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Academic Education CBSE › Class 12 Commerce › Accountancy

Accounting for Not-for-Profit Organisation

Understanding Accounting for Not-for-Profit Organisations

DEFINITION

Accounting for Not-for-Profit Organisations involves tracking financial activities of entities that do not aim for profit. It ensures transparency and accountability in managing funds for social causes.

KEY CONCEPTS

Receipts and Payments Account

A summary of cash transactions during a specific period, showing inflow and outflow.

Income and Expenditure Account

Similar to a profit and loss account, it reflects the surplus or deficit for the period.

Balance Sheet

A financial statement that shows the assets, liabilities, and net assets of the organisation at a specific date.

Fund Accounting

Tracking funds separately to ensure they are used for their intended purpose.

Non-Profit Characteristics

Focus on service rather than profit, often funded by donations and grants.

EXAMPLES

→ A charity organisation receives donations and incurs expenses for community services.

→ A sports club collects membership fees and spends on equipment and events.

→ A school conducts fundraising events to support educational programs.

MEMORY TIPS

★ Remember 'RPE' for Receipts, Payments, and Expenditure accounts.

★ Think of 'FUND' to recall Fund Accounting: Focus, Use, Necessity, and Distribution.

★ Use the acronym 'BIS' for Balance Sheet, Income Statement, and Surplus.

COMMON MISTAKES

✗ Confusing receipts with income in the Receipts and Payments Account.

✗ Forgetting to include all expenses in the Income and Expenditure Account.

✗ Neglecting to differentiate between restricted and unrestricted funds.

QUICK RECAP

Accounting for Not-for-Profit Organisations focuses on transparency in financial management. Key components include the Receipts and Payments Account, Income and Expenditure Account, and Balance Sheet, ensuring funds are used appropriately.