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Academic Education GSEB › 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 recording and reporting financial activities of entities that do not operate for profit. It focuses on transparency and accountability to stakeholders.

KEY CONCEPTS

Receipts and Payments Account

This account summarizes all cash transactions during a specific period, showing inflows and outflows.

Income and Expenditure Account

This account reflects the organization's operational performance, showing income earned and expenses incurred over a period.

Balance Sheet

It presents the financial position of the organization at a specific date, detailing assets, liabilities, and net assets.

Fund Accounting

This method tracks resources that are restricted for specific purposes, ensuring funds are used as intended.

Donations and Grants

These are key sources of income for not-for-profit organizations, often requiring specific accounting treatment.

EXAMPLES

→ A charity receives $10,000 in donations this year.

→ An NGO spends $5,000 on community programs.

→ A sports club organizes an event that generates $2,000 in ticket sales.

MEMORY TIPS

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

★ Use 'FIB' for Fund, Income, and Balance sheet to recall key components.

★ Think of 'D-G' for Donations and Grants as primary income sources.

COMMON MISTAKES

✗ Confusing Receipts and Payments with Income and Expenditure accounts.

✗ Failing to properly account for restricted funds.

✗ Neglecting to include non-cash donations in financial statements.

QUICK RECAP

Accounting for Not-for-Profit Organisations emphasizes transparency and accountability. Key components include the Receipts and Payments Account, Income and Expenditure Account, and Balance Sheet, all crucial for effective financial management.