

1. **Answer:** b) To serve social, educational, or charitable causes

Explanation: The primary objective of an NPO is to further a social, educational, or charitable cause rather than to generate profit for owners or shareholders. NPOs are set up with the purpose of providing services or resources that benefit society, and any surplus revenue they generate is reinvested into the organization to achieve its goals. Examples of such organizations include charities, schools, hospitals, and social clubs. These entities focus on fulfilling specific missions that contribute positively to the community or a particular group, rather than maximizing financial gains for private interests.

2. **Answer:** a) It generates profits

Explanation: NPOs do not focus on making profits for distribution. Instead, any surplus or profit generated is reinvested back into the organization to further its mission, whether that is providing services, funding programs, or expanding its operations. The lack of profit distribution is a fundamental characteristic of NPOs, as their purpose is not financial gain, but to support charitable, educational, or social activities. While they may generate income (e.g., donations, fees for services), the intent is to use that income to fund the organization's cause rather than for private or shareholder benefits.

3. **Answer:** b) To maintain a record of the income and expenditures

Explanation: Receipts and payments accounting is used by NPOs to record all cash transactions, including both income and expenditures, during the accounting period. Unlike profit and loss accounting, receipts and payments accounts focus on the movement of cash, showing the inflows (receipts) such as donations, grants, and subscription fees, and the outflows (payments) such as operational costs, salaries, and expenses. It helps in understanding how much cash the organization has at its disposal but does not account for non-cash transactions like depreciation or accrued income. This is particularly useful for the organization's management and external stakeholders to track liquidity.

4. **Answer:** a) Entrance fees

Explanation: Capital receipts refer to funds that are used for long-term purposes, and they are typically not part of the regular operational income of an organization. In the case of NPOs, entrance fees paid by members to join an organization are considered capital receipts because they are not intended to cover day-to-day expenses but are instead used for the long-term benefit of the organization. For example, the funds raised through entrance fees may be used to enhance facilities or fund large capital projects, rather than for general operating expenses.

5. **Answer:** a) Tracking the source and application of funds

Explanation: Fund-based accounting is a method of accounting used by NPOs that involves segregating the organization's funds based on their specific purpose. It tracks the source (e.g., donations, grants) and the use of each fund (e.g., program costs, capital expenses). This method helps to ensure that funds are used as intended, for example, ensuring that donations earmarked for specific projects are not used for general expenses. Fund-based accounting provides greater transparency to donors, grantors, and other stakeholders, allowing them to see how their contributions are being allocated and ensuring compliance with funding restrictions.

6. **Answer:** b) Routine operational income and expenses

Explanation: Non-fund-based transactions involve regular operating income and expenses that are not tied to any specific fund. These transactions include items like subscription fees, membership dues, and day-to-day operational costs like salaries and rent. In contrast to fund-based transactions, which are earmarked for particular projects or programs, non-fund-based transactions are used to cover the general operational needs of the organization, such as maintenance, administration, and other recurring costs that support the overall mission of the NPO.

7. **Answer:** b) It tracks operational costs and revenue without focusing on profit generation

Explanation: The income and expenditure account is used by NPOs to track the organization's revenues and expenditures, focusing on the surplus or deficit for the period. Unlike a profit and loss account, which is focused on profit generation for a business, an income and expenditure account does not reflect profits or losses distributed to shareholders. Instead, it shows the difference between the organization's total income (from sources like donations, subscriptions, and grants) and its total expenditures (such as operating costs and program expenses). A surplus is typically reinvested back into the organization to support its objectives.

8. **Answer:** b) Donations for building a new facility

Explanation: Capital receipts refer to funds that are raised for long-term purposes, and donations for building a new facility are a classic example. These donations are typically earmarked for a specific capital project and are not used for daily operational expenses. The use of capital receipts in NPOs is restricted to long-term investments, such as purchasing property, constructing buildings, or funding major projects that support the organization's mission over an extended period.

9. **Answer:** b) To display the organization's financial position at a given point in time

Explanation: A balance sheet for an NPO provides a snapshot of the organization's financial position at a specific moment, listing its assets, liabilities, and net worth. It is a

crucial financial statement that helps stakeholders, such as donors, creditors, and management, understand the organization's financial stability. The balance sheet is divided into two parts: assets (what the NPO owns, such as cash, property, or investments) and liabilities (what the NPO owes, such as loans or outstanding bills). The difference between these two is the net assets, which represent the organization's financial strength.

10. **Answer:** b) They are considered revenue receipts

Explanation: Subscriptions are treated as revenue receipts because they represent regular, recurring income that supports the ongoing operations of the organization. These receipts may come from members or supporters who contribute regularly, typically to fund the operational costs of the NPO. Subscription income is recorded in the receipts and payments account, helping to track the cash inflows necessary to maintain the organization's activities. This income is essential for covering daily expenses and continuing the NPO's work.

11. **Answer:** a) It is treated as an operating expense

Explanation: Depreciation is an accounting method used to allocate the cost of a fixed asset over its useful life. In NPO accounting, depreciation is treated as an operating expense in the income and expenditure account. This is done to reflect the reduction in value of assets used in the operations of the organization. Depreciation is not a cash transaction, but it is necessary for accurately reporting the organization's true financial position and the cost of maintaining its assets. By accounting for depreciation, NPOs ensure that their financial records reflect the actual usage of assets.

12. **Answer:** b) Grants are treated as liabilities until they are used

Explanation: Grants received by NPOs, especially those earmarked for specific projects, are initially recorded as liabilities in the balance sheet because the funds are not yet fully earned. Once the grant is used for the intended purpose, it is transferred from liabilities to income in the income and expenditure account. This ensures that the organization accounts for the timing of income recognition, in line with the purpose of the grant and the related expenditures. This approach provides transparency in how the funds are utilized.

13. **Answer:** c) Interest income

Explanation: Revenue receipts refer to funds that are used for the day-to-day operations of the NPO. Interest income is a regular form of revenue receipt, as it is generated from the organization's investments or savings. This income helps to support the ongoing operational costs, such as salaries, maintenance, and other recurring expenses. In contrast, donations for specific projects or the sale of fixed assets would

be considered capital receipts, as they are related to long-term investments or the acquisition of assets.

14. **Answer:** b) To allocate the surplus among different funds

Explanation: A profit and loss appropriation account in NPOs is used to allocate any surplus or deficit to the appropriate funds, as specified by the NPO's rules or donor restrictions. This account does not distribute profits as in a for-profit business; rather, it shows how the surplus from operations is used. Surpluses may be directed towards specific programs, reserves, or endowments, ensuring that they are reinvested into the organization's activities or used for specific purposes as per the governing documents or donor instructions.

15. **Answer:** a) It increases surplus

Explanation: Non-operating income, such as interest, rent income, or dividends from investments, is included in the income and expenditure account. This type of income contributes to the overall financial position of the NPO, increasing the surplus for the period. While it is not related to the primary charitable or operational activities, it still forms part of the total income of the organization. The surplus generated by non-operating income can be reinvested into the organization or allocated to specific funds, depending on the NPO's governing rules.

16. **Answer:** c) They are capitalized and shown as assets in the balance sheet

Explanation: Capital expenditures, such as the purchase of fixed assets (e.g., land, buildings, equipment), are treated as investments in the long-term assets of the NPO. These expenditures are capitalized, meaning they are recorded on the balance sheet as assets rather than as expenses in the income and expenditure account. Over time, these assets will depreciate, and the depreciation expense will be recorded in the income and expenditure account, reflecting the usage of these assets in supporting the NPO's operations.

17. **Answer:** b) Receipts and payments accounting focuses on cash transactions, while fund-based accounting tracks specific funds

Explanation: Receipts and payments accounting is concerned with tracking the cash inflows and outflows, providing a simple cash-based view of the NPO's financial activity. It focuses only on actual cash movements, regardless of whether they are for a specific purpose. On the other hand, fund-based accounting tracks funds that are restricted for specific purposes (e.g., grants or donations for a particular project) and ensures that the funds are used according to the donor's intent. Fund-based accounting provides greater detail on how funds are allocated and used for different projects.

18. **Answer:** d) Outstanding expenses

Explanation: Outstanding expenses, such as unpaid bills, salaries, or other operational costs, are considered liabilities because they represent amounts the NPO owes. These liabilities will be settled in the future with the available cash or resources. In the balance sheet, liabilities are typically shown on the right side, alongside assets, to provide a snapshot of the organization's financial obligations at a specific point in time. Outstanding expenses are an important part of managing the cash flow and ensuring the NPO meets its financial commitments.

19. **Answer:** a) Depreciation

Explanation: Depreciation is a non-cash expense that reflects the reduction in value of fixed assets over time. It does not involve an actual cash transaction and therefore is not recorded in the receipts and payments account. However, depreciation is included in the income and expenditure account as an expense to reflect the use of assets in the organization's operations. Non-cash transactions like depreciation are important for understanding the financial health of an NPO, but they do not affect cash flow or liquidity directly.

20. **Answer:** c) As liabilities until received

Explanation: Unpaid donations are treated as liabilities in the balance sheet until they are actually received. This is because the organization has an obligation to receive the donation but has not yet received the cash or asset. Once the donation is received, it is transferred from liabilities to income in the income and expenditure account. This ensures that the financial statements accurately reflect the organization's true cash position and obligations, adhering to the accrual basis of accounting, which recognizes income when it is earned, not when it is received.

21. **Answer:** b) It is treated as a liability and shown under "Advance Subscriptions"

Explanation: Subscription income received in advance for the next financial year is recorded as a liability because the organization has not yet earned it. This is shown under "Advance Subscriptions" in the balance sheet. The income will only be recognized as revenue in the next year when the service or membership period begins, following the matching principle of accounting. This ensures that income is recorded in the period in which it is earned, not when the payment is received.

22. **Answer:** b) It is treated as a capital receipt and recorded in the balance sheet under "Building Fund"

Explanation: Donations received for specific purposes, such as the construction of a new building, are considered capital receipts. They are not used for daily operational expenses but rather for long-term investments in the organization's infrastructure. These

donations are recorded as part of the "Building Fund" under liabilities in the balance sheet. When the funds are used for construction, the expenses are recorded in the appropriate accounts, and the capital receipt is recognized.

23. **Answer:** a) An endowment fund where the principal must remain intact

Explanation: A "restricted fund" is a fund where the donor has specified certain conditions or restrictions on how the funds should be used. For example, an endowment fund where the principal amount must remain intact, and only the income generated can be used, would be classified as a restricted fund. These funds are not available for general operations and must be used for the purpose specified by the donor. Other types of restricted funds could include donations earmarked for specific programs or capital projects.

24. **Answer:** b) Depreciation on fixed assets

Explanation: Depreciation on fixed assets is considered an operating expense in the income and expenditure account. This is because it reflects the reduction in value of the assets used by the NPO in its operations. Depreciation is calculated periodically and deducted from the income to give a more accurate picture of the organization's financial position. It is important to record depreciation to account for the wear and tear of assets and to match the cost of using the assets with the income they help generate.

25. **Answer:** b) As revenue receipts

Explanation: Donations made for a general purpose are treated as revenue receipts because they are used for the daily operations and activities of the NPO. These donations are recorded in the receipts and payments account and are considered income for the period. The funds are typically used to cover operational expenses such as salaries, utilities, and program costs. Unlike capital donations, which are used for long-term investments, general donations provide the necessary cash flow for the organization to continue its mission.

26. **Answer:** b) As a liability in the balance sheet

Explanation: Unpaid subscriptions are treated as liabilities because the NPO has a claim on the members to pay the subscriptions in the future. These unpaid amounts are included under "Outstanding Subscriptions" in the balance sheet. Once the subscriptions are paid, the liability is cleared, and the amount is recognized as income in the receipts and payments account. This ensures that income is recorded in the correct period, following the accrual basis of accounting.

27. **Answer:** a) It would increase the surplus or deficit

Explanation: An overstatement of income would lead to an inflated surplus, as it would

show more income than actually received or earned. This distortion would affect the accuracy of the financial reporting, leading to a misrepresentation of the financial position. It is crucial for NPOs to accurately record income to avoid misleading stakeholders about the organization's financial health. An overstatement of income can also affect decision-making, as it would not reflect the true financial situation of the NPO.

28. **Answer:** a) As a liability

Explanation: Membership subscriptions received in advance for the next financial year are recorded as a liability in the balance sheet. Since the service or benefit for which the subscription was paid will be provided in the next year, it has not yet been earned. The liability represents the organization's obligation to provide services in the future. Once the new financial year begins and the membership period starts, the subscription income will be recognized as revenue in the income and expenditure account.

29. **Answer:** b) To track the organization's cash inflows and outflows

Explanation: The primary purpose of the receipts and payments account is to provide a record of all cash inflows (receipts) and outflows (payments) during the accounting period. This account helps to track the liquidity position of the NPO, giving a clear picture of the cash movements over time. It does not include non-cash transactions, such as depreciation or accruals, and is focused on actual cash transactions. This account is helpful for understanding how the NPO is managing its cash resources, especially in terms of its ability to cover operating expenses.

30. **Answer:** b) It is treated as revenue income

Explanation: Interest income earned by an NPO from investments or bank balances is treated as revenue income. It contributes to the organization's operational funds and is included in the income and expenditure account for the period. Interest income helps to support the NPO's ongoing activities and programs, as it provides an additional source of cash flow. This income is recognized in the period in which it is earned, regardless of when it is received, following the accrual basis of accounting.

31. **Answer:** b) They are recorded as capital receipts

Explanation: Legacies and bequests, which are donations left in a will or estate, are generally considered capital receipts by an NPO. This is because these funds are often designated for long-term use, such as the purchase of property or the establishment of endowment funds, and are not intended for immediate operational expenses. When these funds are received, they are recorded in the balance sheet under a designated fund or as a part of capital reserves, not in the income and expenditure account, as they are not considered revenue income.

32. **Answer:** c) By subtracting the total payments from the total receipts

Explanation: The surplus or deficit of an NPO is calculated by subtracting the total payments (expenses) from the total receipts (income) recorded during the period. If the total receipts exceed the total payments, the organization will report a surplus. Conversely, if the total payments exceed the total receipts, the result will be a deficit. This calculation is done in the receipts and payments account, which provides an overview of the organization's cash flow during the accounting period.

33. **Answer:** b) It is treated as a capital receipt and recorded in the balance sheet under a designated fund

Explanation: Donations received for specific projects, such as a new building or educational programs, are treated as capital receipts. These funds are recorded in the balance sheet under a designated fund, such as a "Project Fund" or "Building Fund." Since the donation is restricted for a specific use, it is not recognized as income in the income and expenditure account. When the funds are used for the project, they will be transferred from the capital fund to cover the project's expenses.

34. **Answer:** c) The financial position of the organization at a specific point in time

Explanation: The balance sheet of an NPO provides a snapshot of the organization's financial position at a specific moment in time. It shows the assets (resources owned by the NPO) and liabilities (obligations owed by the NPO), along with the net worth or funds (equity) of the organization. The balance sheet is an important tool for understanding the financial stability of the NPO, as it reflects the organization's ability to meet its financial obligations and its overall financial health.

35. **Answer:** c) As long-term assets and depreciated over time

Explanation: Fixed assets, such as land, buildings, and equipment, are recorded in the balance sheet as long-term assets. These assets are used in the organization's operations and are not intended for resale in the short term. Over time, these assets depreciate to reflect their wear and tear or obsolescence. Depreciation is recorded in the income and expenditure account as an expense, and the accumulated depreciation is deducted from the value of the fixed assets in the balance sheet.

36. **Answer:** b) They are treated as revenue receipts and included in the income and expenditure account

Explanation: Donations with no specific restrictions or purpose are considered revenue receipts in NPO accounting. These donations can be used for the general operational activities of the NPO, such as funding programs, paying salaries, and covering other

operating expenses. Since there are no restrictions on their use, they are recognized as income in the income and expenditure account for the period in which they are received.

37. **Answer:** b) Accounting that tracks specific funds used for designated purposes

Explanation: Fund-based accounting refers to the practice of tracking and reporting funds that are earmarked for specific purposes. In NPOs, various funds may be set up for different activities, such as a general fund, a building fund, or a project fund. Fund-based accounting ensures that income and expenses are properly allocated to the respective funds, ensuring that resources are used for their designated purpose as intended by donors or the organization's governing rules. This system adds transparency and accountability to the NPO's financial reporting.

38. **Answer:** c) Match revenue with the expenses related to earning that revenue in the same period

Explanation: The "matching principle" requires that revenue and the related expenses be recognized in the same accounting period. For an NPO, this means that if income is generated from a specific program or activity, the expenses incurred for that program or activity should be recognized in the same period. This ensures that the financial statements accurately reflect the performance and financial position of the NPO during that period, providing stakeholders with a clear picture of how resources are being used to achieve the organization's mission.

39. **Answer:** b) It is recorded as a capital receipt and added to the endowment fund

Explanation: Donations made for the establishment of an endowment fund are recorded as capital receipts because the principal amount is typically not spent but invested to generate income. This income is then used for the organization's operations. The capital receipt is recorded in the balance sheet under the "Endowment Fund," and the principal amount remains intact. The income generated from this fund is recognized as revenue income when it is earned and can be used to support the NPO's activities.

40. **Answer:** c) A report showing the organization's income and expenses for the period

Explanation: The income and expenditure account in NPO accounting is similar to the profit and loss account in for-profit organizations. It shows the revenue (income) earned and the expenses incurred by the NPO during the accounting period. This account helps to determine the surplus or deficit for the period, which reflects whether the organization has more income than expenses (surplus) or vice versa (deficit). It does not include non-cash transactions, such as depreciation, but focuses on the cash inflows and outflows related to the NPO's activities.

41. **Answer:** c) Capital donations for specific projects

Explanation: Capital receipts are those funds received by an NPO that are not used for day-to-day operations but for long-term projects or investments, such as building a new facility, funding an endowment, or purchasing long-term assets. Donations made specifically for a capital project, like constructing a new building or funding an educational program, are considered capital receipts. These funds are recorded on the balance sheet and are not included in the income and expenditure account, as they are not part of regular operational income.

42. **Answer:** b) Interest on bank deposits

Explanation: Interest on bank deposits is considered income for the NPO and is recorded in the income and expenditure account. It represents a return on the organization's funds that are held in a bank account and is typically used for operational expenses. Unlike donations for specific projects, which are capital receipts, or loans, which are liabilities, interest income is part of the organization's regular revenue. It helps support the operational functions of the NPO.

43. **Answer:** b) Record it as a capital receipt and add it to a designated fund

Explanation: A gift of land, especially when received for a specific purpose like building a new school, is considered a capital receipt. It is not part of the organization's regular operational income and is recorded on the balance sheet under a designated fund or asset account. The land would not be used for immediate operational purposes but would be held for long-term use. Any construction or development expenses related to the land would be recorded separately when incurred.

44. **Answer:** b) Accrual basis accounting

Explanation: NPOs typically use the accrual basis of accounting, which means that income and expenses are recognized when they are earned or incurred, rather than when cash is received or paid. For example, if a donation is pledged but not yet received, it is still recorded as income when pledged, not when the cash is actually received. Similarly, if expenses are incurred, they are recorded in the period in which they relate, regardless of when payment is made. This method provides a more accurate picture of the NPO's financial position.

45. **Answer:** b) As a revenue receipt

Explanation: A donation made for the general operating fund of an NPO is considered a revenue receipt. These funds are used to cover day-to-day operational expenses such as salaries, utilities, and program costs. Since there are no specific restrictions on the use of the donation, it is recognized as income in the income and expenditure account

of the period in which it is received. Revenue receipts are crucial for the organization's ongoing activities, helping to maintain its programs and services

46. **Answer:** b) Subscriptions are included in the income and expenditure account

Explanation: Subscriptions, especially those paid by members of an NPO, are treated as revenue income and are recorded in the income and expenditure account. These subscriptions are an essential source of income for many NPOs and help fund ongoing programs and activities. Subscriptions that are unpaid at the end of the accounting period are typically shown as "outstanding subscriptions" in the balance sheet. Once paid, they are recognized as income.

47. **Answer:** c) To summarize the organization's cash inflows and outflows

Explanation: The primary purpose of the receipts and payments account is to track all cash transactions (both inflows and outflows) during the accounting period. This includes income received (e.g., donations, subscriptions) and payments made (e.g., salaries, rent). The receipts and payments account does not include non-cash transactions like depreciation or accruals. This account is important for assessing the liquidity position of the NPO and ensuring that the cash flows are sufficient to meet operational needs.

48. **Answer:** b) Total income minus total expenditure

Explanation: The "surplus" or "deficit" in an NPO's income and expenditure account is calculated by subtracting total expenditure from total income. If the total income exceeds total expenditure, the NPO reports a surplus. If total expenditure exceeds total income, the result is a deficit. This calculation reflects the financial performance of the organization during the period, showing whether it has managed its resources efficiently to achieve its objectives.

49. **Answer:** b) A donation with no conditions attached

Explanation: An unrestricted donation is a contribution made by a donor with no conditions on how it should be used. These funds can be used for any of the NPO's activities, including general operating expenses such as salaries, utilities, and program costs. Unlike restricted donations, which are earmarked for specific purposes, unrestricted donations provide the NPO with flexibility in how the funds are allocated, allowing it to meet its overall mission and objectives.

50. **Answer:** c) As a liability until received

Explanation: Outstanding subscriptions represent amounts that members have pledged but have not yet paid. These are considered liabilities because the NPO has an

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obligation to fulfill its services to the members who have committed to paying the subscription. Outstanding subscriptions are shown in the balance sheet under current liabilities. Once the subscriptions are paid, they are recognized as income in the receipts and payments account.

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