**WEEK SIX**

**TOPIC**: **ACCOUNTS OF NON-PROFIT – MAKING ORGANIZATIONS**

**WHAT ARE NON-PROFIT MAKING ORGANIZATIONS?**

Non-profit-making organizations exist to provide services for their members. Example are. Sports and social clubs, dramatic societies, music clubs, etc.

Making a profit is not their main purpose, although many carry on fund – raising activities to provide more or more services for the members. The organization is owned by all its members and not by just one person or a few of the members.

Records of money received and spent are usually kept by a member who is not a trained bookkeeper or accountant. Besides, these records of money received and spent, usually no other records are kept. Because of this his topics is an extension of incomplete records treated in the previous weeks.

**SPECIAL FEATURES OF THE ACCOUNTS OF NON-PROFIT MAKING ORGANIZATIONS**

1. An Income and Expenditure Account takes the place of the profit and loss Account (2). The words Surplus of Income Over Expenditure are used in place of Net profit. (3). The works Excess of Expenditure Over Income are used in place of net loss. (4). The term Accumulated Fund is used in place of capital Account. (5). A trading Account is only prepared for an activity that is in the nature of trading and carried on to increase the club’s funds.

**THE TREATMENT OF INCOME:**

Income of a club should be treated in the club’s accounts as follows:-

1. **SUBSCRIPTIONS**

The amount credited to the income and Expenditure Account should equal the annual subscription per member multiplied by the number of members. It may be helpful to prepare a subscriptions account as workings to decide how much should be credited to the Income and Expenditure Account Subscriptions in Arrears and subscriptions is advance should normally be treated as accruals and prepayments. However, each club has its own policy for treating subscriptions in arrears or in advance. The two possible policies are as follows:-

(i) Cash basis: The amount actually received in the year is credited to income and Expenditure Account. This may include subscription for a previous year or paid in advance for the next year.

(ii) Accrual Basis:- All subscription due for the year including those not yet received are credited to the income and expenditure Account it will usually be the Club’s policy to write off as bad debts, subscriptions that are not received the year after they were due.

1. **Life subscription and entry fees**

Life subscription and entry fees are received as lump sums but should not be credited in full to the income and expenditure Account when received. The club should have a policy of spreading it his income over a period of say, five years. The amount received should be credited to a deferred Income account and credited to income and Expenditure Account equal annual installments over a period determined by the club committee

1. **Donations**

Donations and legacies to a club are usually made for particular purposes, e.g. towards the cost of a new hall or equipment. Such a donation should be credited to an account opened for the purpose and expenditure on it debited to the account. Money received for special purpose should be placed in a separate bank account to ensure that it is not spent on other things.

1. **Supporting Activities**

There are some supporting activities to a club’s main purpose. They raise money to supplement income from subscription. If they involved some sort of trading, a Trading Account should be prepared for them as part of the annual accounts, and the profit or loss should be transferred to the income and expenditure Account.

Non-trading activities, such as social get together, outings and dinner – dances may be dealt with in the income and Expenditure Account with the income and costs being grouped together as follows:-

N N

Annual dinner-dance

Sale of tickets 600

Less: hire of band (100)

Catering and drinks (240)

NET RECEIPTS 260

**EVALUATION:**

State and explain five special features of the account of non-profit-making organizations.

**READING ASSIGNMENT:** Financial Accounting with Ease by Onatowokan Oluyombo Page 185-187.

**WEEKEND ASSIGNMENT**

1. Which of the following is NOT a source of revenue to a non-profits-making organization? (a) Donation (b) Entry fee (c) fine (d) Provision
2. Subscriptions prepaid is (a) current capital (b) current liabilities (c) fixed asset (d) working capital

1. Subscription outstanding is (a) current asset (b) current liabilities (c) working capital (d) fixed asset
2. The capital of a non-profit organization is referred to as (a) Net profit (b) gross profit (c) accumulated fund (d) net deficiency
3. For a non-profit-making organization the equivalent of a profit and loss account in a profit-making business concern is (a) trading account (b) receipt and payment (c) accumulated fund (d) income and expenditure account

**THEORY QUESTION**

1. List and explain five special characteristics of the accounts of non-profit-making organizations.

2. Write short notes on:-

(i) Subscriptions prepaid (ii) Subscriptions accrued (iii) donations

**GENERAL EVALUATION QUESTIONS**

1. List five methods of providing for depreciation of fixed assets
2. State five reasons for making provision for depreciation of fixed assets
3. List eight errors that will affect the agreement of the trial balance
4. Give five reasons for preparing departmental accounts
5. List and explain five classifications of the Ledger