

ACCOUNTS OF NON TRADING ORGANISATIONS - I

30.1 INTRODUCTION

In previous lessons, you have learnt the preparation of final accounts of trading organisations. These organisations deal in purchase and sale of goods and have earning of profit as their main objective. There are certain organisations which are founded not to earn profit but to render the services only to its members and to the public. Such organisations include club, charitable hospitals, schools, religious organisations, etc. These organisations do not undertake trading activities. However, for performance of their activities, they need money and where money is involved, accounting becomes necessary. These organisations are also interested to know the final result of their activities during a given accounting period. That's why they are required to prepare certain financial statements such as:

- i. Receipts and Payments Account
- ii. Income and Expenditure Account
- iii. Balance Sheet

In this lesson, you will study the features of non-trading organisations and their accounting system.

30.2 OBJECTIVES

After studying this lesson, you will be able to :

- recall the meaning of Trading organisations;
- state the meaning of Non-trading organisations;
- state the characteristics of non-trading organisations;
- state the meaning and features of Receipts and Payments A/c;
- identify the items of Receipts and Payments A/c;
- prepare format of Receipts and Payments A/c;
- prepare Receipts and Payments Account from given information;
- distinguish between Receipts and Payments Account and Cash-Book.

30.3 NON-TRADING ORGANISATIONS: MEANING AND CHARACTERISTICS

A business unit is formed for the purpose of carrying on some kind of economic activity. It can take forms like sole proprietorship, partnership, joint stock company, etc. Trading organisations are started and operated with profit motive. You may come across a large number of organisations in our society like sports clubs, trade unions, hospitals, schools, welfare societies, etc. which do not have the object of making profits. All such organisations are called non-trading organisations.

A non-trading organisation is a separate entity and is formed for the welfare of the society and not for benefit of an individual or a group of partners or shareholders. The prime objective of non-trading organisations is to provide services to a social group or public at large. The following may be the names of these organisations :

- | | |
|-------------------------------|--------------------------------------|
| 1. Delhi Sports Club | 2. Delhi Hockey Club |
| 3. National Club, Delhi | 4. Modern Educational Society, Delhi |
| 5. Cricket Club of India | 6. DCM Trade Union |
| 7. Hindi literary Association | 8. Jain Charitable Hospital, Delhi |
| 9. Delhi Chamber of Commerce | |

Characteristics of Non-trading organisations

Let us now study the salient features of non-trading organisations :

1. These organisations are formed and operated to render the services and not to earn profit.
2. The main sources of income of these organisations are admission fees, subscriptions, donations, membership fees, legacies, grant - in-Aid, etc.
3. The affairs of these organisations are managed by a group of persons elected by the members from among themselves. The members of this group are collectively called Managing Committee.
4. These organisations adopt the same accrual basis of accounting as used by a business unit. The monetary transactions are recorded through accounting vouchers as per double entry system.

Items of Receipts and Payments of Non-trading organisations

The following are the items of Receipts and Payments of Non-trading organisations:

Items of Receipts

- | | |
|-------------------------------|-----------------------------------|
| 1. Donations | 2. Entrance fees |
| (a) General Donations | |
| (b) Specific Donations | |
| 3. Endowment fund receipts | 4. Legacies |
| 5. Sale of Investments | 6. Sales of Fixed Assets (old) |
| 7. Subscriptions from members | 8. Life Membership fees |
| 9. Sale of old newspapers | 10. Sales of old sports materials |
| 11. Interest on Fixed Deposit | 12. Dividends on Investments |

- | | |
|----------------------------|---------------------------------|
| 13. Lockers' Rent Received | 14. Proceeds from Charity show |
| 15. Sale of crockery | 16. Sale of scraps |
| 17. Grant-in-Aid | 18. Miscellaneous Receipts etc. |

Items of Payments

1. Purchase of Fixed Assets as

(a) Investments	(b) Land and Buildings
(c) Sports Materials	(d) Machine
(e) Books, etc.	
2. Printing and Stationery
3. Postage
4. Advertisement
5. Wages and Salaries
6. Sundry Expenses
7. Rent and Taxes
8. Insurance premium
9. Entertainments Expenses
10. Audit fees
11. Honorarium
12. Telephone Expenses
13. Charity
14. Repairs and renewals
15. Newspapers Expenses
16. Upkeep of play ground
17. Conveyance Expenses etc.

The above list of items of Receipts and Payments is not exhaustive. There may be other items depending on the nature of organisations.

The above examples should help you to identify Receipts and Payments items of non-trading organisations.

INTEXT QUESTIONS 30.1

- A. Given below are the names of a few organisations. Identify them and state whether they are non-trading or Trading organisations. Put (√) mark in appropriate column.

Name of the organisation	Non-Trading organisation	Trading organisation
1. M/s Sultan Chand & Sons		
2. Vidya Niketan		
3. Kamal General Store		
4. Hind Hockey club		
5. Reliance India LTD		
6. Red Cross Society		
7. Godrej Appliances		
8. Central Board of Secondary Education		
9. Mother-Teresa Home		
10. Aggarwal Charitable Hospital, Delhi		

B. Below are given a few items of non-trading organisation. State whether they are Receipts or Payments items. Put tick (✓) mark in the appropriate column.

Items	Items of Receipts	Items of Payments
1. Entrance Fees		
2. Light charges		
3. Purchase of Books		
4. Donations		
5. Interest on Investments		
6. Rent and Taxes		
7. Life Membership fees		
8. Sale of Fixed Assets		
9. Purchase of Land and Buildings		
10. Repairs and Renewals		

30.4 RECEIPTS AND PAYMENTS ACCOUNT : MEANING, FEATURES AND ITS PREPARATION

Having learnt the meaning of non-trading organisations, let us now study the accounting system in such organisations. However, most of the transactions here are in cash only. Receipts and Payments account is merely a summary of cash transactions. It is prepared at the end of the year from the cash book. All Receipts and payments which are entered in cash book are also entered in the Receipts and Payments A/c in summary form. All cash receipts and payments are recorded in this account whether they belong to current year or next year or previous year. Opening balance of cash or bank is shown on the debit side. All receipts and payments of the year are recorded whether they are of revenue nature or capital nature. Closing balance of this account is cash in hand or cash at bank/overdraft.

Features of Receipts and Payments Account

1. It is an Asset Account.
2. It is opened with the opening balance of cash or bank of the current year.
3. It is closed showing the closing cash/bank balance of the period.
4. Receipts are recorded on the debit side and payments are recorded on the credit side of this account.
5. All cash receipts, whether of capital nature or revenue nature, are recorded in this account.
6. All cash payments, whether of capital nature or revenue nature, are recorded in this account.
7. All the cash receipts, whether belonging to the current year, previous year or next year, are recorded on the receipts side of this account.
8. All cash payments, whether concerning current year or previous year or next year, are recorded on the payment side of this account.
9. This account does not include outstanding expenses and accrued incomes.
10. Balance-Sheet cannot be prepared on the basis of this account only.
11. It provides ready information for preparing the final account of the non-trading organisations.

Preparation of Receipts and Payments A/c

Having discussed the meaning of Receipts and Payments Account, let us now learn how to prepare the Receipts and Payments Account. Generally it is prepared in the following form:

Receipts and Payments A/c
for the year ending on

Receipts	Amount Rs	Payments	Amount Rs
To Balance b/d		By Purchase of Investments	
Cash in Hand		By Purchase of Building	
Cash at Bank		By Purchase of Machinery	
To Donations		By Purchase of Sports equipments	
To Legacies		By Book purchased	
To life membership fees		By Printing and Stationery	
To Sale of Investment		By Audit Fees	
To Endowment fund receipts		By Repairs and Renewals	
To Sale of fixed Assets		By upkeep of ground	
To Subscription		By Newspapers	
To General donation		By Rent & Taxes	
To Sale of grass		By Postage	
To Sale of old newspapers		By Conveyance	
To Sale of old bats and balls		By Insurance Premium	
To Interest on investment		By Wages & Salaries	
To Dividends		By Honorarium	
To Lockers' Rent		By Telephone Expenses	
To Entrance Fees		By Charity	
To Miscellaneous Receipts		By Sundry Expenses	
		By Balance c/d	
		Cash in hand	
		Cash at Bank	

Some Important items of Receipts and Payments A/c

1. Members' Subscription

It is periodic contribution by the members of the organisation. It is the main source of income of these organisations. This is payable usually on yearly basis. The amount is also entered in the member's register. It is revenue receipt. It appears on the debit side of Receipts and Payments Account.

2. Entrance fees or Admission fees

It is received from the members in addition to the amount of periodic subscriptions at the time of their admission. It is shown on the debit side of Receipts and Payments Account.

3. Life Membership fees

In order to become the members of an organisation for the whole life, some members pay the fees in lump-sum. It appears on the debit side of Receipts and Payments Account.

4. Endowment Fund

It is a fund which provides permanent means of support for an organisation. It is recorded on the debit side of Receipts and Payments Account.

5. Donations

Donation is the amount received from some person, firm, company or any other body by the way of gift. It is also an important receipts to non-trading organisations. It appears on the debit side of Receipts and Payments Account.

It may be classified as specific donation and general donation.

a) Specific donation

Whenever donation is received for a specific purpose e.g. donation for library, donation for building, etc. it is capitalised or is treated as Capital income. It is taken to the liability side of the Balance-Sheet.

b) General Donation : It can be of two types:

- (i) General Donation of big amount;
- (ii) General Donation of small amount.

- (i) **General Donation of big amount** : It is shown on the liability side of the Balance-sheet, it is non-recurring in nature as the donation of huge amount cannot be expected every year.
- (ii) **General Donation of small amount** : It is shown on the debit side of Receipts and Payments Account because small donation can be expected every year.

6. Legacy

It is the amount which is received by organisations as per will of a deceased person. It appears on the debit side of the Receipts and Payments Account. It is treated as Capital receipts and shown on the liabilities side.

7. Sale of old Assets

It appears on the debit side of Receipts and Payments Account.

8. Sale of old newspapers and sports materials

It appears on the debit side of Receipts and Payments Account.

9. Payment of Honorarium

The amount paid to persons who are not employees of the organisation is called honorarium. It appears on the credit side of the Receipts and Payments Accounts.

10. Purchase of Fixed Assets

Purchase of Furniture, land and Building, machinery, motor-car are recorded on the credit side of the Receipts and Payments Account.

11. Salaries, Wages, Rent, etc.

All such payments are recorded on the credit side of the Receipts and Payments Account.

Let us now learn preparation of Receipts and Payments A/c with the help of following examples:

Example 1

Prepare Receipts and Payments A/c from given information for Dec 31, 1996.

	Rs		Rs
Opening Cash in hand	450	Purchase of Radio set	2,900
Opening Cash at Bank	6,250	Bicycle Purchased	2,000
Subscriptions	12,500	Sale of Investment	3,000
Sale of old newspapers	400	Life Membership fees	1,000
Entrance Fees	1,000	Purchase of Defence Bonds	1,000
Donation	4,000	Rent Paid	1,200
Sale of old furniture	2,000	Balance Closing	
Salaries	8,000	Cash in hand	800
Insurance Premium	600	Cash at Bank	8,200
Purchase of Books	900		
Stationery & Postage	4,000		
Purchase of Sports Materials	9,000		
Interest on Securities	3,500		
Locker Rent	4,500		

Solution

Receipts and Payments A./c for year ending on Dec 31, 1996

Receipts	Amount Rs	Payment	Amount Rs
To Balance b/d		By Salaries	8,000
Cash in hand	450	By Stationery & Postage	4,000
Cash at bank	6,250	By Insurance Premium	600
To Subscriptions	12,500	By Books	900
To Sale of newspaper	400	By Sports Materials	9,000
To Sale of old furniture	2,000	By Radio Set	2,900
To Entrance Fees	1,000	By Defence Bonds	1,000
To Donation	4,000	By Bicycle	2,000
To Sale of Investment	3,000	By Rent	1,200
To Life Membership Fees	1,000	By Balance c/d	
To Interest on Securities	3,500	Cash in hand	800
To Locker Rent	4,500	Cash in Bank	8,200
	38,600		38600

Example 2

From the information given below, prepare Receipts and Payments A/c of Delhi Cricket Club for the year ended on 31st Dec 1996

	Rs
Cash in hand on 1.1.96	400
Subscription	3,799
Donation	1,500
Entrance Fees	430
Rent From Club Hall	525
Light charges	344
Taxes	49
Wages and Salaries	2,150
Honorarium to Secretary	250
Interest on Investment	295
Printing and Stationery	735
Petty Cash Payments	390
Insurance Premium	1,031
Fixed Deposited with Bank	2,000

Solution

Delhi Cricket Club
Receipts and Payments A/c
for the year ending 31st Dec 1996

Receipts	Amount Rs.	Payments	Amount Rs.
To Balance b/d		By Light charges	344
Cash in hand	400	By Taxes	49
To Subscriptions	3,799	By Wages and Salaries	2,150
To Donation	1,500	By Honorarium to Secretary	250
To Entrance fees	430	By Printing and Stationery	735
To Rent of Hall	525	By Petty Expenses	390
To Interest on Investment	295	By Insurance Premium	1,031
		By Fixed Deposit with Bank	2,000
	6,949		6,949

INTEXT QUESTION 30.2

- A. From the following information, select and write items which are to be shown in Receipts and Payments A/c.
- (i) Opening Balance Cash in hand.
 - (ii) Subscription due during the year.
 - (iii) Salaries paid during the year.
 - (iv) Donation Received during the year.
 - (v) Subscriptions received during the year.
 - (vi) Salaries paid in Advance during the year.
 - (vii) Furniture purchased during the year.
 - (viii) Depreciation charges on furniture during the year
 - (ix) Machinery purchased on credit during the year.
 - (x) An old motor-car sold on credit during the year.
- B. Given below are certain statements. Some of the statements are true and some are false. State whether each of the following statements is 'True' or 'False'
- i. Receipts and Payments A/c is prepared by non trading organisation only.
 - ii. Receipts and Payments Account is a Revenue Account
 - iii. Receipts and Payments A/c starts with opening balance.
 - iv. Receipts and Payments Account records all income and expenses received or paid during the year in cash.
 - v. Receipts and Payments Accounts does not make difference between capital and revenue receipts or payments.
 - vi. Receipts and Payments A/c is equivalent to Profit & Loss A/c.

30.5 DIFFERENCE BETWEEN RECEIPTS AND PAYMENTS ACCOUNT AND CASH-BOOK

We have already learnt about Cash-book and Receipts and Payments Account. Let us study the differences between the two :

Receipts and Payments Account	Cash Book
1. It is prepared at the end of the accounting year.	It is prepared on day-to day basis.
2. Every item appears only once.	An item, say subscription, may appear a number of times during the accounting period.
3. It assists in the preparation of Financial Statements.	It is not used for preparing finance statements at the end of the period
4. Details are shown on the basis of aggregate information collected from Cash-book and other books of accounts.	Transactions are recorded on the basis of Accounting Vouchers.
5. It is prepared by non-trading organisations.	It is prepared by all type of organisations.
6. It reflects the activities of the organisation.	It does not reflect the activities of the organisation.

INTEXT QUESTIONS 30.3

Given below are given a few characteristics. State whether they relate to Cash Book or Receipts and Payments Account. Tick (✓) the appropriate Column.

Characteristics	Cash Book	Receipts and Payments A/c
i. Prepared on the basis of accounting Vouchers.		
ii. Records day to day transactions.		
iii. Every item will appear only once.		
iv. It is not a part of accounting.		
v. Available for members and outsiders.		
vi. It shows transactions in aggregate form.		
vii. Prepared for aiding the preparation of financial statements.		
viii. Prepared by non-trading organisations.		
ix. Reflects the activities of an organisation.		

30.6 WHAT YOU HAVE LEARNT

- Non-trading organisation are schools, clubs, hospitals and religious organisations.
- Their objective is to serve the society, a group or the public at large.
- These organisations have a separate entity of their own.
- These organisations follow the Double-entry system of accounting.
- Usually the transactions of non-trading organisations are in Cash.
- These organisations use Cash Book to record all transactions on the basis of Accounting Vouchers.
- Common receipts of non-trading organisations are subscriptions, donations, admission fees, interest on securities, etc. and payments are wages and salaries, rent, purchase of assets, postage, etc.
- Receipts and Payments shows cash transactions in aggregate form.
- Receipts and Payments Account provides information for preparing financial statements.
- Cash Book records day to day transactions while Receipts and Payments Account shows only aggregate form.
- Cash Book is a part of accounting records and it is maintained on the basis of accounting vouchers.
- Non-trading organisations' financial statements consist of an Income and Expenditure Account and Balance Sheet.

30.7 TERMINAL QUESTIONS

1. Give five examples of non-trading organisations.
 2. What is main objective of non-trading organisation?
 3. Explain, in brief, items of Receipts and Payments Account.
 4. Distinguish between Receipts and Payments A/c and Cash Book.
 5. Prepare Receipts and Payments Account from the following information for ending year Dec 31, 1996.
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	Rs.
Cash on 1.1.96	3,000
Cash on 31.12.96	2,170
Subscriptions	2,500
Paid Rent	600
Printing and Stationery	150
Advertisement Expenses	200
Petty Expenses	55
Interest on Investment	1,000
Interest on Securities	475
Entrance Fees	500
Sale of old newspapers	75
Purchase of Govt Securities	2,500
Purchased a bicycle	425
Purchased furniture	400
Purchase of Books	300
Entertainment Expenses	750

30.8 ANSWERS TO INTEXT QUESTIONS

30.1

A.

Organisation	Non-trading Organisation	Trading Organisation
1	—	√
2	√	—
3	—	√
4	√	—
5	—	√
6	√	—
7	—	√
8	√	—
9	√	—
10	√	—

B.

Items	Receipts	Payments
1	√	—
2	—	√
3	—	√
4	√	—
5	√	—
6	—	√
7	√	—
8	√	—
9	—	√
10	—	√

30.2

A. Receipts i) ii) iv) v)
 Payments iii) vi) viii)

B. i. True ii. False iii. True
 iv. True v. True vi. False

30.3

Characteristics	Cash Book	Receipts and Payments A/c
(i)	√	—
(ii)	√	—
(iii)	—	√
(iv)	—	√
(v)	—	√
(vi)	—	√
(vii)	—	√
(viii)	—	√
(ix)	—	√