

# CLUBS AND SOCIETIES (NON PROFIT ORGANISATIONS)

## What are Clubs and Societies?

- They are **non-trading** or **non-profit organisations**.
- Their aim is **not** to earn profits for owners or shareholders, but to cover costs and support their members.
- Any surplus (extra income over expenses) is **reinvested** into the organisation — not distributed.

## Difference in terminologies;

|           | <b>Company</b>               | <b>Non Profit Organisation</b>     |
|-----------|------------------------------|------------------------------------|
| <b>1.</b> | Capital/Equity               | Accumulated Fund                   |
| <b>2.</b> | Profit for the year          | Surplus of income over expenditure |
| <b>3.</b> | Loss for the year            | Deficit of income over expenditure |
| <b>4.</b> | Bank Account                 | Receipt and payment account        |
| <b>5.</b> | Statement of profit and loss | Income and expenditure account     |

## Possible Sources of Finance and Fundraising Methods

### Internal sources

- Members' subscriptions
- Entrance fees

### External sources

- Donations and grants (from individuals, government, companies)
- Sponsorships
- Fundraising events (competitions, matches, trips, etc)
- Trading activities (club shop, café, bar)
- Bank loans or overdrafts (less common due to non-profit nature)
- Profit on disposal of Non Current Assets

## Steps to solve an Non Profit Organisation question are:

### 1. Opening Accumulated fund:

Opening Accumulated fund = **Opening assets - Opening liabilities**

- ▶ Date line: A set of opening and closing date is given.
- ▶ Do not forget to take the opening “receipt and payment account balance”
- ▶ Prepaid expense = Asset
- ▶ Accrued Expense = liability
- ▶ Prepaid/Advance income = liability
- ▶ Accrued income = Asset

### 2. Subscription Account

Subscription is the main source of income for NPO

An income account (APPA) is made for subscription

| Subscription (APPA)  |            |                    |            |
|--|------------|--------------------|------------|
| Arrear B/d   | xxx        | Advance B/d        | xxx        |
| <div style="border: 1px solid black; padding: 2px;">Income and Expenditure</div> xxx |            | Receipt & Payment  | xxx        |
|  |            | Irrecoverable debt | xxx        |
| Advance  | <u>xxx</u> | Arrear c/d         | <u>xxx</u> |
|  | <u>xxx</u> |                    | <u>xxx</u> |
| Arrear B/d   | xxx        | Advance B/d        | xxx        |

- Do not forget to credit the **irrecoverable debt** of subscription.
- Do not forget to debit the **refund of subscription** to members.
- Closing prepaid subscription → Current liability (SOFP)
- Closing subscription in arrears → Current asset (SOFP)
- The 'receipts & payments' figure in the subscription account consist of the total subscription received during the year; whether subscription received for current year, last years or future years.

### 3. Trading Activity (Café/ Shop/ Refreshment/ Restaurant)

Prepare a normal Income Statement of a trading activity

|                                    | \$         | \$           |
|------------------------------------|------------|--------------|
| Café Sales                         |            | xxx          |
| <b>Less:</b> Cost of sales         |            |              |
| Opening Inventory                  | xx         |              |
| Purchases (w1)                     | xx         |              |
|                                    | <b>xxx</b> |              |
| Less: Closing inventory            | (xx)       | <b>(xxx)</b> |
| <b>Gross Profit</b>                |            | <b>xxx</b>   |
| <b>LESS:</b> Café related Expenses |            |              |
| Wages of café staff                | xx         |              |
| Electricity of café                | xx         |              |
| other café expenses                | xx         | (xxx)        |
| <b>Profit from Café</b>            |            | <b>xxx</b>   |

To find out credit Purchases, PLCA has to be prepared;

| P LCA   |                            |
|---|----------------------------|
| Bank / cash                                       | Balance Bld xxx            |
| Payment to trade Payable ) xxx                    | Credit Purchases xxx       |
| Purchase return } usually given xxx               | (usually balancing figure) |
| Discount received } in additional information xxx |                            |
| Balance c/d xxx                                   |                            |
| xxx   |                            |
| xxx   | xxx                        |

► If cash Purchases are given or calculated, then;

**Total Purchases = Cash purchases + Credit purchases**

- In order to calculate the purchases figure in the **Café trading account**, a Purchase Ledger Control Account (PLCA) is made
- All the expense and income relating to the café will be a part of the café trading account.
- **EXPENSES OF THE CLUB SHOULD NOT BE INCLUDED IN THE CAFÉ TRADING ACCOUNT**

## Distinction between a Receipts and Payments Account and an Income and Expenditure Account

| Aspect                                    | Receipts & Payments Account                              | Income & Expenditure Account                                 |
|---|--|--|
| <b>Nature</b>                             | Cash summary (like a cash book)                          | Accrual-based (like an income statement)                     |
| <b>Basis</b>                              | Cash basis   | Accruals (matching principle)                                |
| <b>Purpose</b>                            | Shows actual cash inflows and outflows during the period | Shows surplus/deficit (true financial performance)           |
| <b>Includes</b>                           | Both capital and revenue items                           | Only revenue items (capital items go to balance sheet)       |
| <b>Balance</b>                            | Closing cash and bank balance (asset)                    | Surplus or deficit (added to/deducted from accumulated fund) |
| <b>Non-cash items</b> (e.g. depreciation) | Not included   | Included   |

### 4. Adjustment for expense and incomes

| Expenses (PAAP) |                                | INCOME (APPA)                  |                 |
|-----------------|--------------------------------|--------------------------------|-----------------|
| Prepaid B/d xxx | Accrued B/d xxx                | Accrued B/d xxx                | Prepaid B/d xxx |
| Bank/cash xxx   | Statement of profit & loss xxx | Statement of profit & loss xxx | Bank/cash xxx   |
| Accrued c/d xxx | Prepaid c/d xxx                | Prepaid c/d xxx                | Accrued c/d xxx |
| xxx             | xxx                            | xxx                            | xxx             |

- If there is opening and closing balance of expense/ income, we have to make its account
- For Expense = PAAP Account
- For Income = APPA Account

## 5. Depreciation:

There will be 2 cases;

1. The rate and the method of depreciation will be given;
  - e.g; straight line method at a rate of 20%
  - reducing balance method at a rate of 25%
2. **HIDDEN depreciation;**
  - There will be NO information with respect to depreciation in the question
  - The opening and closing balance of NCA will not be the same
  - The depreciation will be calculated using Revaluation method

|   |             |
|---|-------------|
|   | \$          |
| Opening balance of NCA                    | xxx         |
| ADD: purchase of NCA (check bank account) | xxx         |
| LESS: Sale of NCA (NBV)                   | (xx)        |
| LESS: Closing balance of NCA              | <u>(xx)</u> |
| <b>Depreciation for the year</b>          | <b>xxx</b>  |

## 6. Income And Expenditure Account

|   | \$ | \$               |
|---|----|------------------|
| <b>Incomes</b>                                      |    |                  |
| Subscription (subscription account)                 | xx |                  |
| Profit from trading (café)                          | xx |                  |
| Profit from event (sales - expenses)                | xx |                  |
| General Donation                                    | xx |                  |
| Profit on disposal of NCA                           | xx |                  |
|   |    | <b>xxx</b>       |
| <b>Expenditures</b>                                 |    |                  |
| Loss on disposal of NCA                             | xx |                  |
| loss from trading (café)                            | xx |                  |
| general expenses                                    | xx |                  |
| depreciation  | xx |                  |
| staff wages   | xx |                  |
| irrecoverable debt of subscription                  | xx |                  |
| Loss from event (sales - expenses)                  | xx |                  |
| other expenses                                      | xx |                  |
|   |    | <b>xxx</b>       |
| <b>Surplus/(Deficit) of Income over Expenditure</b> |    | <b>xxx/(xxx)</b> |

- Do not forget that bad debt of subscription is also an expense.
- All expenses which are calculated through PAAP, will be included. (STEP 4)
- Do not forget to include the hidden depreciation. (STEP 5)

## **7. Statement of Financial Position**

|  | \$   | \$         |
|--|------|------------|
| <b><u>Non Current Assets</u></b>                       |      |            |
| Premises   | xx   |            |
| Machinery  | xx   |            |
| Motor Vehicle  | xx   |            |
|  |      | <b>xxx</b> |
| <b><u>Current Assets</u></b>                           |      |            |
| Inventory (refreshment/ café/ Bar)                     | xx   |            |
| Subscription in arrears (closing)                      | xx   |            |
| Other receivables (accrued incomes + prepaid expenses) | xx   |            |
| Receipt and payment account Debit balance              | xx   |            |
|  |      | <b>xxx</b> |
| <b>TOTAL ASSETS</b>                                    |      | <b>xxx</b> |
|  |      |            |
| <b>Accumulated Fund and Liabilities</b>                |      |            |
| <b><u>Represented by:</u></b>                          |      |            |
| Opening accumulated fund (step 1)                      | xx   |            |
| ADD: Surplus of income                                 | xx   |            |
| Less: Deficit of income                                | (xx) |            |
| ADD: Specific Donation                                 | xx   |            |
|  |      | <b>xxx</b> |
|  |      |            |
| <b><u>Non Current Liabilities</u></b>                  |      |            |
| Loan   |      | xxx        |
|  |      |            |
| <b><u>Current Liabilities</u></b>                      |      |            |
| Trade payable  | xx   |            |
| Subscription in advance (closing)                      | xx   |            |
| other payables (prepaid incomes + accrued expenses)    | xx   |            |
| Receipt and payment and account Credit balance         | xx   |            |
|  |      | <b>xxx</b> |
| <b>TOTAL ACCUMULATED FUND AND LIABILITIES</b>          |      | <b>xxx</b> |

## **Donations (Gifts)**

Whenever someone provides the club with money without getting anything in return, it is referred to as donation. Donation is an income for the club

### **There are 2 types of donations:**

#### **1. General Donation**

General donation is a donation for which no purpose is defined. That is, the donor leaves it for the club to decide what to do with the money.

- **Accounting Treatment:** This type of donation is directly recorded as an income when it is received. (This can be clearly seen in the income & expenditure account in step 6).

#### **2. Specific Donation**

Specific donation is a donation for which a purpose is defined. That is, the donor requires the club to do something specific with the money provided such as building a stadium or a swimming pool etc.

- **Accounting Treatment:** This type of donation is recorded under the 'represented by section of the S.O.F.P (This can be clearly seen in the represented by section of the S.O.F.P in step 7).

### **Differences between Donation and Subscription**

|    | <b>Donations</b>                      | <b>Subscription</b>                        |
|----|---------------------------------------|--|
| 1. | Not mandatory                         | Mandatory                                  |
| 2. | Received from members and non-members | Received from members only                 |
| 3. | Amount is not fixed                   | Amount is fixed                            |
| 4. | It is free from service               | Services are provided against subscription |

### **Why Members of NPO Do Not Received Dividend**

- Members are not shareholders
- Profits are reinvested
- Members do not have contributed any capital nor taken risk