do not carry any Trading activity or Manufacturing activity so there is no question of having profit motive for 'Not for Profit concerns.

**(2) Charitable Institutions prepare Profit and Loss Accounts at the end of every financial year.**

**Ans. This statement is False.**

Charitable Institutions. Not for Profit concerns, do not undertake any trading activities and hence Instead of Profit and Loss Account prepare Income-Expenditure Account to record all revenue expenses/losses and revenue incomes / gains of current year.

**(3) There is no difference between Receipts and Payments Account and Income and Expenditure Account.**

**Ans. This statement is False.**

In the Receipts and Payments Account. all receipts and payments transactions in cash or through bank are recorded irrespective of the current year, previous year or

next year while in Income Expenditure Account only current year's incomes and expenses (Revenue) are recorded.

**(4) Income and Expenditure Account represents either surplus or deficit.**

**Ans. This statement is True.**

In Income and Expenditure Account, all revenue incomes and expenses are recorded and at the end of the specified period, difference is found out which is known as 'Surplus' (Revenue Incomes are more than Revenue expenses) or 'Deficit' (Revenue expenses are more than Revenue incomes).

**(5) Receipts and Payments Accounts do not have any opening balance.**

**Ans. This statement is False.**

Receipts and Payments Account is just like a cash book of trading concern and opening balance (Cash or Bank or Cash and Bank) must be there to start recording of transactions.

**(6) Not for Profit concerns do not prepare Balance Sheet.**

**Ans. This statement is False.**

To know financial position of organisation, at the end of the particular period. Not for concerns prepare Balance Sheet.

**(7) Purchase of Sports Equipments is a Capital Expenditure.**

**Ans. This statement is True.**

Generally, life span of sports equipments is more than one year, so purchase of sports equipment is considered as capital expenditure.

**(8) Income and Expenditure Account is Real Account.**

**Ans. This statement is False.**

In Income and Expenditure Account, all the revenue income and revenue expenses are recorded and therefore it is a Nominal Account and not a Real Account.

**(9) Receipts and Payments Account contains only the transactions relating to the current year.**

**Ans. This statement is False.**

In Receipts and Payments Account, transactions of not only current year but of previous year or of next year are also recorded.

**(10) Excess of Assets over liabilities is called Capital Fund.**

**Ans. This statement is True.**

For 'Not for Profit concerns in the Balance Sheet. when total of Assets is more than the total of Liabilities, the difference of amount is considered as 'Capital Fund'.

**D) Fill in the blanks**

**1. Not for Profit Organization never is engaged in ..... activities.**

**Ans: Trading**

**2. Not for Profit organization is called ..... organization.**

**Ans: Service**

**3. Receipts and Payments Account falls under the category of .... Account.**

**Ans: Real**

**4. In Receipts and Payments Account the summary of ..... transactions are recorded.**

**Ans: Cash**

**5. Income and Expenditure Account is similar to the ..... account of Trading Concern.**

**Ans: Profit and Loss**

**6. Credit side of Receipts and Payments Account shows cash .....**

**Ans: Payment**

**7. Income and Expenditure Account is a ..... Account.**

**Ans: Nominal**

**8. Mumbai University prepares ..... Account instead of a Profit and Loss account.**

**Ans: Income and Expenditure**

**9. Subscription received from the members is considered as ..... receipts.**

**Ans: Revenue**

**10. The transactions recorded in Income and Expenditure Account are related only to the ..... year.**

**Ans: Current.**

**E) Answer in one sentence only.**

**(1) What do you mean by 'Not for Profit Concern' ?**

**Ans.** A concern or organisation which is formed and established to serve its members and society or general public by undertaking various activities without any profit motive is called a 'Not for Profit' concern.

**(2) Which organisations prepare Income and Expenditure Account ?**

**Ans.** 'Not for profit' concern prepares Income and Expenditure Account.

**(3) What is Receipts and Payments Account ?**

**Ans.** An account which is prepared by a 'Not for Profit Concern' to record summary of all types of cash receipts and cash payments inclusive of bank transactions is called Receipts and Payments Account.

**(4) Why Income and Expenditure Account is prepared ?**

**Ans.** Income and Expenditure Account is prepared to ascertain, whether the concern has sufficient income to meet its expenses, or not.

**(5) What is Capital Fund ?**

**Ans.** Excess of Assets over Liabilities is known as Capital Fund which also consists of contributions, subscription, entrance fees, surplus income, etc.

**(6) What is Subscription ?**

**Ans.** Subscription is the periodical payment made by the members to the 'Not for Profit' concern for maintaining his membership.

**(7) What is 'Legacy' ?**

**Ans.** Any asset, property or amount of cash which 'Not for Profit' concern receives as per the provisions made in the will of the donor after his death is called Legacy.

**(8) What is Surplus ?**

**Ans.** Excess of income over expenditure shown by Income and Expenditure Account represents Surplus for the financial year.

**(9) What do you mean by Non-recurring Expenses ?**

**Ans.** Non-recurring expenses are the expenses which is made for acquisition of fixed assets which gives benefits for a long period.

**(10) To which account 'Surplus' or Deficit' is transferred ?**

**Ans.** "Surplus or Deficit is transferred to Balance Sheet by adding it or subtracting it from Capital Fund.

**F. I Complete the table:**

Sr. No.	Income (₹)	Expenditure (₹)	Surplus/Deficit (₹)
1	10,000	?	5,000 (Deficit)
2	8,000	?	4,000 (Surplus)
3	?	15,000	8,000 (Surplus)
4	7,500	9,000	?
5	15,000	11,300	?

**Ans**

Sr. No.	Income (₹)	Expenditure (₹)	Surplus/Deficit (₹)
1	10,000	<b>15000</b>	5,000 (Deficit)
2	8,000	<b>4000</b>	4,000 (Surplus)
3	<b>23000</b>	15,000	8,000 (Surplus)
4	7,500	9,000	<b>1500 (Deficit)</b>
5	15,000	11,300	<b>3700 (Surplus)</b>

**II. Salaries paid during the year**

Sr. No.	Total (₹)	(₹)	(₹)	Expenditure for the year
1	1,100	Prepaid/Outstanding	100	?
2	2,700	Prepaid	?	2,000
3	8,250	Prepaid	?	6,650
4	1,200	Prepaid	200	?
5	?	Outstanding	600	5,100
6	1,800	Outstanding	400	2,200

**Ans:**

Sr. No.	Total (₹)	(₹)	(₹)	Expenditure for the year
1	1,100	Prepaid/Outstanding	100	<b>1000</b>

2	2,700	Prepaid	700	2,000
3	8,250	Prepaid	1600	6,650
4	1,200	Prepaid	200	1400
5	4500	Outstanding	600	5,100
6	1,800	Outstanding	400	2,200

### III. Rent received during the year:

Sr. No.	Total received (₹)	Rent received in Advance / Accrued	(₹)	Income for the year (₹)
1	1,300	Received in Advance	200	?
2	?	Received in Advance	400	1,400
3	2,650	Received in Advance	?	2,000
4	?	Accrued	290	3,190
5	1,700	Accrued	?	2,150
6	2,600	Accrued	500	?

Ans:

Sr. No.	Total received (₹)	Rent received in Advance / Accrued	(₹)	Income for the year (₹)
1	1,300	Received in Advance	200	1100
2	1800	Received in Advance	400	1,400
3	2,650	Received in Advance	650	2,000
4	2900	Accrued	290	3,190
5	1,700	Accrued	450	2,150
6	2,600	Accrued	500	3100

### G) Calculate the following

1. 10 % p.a. Depreciation on Furniture ₹50,000 (for three months)

Ans: Depreciation = Cost of Assets × Rate × Period

$$= 50,000 \times \frac{10}{100} \times \frac{3}{12}$$

= ₹ 1250 Depr. For 3 months

Thus, Depreciation on furniture @ 10% on ₹ 50,000 for 3 months = ₹1250

2. 12 % p.a. Interest on Bank Loan ₹ 80,000 for 1 year.

Ans:

$$I = \frac{PRN}{100} = 80,000 \times \frac{12}{100} \times 1$$



= ₹9600

Thus, interest on Bank loan ₹80,000 for 1 year = ₹9600

3. Opening Stock of Stationery ₹5,000, Purchases Stationery ₹7,000, Outstanding Stationery Bill ₹12,000, Closing Stock ₹1,000 What is the amount of Stationery Consumed?

Ans:

To consumption of stationary:	₹
Opening stock	5,000
Add: Purchases	7,000
Add: Outstanding stationary bill	<u>12,000</u>
	24,000
Less: Closing stock	<u>1,000</u>
Consumption of stationry	<u>23,000</u>

4. Salary ₹10,000, Outstanding Salary ₹5,000, Calculate the Salary to be debited to Income and Expenditure Account?

Ans:

Dr. Income and Expenditure Account			Cr.		
Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Salary	10,000				
Add : Outstanding Salary	<u>5,000</u>	15,000			

5. Library Books ₹ .....? Less 10 % Depreciation ₹5,000 = ₹45,000

Ans: Library Books ₹ 50,000. Less 10 % Depreciation ₹5,000 = ₹45,000

$$\left[ \begin{array}{l} \% \text{ Depr. ₹} \\ 10 \quad 5,000 = ₹50,000 \\ 100 \quad ?(cost) \end{array} \right]$$

H) Find odd one.

1. Trading Account, Profit and Loss Account, Receipts and Payments Account, Balance Sheet.

Ans: Receipts and Payments Account

**2. Machinery, Furniture, Computers, Salaries.**

**Ans:** Salaries

**3. Subscription, Stationery, Interest Received, Locker Rent received,**

**Ans:** Stationery

**4. Reliance Industries, Venna Vidya Mandir, Laxmi Hospital, Manoj Sports club.**

**Ans:** Reliance Industries

**5. Surplus, Deficit, Net Profit, Capital fund.**

**Ans:** Net Profit