



**★ NON-PROFIT ORGANIZATION - SUMMARY NOTES
(CMA Foundation Paper 02)
Exam Crux (MCQ-Oriented Notes)**
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1 Meaning of Non-Profit Organization (NPO)

A Non-Profit Organization is an entity formed not to earn profit, but to provide services to its members or society.

✓ Examples

- Educational institutions (schools, colleges)
- Hospitals
- Clubs (sports club, recreation club)
- Charitable trusts
- NGOs

◆ Characteristics

- No profit motive
- Surplus is not distributed to members
- Prepare special financial statements (Receipts & Payments A/c, Income & Expenditure A/c, Balance Sheet)

2 Financial Statements of NPO

A. Receipts and Payments Account (R&P A/c)

A summary of all cash and bank transactions during the year — similar to a cash book.

✓ Features

- Includes all receipts & payments of cash (capital + revenue)
- Opening balance → Cash/Bank
- Closing balance → Cash/Bank
- No adjustments for accrual, outstanding, or prepaid items
- Non-cash items (depreciation, outstanding exp., etc.) are NOT recorded

B. Income & Expenditure Account (I&E A/c)

This is similar to Profit & Loss A/c of business organizations.

✓ Features



- Only revenue items (income + expenses)
- Adjusted for:
 - Outstanding
 - Prepaid
 - Accrued income
 - Depreciation
- Capital receipts/payments excluded

C. Balance Sheet of NPO

Prepared at the end of year, showing:

- Assets (Cash, Bank, Furniture, Investments, Outstanding Income)
- Liabilities (Outstanding expenses, Pre-received income, Capital Fund)

✓ Capital Fund

Opening Capital Fund = (Assets - Liabilities) at beginning

- Surplus (or - Deficit)
- Special donations, grants, life membership fees

3 Key Items in NPO Accounting

❖ 1. Subscriptions

Subscription = Amount paid by members periodically.

✓ Adjustments

Formula:

Subscription credited to I&E A/c =

Amount received

- Outstanding for current year
 - Advance for next year
 - Outstanding of previous year
- Advance of previous year

Example

Amount received ₹80,000

Outstanding for current year ₹5,000

Advance for next year ₹2,000

Subscription = $80,000 + 5,000 - 2,000 = ₹83,000$

MCQ :



1. There are 100 members each paying an annual subscription of 500. The Receipt and Payment account shows arrear subscription of 4,500, advance subscriptions 6,000 and current 44,500. How much amount to be credited in the Income and Expenditure account?

- (A) 55,000
- (B) 49,000
- (C) 44,500
- (D) 50,000

Explanation: the total annual subscription income is determined by multiplying the number of members by the annual subscription fee.

- Number of members = 100
- Annual subscription fee = 500
- Total annual subscription = $100 \times 500 = 50,000$

2. ON 31ST December, 2011 a club had subscription in arrears of rs. 16,000 and in advance rs. 4,000 respectively. During the year ended on 31.12.2012, the club received subscription of rs. 2,08,000 which includes rs.10,400 relating to 2013. What amount of subscription will be recognized as income for the year 2013?

- a) Rs.2,12,000
- b) Rs.1,96,000
- c) Rs.1,81,600
- d) Rs.1,85,600

Working Note:

Subscription to be recognized as Income = Subscription received - Received in advance (Closing) + Received in advance (Opening) + Arrears (Closing) - Arrears (Opening)

$$2,08,000 - 10,400 + 4,000 + 0 - 16,000 = ₹1,85,600.$$

3. Income and Expenditure Account subscriptions at ₹10,000. Subscriptions accrued in the beginning shows of the year and at the end of the year were ₹ 1,000 and ₹ 1,500 respectively. The figure of subscriptions received appearing in receipts and payments account will be:

- (a) 9,500



- (b) ₹11,000
- (c) ₹10,000
- (d) None of the above

Working Note:

Subscription received = Subscription in Income & Expenditure A/c Arrears (Closing) + Arrears (Opening) $10,000 - 1,500 + 1,000 = 9,500$.

4. Subscription received during the year 50,000; subscription outstanding at the beginning of the year 6,000. Income from subscription was shown as 52,000. What amount will be shown as subscription outstanding at the end of the year in the Balance Sheet?

- a) 8,000
- b) 6,000
- c) 2,000
- d) 4,000

Working Note: -

Outstanding Subscription (Closing) = Subscription to be recognized as Income - Subscription received + Outstanding(Opening) = $52,000 - 50,000 + 6,000 = ₹8,000$.

5. Subscription of a social club for the year 2023-24 appearing in Income & Expenditure A/c is ₹87,000 Ascertain the amount of Subscription received during the year, given the following details:

Arrear Subscription: On March 31, 2023 ₹10,000 and March 31, 2024 ₹12,000:

Advance Subscription: On March 31, 2023 ₹ 11,000 and March 31, 2024 ₹8,000:

- a) ₹84,000
- b) ₹ 82,000
- c) ₹ 92,000
- d) ₹ 90,000

Working Note:

Subscription received = Subscription recognized as Income + Received in advance (Closing)-Received in advance (Opening) - Arrears (Closing) + Arrears (Opening) = $87,000 + 8,000 - 11,000 - 12,000 + 10,000 = ₹ 82,000$.



6. A Charitable Institution has 250 members with annual subscription of ₹5,000 each. The subscription received during 2020-21 were ₹11,25,000, which include ₹ 65,000 and 25,000 for the years of 2019-20 and 2021-22 respectively. Amount of outstanding subscription for the 2020-21 will be:

- a) ₹90,000
- b) ₹1,25,000
- c) ₹ 2,15,000
- d) ₹1,90,000

Working Note:

Subscription received for 2020-21 = 11,25,000 - 65,000-25,000 = ₹10,35,000

Subscription due = $250 \times 5,000 = ₹ 12,50,000$

Subscription Outstanding for 2020-21 = $12,50,000 - 10,35,000 = ₹2,15,000$.

❖ 2. Donations

(A) General Donation

- Treated as Revenue income
- Shown in I&E A/c

(B) Specific Donation

Given for a particular purpose (e.g., building fund).

- Treated as Capital receipt
- Shown in Liability side → Specific Fund

Example

Donation for Building ₹2,00,000 → goes to Building Fund (Liability).

❖ 3. Legacy

Amount received under a will.

- Always Capital Receipt.

Example: A member leaves ₹5,00,000 in his will.

❖ 4. Life Membership Fees

One-time fee paid by members.

✓ Treated as Capital Receipt

❖ 5. Entrance / Admission Fee

Treatment depends on policy:

- If small amount → Revenue income



- If large amount and non-recurring → possibly Capital

❖ 6. Sale of Old Assets / Scrap

Sale of old newspapers/books → revenue income

Sale of old furniture → reduce asset value, profit/loss transferred to I&E

❖ 7. Expenses Paid in Advance / Outstanding

Handled same as in business accounting.

✓ Outstanding → Add to expense in I&E, show as liability

✓ Prepaid → Deduct from expense, show as asset

4 Special Funds in NPO

Special funds are created for specific purposes.

Examples

- Sports Fund
- Prize Fund
- Building Fund

✓ Treatment

Income from fund + Donations for fund → Added to Fund

Expenses for that purpose → Deducted from Fund

Only remaining balance appears in Balance Sheet

Example:

Sports Fund balance = ₹1,00,000

Add: Income on fund investment = ₹8,000

Less: Sports expenses = ₹6,000

Sports Fund (closing) = ₹1,02,000

1. The opening balance of Prize Fund was Rs.32,800. During the year, donations received towards this fund amounted to Rs. 15,400; amount spent on prizes was Rs. 12,300 and interest received on prize fund investment was Rs.4,000. The closing balance of Prize Fund will be :

- Rs.56,500
- Rs.64,500
- Rs.39,900
- Rs.31,900



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2. The following information has been extracted from the financial statements of a not-for-profit-organization for the year ended 31 st March, 2019:

[MMIMP]

Particulars Rs.

Opening Balance of Match Fund 5,00,000

Sale of Match tickets 3,75,000

Donation for Match Fund received during the year 1,24,000

Match expenses 10,00,000

Which of the following statements is correct for the presentation of the above items in the financial statements of the not-for-profit organization?

- a. Negative Balance of Match Fund Rs. 1,000 will be shown on the liabilities side of the Balance sheet as at 31st March, 2019.
- b. Opening Balance of Match Fund Rs.5,00,000 will be shown on the liabilities side of Balance Sheet as at 1-4-2018.
- c. Negative balance of Match Fund, Rs. 1,000 will be shown on the expenditure side of the Income and Expenditure Account for the year ended 31-3-2019.
- d. Both (B) and (C).

OTHER IMP MCQ

1. How much amount will be shown in Income and Expenditure Account in the following case? [MMIMP]

	1-4-2009	31-3-2010
	Rs.	Rs.
Creditors for Stationery	8,000	6,000
Stock of Stationery	3,000	3,200

During 2009-10 payment made for Stationery was Rs.60,000.

- a. Rs.57,800
- b. Rs.62,200
- c. Rs.61,800
- d. Rs.58,200