



Ready For Boards
10th & 12th Exam Prep

CHAPTER 1

Accounting for NPO

CBSE Class 12 · Accountancy Part I · Chapter 1

CBSE · Accountancy · Class 12

WHAT THIS CHAPTER DOES



Distinguish R&P Account from I&E Account in 60 seconds.



Calculate subscription income with outstanding + advance adjustments.

Boards prep that builds confidence, not anxiety.

TODAY'S MISSION

Today's mission

1

Distinguish R&P Account from I&E Account in 60 seconds.

2

Calculate subscription income with outstanding + advance adjustments.

3

Treat capital receipts (life membership, legacy, specific donation) correctly.

4

Prepare I&E + B/S from R&P + adjustments in under 20 minutes.

WHY THIS MATTERS

Why this chapter matters

1

8-12 marks every CBSE board paper — single highest-weight chapter in Accountancy.

2

Real-world relevance: every club, school, hospital, NGO follows this exact framework.

3

Almost all logic is REUSED in Class 12 Partnership Accounting chapters.

TOPIC

A

Understanding NPO accounting

THEOREM · LOAD-BEARING RESULT

What is an NPO?



A Not-for-Profit Organisation is set up to provide service to its members or society at large — NOT to earn profit. Schools, hospitals, clubs, charitable trusts, religious institutions.

STATEMENT

NPOs prepare 3 financial statements: (1) Receipts and Payments Account — cash-basis summary. (2) Income and Expenditure Account — accrual-based revenue P&L equivalent. (3) Balance Sheet — financial

WHY THIS MATTERS

- NPOs need different accounting because they don't have 'profit' to distribute
- The 'surplus' (excess of income over expenditure) is added to the Capital Fund for future use — not paid out to owners.

WATCH OUT FOR

NOTE Don't confuse NPO with 'non-profit' in the loose sense. NPO has a specific accounting framework. Even profitable NPOs (e.g., big hospitals) follow this framework — what matters is the **PURPOSE** (service, not profit-distribution), not the financial outcome.

TOPIC

B

Receipts and Payments Account (R&P)

TOPIC

Cash-basis summary of all flows

BASIS

The Receipts & Payments Account is prepared on a strict CASH BASIS — it records every actual cash and bank

PERIOD SCOPE

A defining feature that students often miss: the R&P account includes cash flows of THE CURRENT year, of

NATURE OF ITEMS

The R&P account is unique in that it includes BOTH capital items (life-membership fee, legacy received, sale

Receipts & Payments Account

for year ended 31 March 2025

RECEIPTS (Dr.)		PAYMENTS (Cr.)	
To Balance b/d (cash + bank)	₹ 15,000	By Salaries (paid)	₹ 42,000
To Subscriptions (all received)	₹ 85,000	By Rent	₹ 18,000
To Donations (general)	₹ 12,000	By Stationery	₹ 5,000
To Life Membership Fee	₹ 8,000	By Furniture (purchase)	₹ 20,000
	₹ 4,500	By Balance c/d	₹ 39,500

TOPIC

C

Income and Expenditure Account (I&E)

TOPIC

Accrual-based revenue statement

BASIS

The Income & Expenditure Account is the NPO's equivalent of a Profit & Loss Account and is prepared on the ACCRUAL BASIS — it records revenue INCOME EARNED during the year (whether received in cash yet or not) and revenue EXPENSES INCURRED during the year (whether paid in cash yet or not).
This is identical to the

PERIOD SCOPE

The I&E account is strictly single-period: it includes ONLY the income and expense items of the current accounting year, with all of last year's outstanding-and-now-paid items, all of this year's not-yet-paid items, and all advances received for next year explicitly EXCLUDED. This is exactly why every P&L → I&E conversion

NATURE OF ITEMS

The I&E account contains ONLY revenue items — recurring inflows and outflows of an operational nature. Capital receipts (life-membership fee, legacy, specific donation for building or prize, sale of fixed asset, loan received) are deliberately excluded and routed to the Balance Sheet as additions to Capital Fund or Specific

BALANCE

The I&E balancing figure is technically labelled SURPLUS (when total income exceeds total expenditure) or DEFICIT (when expenditure exceeds income) — never 'net profit' or 'net loss', because an NPO does not seek profit. Surplus is credited to (added to) the Capital Fund on the closing Balance Sheet; deficit is debited

TOPIC

D

Key adjustments — the marks-makers

WORKED EXAMPLE

Subscription income calculation

- 1 Subscriptions received from R&P (current year cash) = ₹ 85,000
- 2 Add: Outstanding subscriptions at end of year (earned but not received) = ₹ 6,000
- 3 Add: Subscriptions received in advance LAST year (now earned this year) = ₹ 4,000
- 4 Less: Outstanding subscriptions at start of year (already credited in PY) = ₹ 3,000
- 5 Less: Subscriptions received in advance THIS year (for next year) = ₹ 2,500
- 6 SUBSCRIPTION TO BE CREDITED TO I&E = $85,000 + 6,000 + 4,000 - 3,000 - 2,500 = ₹ 89,500$

TOPIC

Where does each item go?

LIFE MEMBERSHIP FEE

A life-membership fee is a one-time lump-sum that grants the donor membership for life, in lieu of yearly subscriptions. Because it spans many future periods and is non-recurring, it is treated as a CAPITAL receipt — added to Capital Fund on the liabilities side of the Balance Sheet, NEVER credited to the I&E. (Some

LEGACY

A legacy is a bequest received by an NPO under the will of a deceased donor — a one-time, non-recurring inflow whose timing is outside the entity's control. By convention legacies are treated as CAPITAL receipts and added to Capital Fund on the Balance Sheet, with the same logic as life-membership fee. The

SPECIFIC DONATION (BUILDING/PRIZE)

A donation given for a SPECIFIC named purpose — 'for the new building', 'for the annual prize fund', 'for the sports equipment fund', 'for the tournament fund' — is governed by donor intent and cannot be used for general operations. It is recorded as a CAPITAL receipt added to a NAMED Specific Fund on the

GENERAL DONATION (SMALL RECURRING)

A general donation, especially if small and recurring (e.g. annual unrestricted contributions from members and well-wishers), is treated as a REVENUE receipt — credited to the I&E account as income of the current year. The cut-off between 'general' and 'specific' is usually clear from the

WORKED EXAMPLE

Stationery consumed calculation

- 1 Opening stock of stationery (from opening B/S) = ₹ 2,500
- 2 Add: Stationery purchased during year (from R&P) = ₹ 5,000
- 3 Less: Closing stock of stationery (counted at year-end) = ₹ 1,800
- 4 Stationery CONSUMED (debited to I&E) = $2,500 + 5,000 - 1,800 = ₹ 5,700$
- 5 Closing stock of ₹ 1,800 = ASSET on closing Balance Sheet.

TOPIC

E

Balance Sheet of an NPO

TOPIC

Format + items

LIABILITIES SIDE

The liabilities side of the closing Balance Sheet shows Capital Fund (opening fund plus current-year Surplus, or minus Deficit), followed by named Specific Funds (Building Fund, Prize Fund, Sports Fund, Tournament Fund — each adjusted for fund-specific income earned and expenses paid),
Outstanding Expenses

ASSETS SIDE

The assets side of the closing Balance Sheet shows Fixed Assets (Building, Furniture, Equipment, etc., shown at written-down value after accumulated depreciation), Investments (often funded by Specific Funds), Closing Stocks of consumables (stationery, sports material), Outstanding Income (income earned but not yet

OPENING CAPITAL FUND

Opening Capital Fund is rarely given directly — you must compute it from the opening Balance Sheet as a balancing figure: $\text{Opening Capital Fund} = \text{Opening Assets} - \text{Opening Liabilities} - \text{Opening Specific Funds}$. This MUST be computed FIRST in any NPO problem, because every later number (surplus addition, closing capital fund) depends on it.

SURPLUS TREATMENT

At year-end the I&E surplus is transferred to the Capital Fund on the closing Balance Sheet — $\text{Closing Capital Fund} = \text{Opening Capital Fund} + \text{Surplus (or - Deficit)}$. The surplus does NOT appear as a separate liability line; it merges into the single Capital Fund figure exactly the way net profit merges into Reserves & Surplus in a commercial

TOPIC

R&P vs I&E

TRAP → TRUTH

× **MISTAKE** R&P and I&E are interchangeable.

✓ **CORRECT** R&P = CASH-BASIS summary of ALL cash + bank receipts and payments during the year (capital + revenue, current + previous + future). I&E = ACCRUAL-BASIS statement of REVENUE income earned and REVENUE expenses incurred for the CURRENT year only (excludes capital items). They serve different purposes — never confuse them.

TOPIC

Subscriptions

TRAP → TRUTH

- × **MISTAKE** Subscriptions received during the year goes directly to I&E Account.
- ✓ **CORRECT** Subscriptions to be CREDITED to I&E = subscriptions RELATED TO CURRENT YEAR (regardless of when received). Adjust: ADD subscriptions outstanding at year-end + subscriptions received in advance LAST year (now earned). SUBTRACT subscriptions outstanding at START of year (already credited in PY) + subscriptions received in advance this year (for next year).

TOPIC

Capital vs Revenue receipts

TRAP → TRUTH

× **MISTAKE** All donations are revenue receipts; credit to I&E.

✓ **CORRECT** Donations for a SPECIFIC purpose (building fund, prize fund) are CAPITAL receipts → go to Balance Sheet's liabilities side under that specific fund. GENERAL donations of small recurring amount are REVENUE → credit I&E. LEGACIES (donations under a will) are typically CAPITAL → Balance Sheet. Test: 'is the receipt for a specific capital purpose?' Yes ⇒ Balance Sheet; No ⇒ I&E.

TOPIC

Life membership fee

TRAP → TRUTH

× **MISTAKE** Life membership fee is credited fully to I&E in the year received.

✓ **CORRECT** Life membership fee is a CAPITAL receipt (a one-time fee for lifelong membership) → add to CAPITAL FUND on Balance Sheet's liabilities side. NOT credited to I&E. (Some legacy syllabi credit a portion annually — current CBSE follows full capitalisation.)

TOPIC

Stationery consumed

TRAP → TRUTH

× **MISTAKE** Stationery consumed = stationery purchased during the year.

✓ **CORRECT** Stationery CONSUMED = (Opening stock of stationery + Purchases during year) – Closing stock of stationery. ONLY the consumed amount is debited to I&E (revenue expense). Closing stock is an asset on Balance Sheet.

TOPIC

Capital fund vs accumulated fund

TRAP → TRUTH

× **MISTAKE** Capital fund and accumulated fund are different things.

✓ **CORRECT** They're the SAME — both terms refer to the excess of assets over liabilities in an NPO (equivalent to 'Owner's Capital' in a sole proprietorship). Opening capital fund = sum of all assets at start of year minus all liabilities. CBSE accepts either name.

TOPIC

Surplus vs profit

TRAP → TRUTH

× **MISTAKE** NPO calculates 'profit' from I&E account.

✓ **CORRECT** NPO calculates 'SURPLUS' (excess of income over expenditure) or 'DEFICIT' (excess of expenditure over income). NPOs are non-profit so the term 'profit' is technically incorrect. Surplus is added to capital fund at year-end (not distributed).

TOPPER TEMPLATE · MARK-BY-MARK

8-mark: 'Prepare I&E Account + Balance Sheet from given R&P Account + adjustments.'

- 1 COMPUTE OPENING CAPITAL FUND**
1 m
Opening Capital Fund = Opening assets – Opening liabilities – Specific funds. Show this calculation explicitly. (1 mark)
- 2 CALCULATE ADJUSTED INCOME ITEMS**
2 m
Subscriptions to be credited = received + closing outstanding + opening advance – opening outstanding – closing advance. Show line-by-line. Repeat for any other income with outstanding/advance adjustments.
- 3 CALCULATE ADJUSTED EXPENSE ITEMS**
2 m
Stationery consumed = opening stock + purchases – closing stock. Salaries = paid + closing outstanding – opening outstanding + opening prepaid – closing prepaid. Depreciation on fixed assets as per rate.
- 4 PREPARE I&E ACCOUNT**
2 m
Credit side (Income): subscriptions, donations general, interest received, rent received etc. Debit side (Expenditure): salaries, stationery consumed, rent paid, depreciation, repairs. Surplus/Deficit = balancing figure.
- 5 PREPARE BALANCE SHEET**
1 m
Liabilities: Capital Fund (opening + surplus) + Specific funds + Outstanding expenses + Income received in advance. Assets: Fixed assets (after depreciation) + Closing stocks + Outstanding income + Prepaid expenses + Cash + Bank.

TOPPER TEMPLATE · MARK-BY-MARK

3-mark: 'Calculate subscription income for the year given outstanding + advance details.'

- 1** **WRITE THE FORMULA** 1 m Subscription credited to I&E = Subscription received (from R&P) + Outstanding at end + Advance at start – Outstanding at start – Advance at end. State each term.
- 2** **SUBSTITUTE GIVEN VALUES** 1 m Tabulate the 5 items from the question. Show the addition/subtraction explicitly.
- 3** **FINAL AMOUNT + STATE** 1 m Compute. State: 'Subscription to be credited to I&E Account = ₹ X.' This is what appears on the credit side of I&E.

TOPPER TEMPLATE · MARK-BY-MARK

3-mark: 'Distinguish between R&P Account and I&E Account (any 4 differences).'

- 1 BASIS (CASH VS ACCRUAL)**
1 m R&P: prepared on CASH BASIS — records actual cash + bank receipts and payments. I&E: prepared on ACCRUAL BASIS — records income earned and expenses incurred for the year, regardless of cash.
- 2 NATURE OF ITEMS**
1 m R&P: includes BOTH capital and revenue items (all cash flows). I&E: includes ONLY revenue items for the current year. Capital items appear in Balance Sheet.
- 3 PERIOD + BALANCE**
1 m R&P: includes receipts/payments for current year, previous year, AND advance for next year. I&E: only current-year revenue. R&P opening + closing balance = cash/bank balance. I&E closing balance = surplus or deficit (transferred to Capital Fund).

PYQ PATTERNS

Top PYQ patterns to drill

#1	From the given R&P Account and adjustments, prepare the I&E Account and Balance Sheet of the NPO as on 31 March. (8 marks)	Annual — guaranteed appearance
#2	Calculate the subscription income to be credited to I&E Account for the current year (with outstanding + advance + previous year items). (3-4 marks)	Most years
#3	Distinguish between Receipts and Payments Account and Income and Expenditure Account (any 4 differences). (3 marks)	2018, 2020, 2022
#4	Treatment of life membership fee / donation for specific purpose / legacy. (2-3 marks)	Most years
#5	Calculate the amount of stationery / sports material to be debited to I&E (consumable adjustment). (2-3 marks)	2019, 2021, 2023

MARKS DISTRIBUTION

10-year marks distribution

10-YEAR PYQ MARKS DISTRIBUTION

Prepare I&E Account + Balance Sheet from R&P + adjustments



65%

Conversion of R&P to I&E (subscriptions, donations)



22%

Treatment of specific funds (sports fund, prize fund, building fund)



18%

Theory: distinguish R&P from I&E, capital vs revenue items



15%

Closing/Opening balance computations (capital fund, accumulated fund)



12%

RECAP · MEMORISE THESE

Recap

1 R&P vs I&E — R&P = cash-basis, all items, all periods. I&E = accrual-basis, revenue only, current year only.

2 Capital treatments — Life membership + Legacy + Specific donation → ALL go to Balance Sheet (Capital Fund or Specific Fund), NOT to I&E.

3 Surplus — Surplus from I&E is added to Capital Fund on Balance Sheet at year-end. Deficit is subtracted.

WHAT'S NEXT

What's next



- Chapter 2 — Accounting for Partnership Firms: Fundamentals (different accounting context).
- Sit the 15-MCQ Quick Drill under 20-min timer.
- Then the full Board-Pattern Paper — 40 marks, 75 min.



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